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THE US FILM INDUSTRY
1969-79

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The opinions expressed in this paper are those of its author and
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INTRODUCTION

1. No-one could claim to produce a worthwhile analysis of the problems of European cinema without some reference to the American film industry. Thanks to consistent quality and efficient management, Hollywood and the "Majors" have succeeded in establishing a solidly entrenched or even, as some would put it, a dominant position in all countries.

2. Mr J Voogd accordingly devoted several paragraphs of his report on "Cinema and the state" (1) (which followed up the Lisbon Symposium) to "the power of the American film industry" as one of the central questions, alongside competition from television.

3. A situation of unbalanced competition can only be effectively dealt with if the mechanics and scope of the process are fully understood. And yet, paradoxically, Europeans are far more ignorant than they would dare to admit about the workings of the US film industry.

4. The question was broached in my earlier report (2), but no more than "broached" within the context decided by the Committee on Culture and Education. There is therefore an immediate need for a more detailed study of this crucial aspect for a satisfactory appreciation of the problems of the European film industry.

5. The opportunity was provided by the "New Cinema" festival and seminar at Pesaro (19-22 June 1979), where the theme chosen was the American cinema. At the request of the director, L MICCICHE, I analysed the development of the US film industry, both at home and abroad, from the loss-making years of 1969-70 until 1978-79, a period of record prosperity (3).

6. In the course of the seminar, at which the above-mentioned Council of Europe report was circulated, I had occasion to observe that in my opinion, and in the spirit of Recommendation 862 of 11 May 1979, European co-operation offered the European film industries the best and perhaps the only chance of meeting the long-established economic and cultural challenge of American films. I presented the same arguments a couple of weeks later at the international conference on "Cinema and Television" organised in Rome by the Italian Socialist Party, reminding the many professionals present of the need to co-operate with European institutions such as the Council of Europe and the EEC

(1) Doc. 4306; p. 15, paras. 46-55.

(2) Doc. 4306, in particular p. 24 et seq.

(3) Prof. T GUBACK (University of Illinois, USA) supplemented my report with a paper describing mainly how the Majors had become part of widely diversified conglomerates. In his paper, he noted that although Hollywood is responsible for only 6-7% of world film production, about 50% of takings worldwide are collected by the Majors.

CHAPTER I - FROM EUROPEAN TO AMERICAN CINEMA

1. In 1913, Cecil B de Mille arrived in Los Angeles and set up his camera in a place called Hollywood. Now, two-thirds of a century later, we are witnessing a period of undeniable prosperity in the American film industry and its artistic and economic revival both in the United States and throughout the world.

2. Europeans cannot help but be impressed and surprised at the turn of events. First of all, it is not certain that even so-called "informed" circles are really well informed about the true situation of the American cinema. It is quite easy to jump from underestimating to overestimating American influence in this respect. Admittedly, the Americans themselves must be held to some extent responsible because they do not regularly publish matched statistics for their film industry. It is also true that Europeans are more prone to discuss the aesthetic merits of films than the organisational and economic aspects of the industry.

3. Moreover, what is the favourite theme of European discussions about the cinema? Virtually never the prosperity of the industry and almost invariably the latest state of crisis. This frame of mind is hardly conducive to a proper understanding of the situation in the United States. In Europe, we are always talking about "culture" and "art"; the Americans, on the other hand, concentrate on manufacturing entertainment and selling films. Let us take a quick look at the realities of the film industry in Europe.

4. I worked out (1) that Western Europe's 27,000 or so "outlets" or individual cinemas (compared with 16,000 in the USA) record some 1,500 million admissions a year, representing a sales figure of 10,000 million French francs. Europeans go to the cinema on average four times a year (compared with 4.6 times for Americans) and there is in Europe on average one cinema for every 4,100 households (compared with 4,500 in the USA). However, these figures for Europe in fact show a net drop compared with the period 1957-60, when there were 42,000 cinemas catering for about 3,300 million cinema-goers, ie about 78,000 tickets annually per cinema compared with only 55,000 nowadays (2). There has been no drop in box-office takings only because falling demand has been almost automatically counterbalanced by the increasing price of cinema seats, which has often risen more steeply than the general retail price index. It should be added that the price of seats in Europe includes a tax element which, though it varies from country to country, is on the whole fairly hefty. In the EEC, for instance, VAT on cinema tickets varies between 6-8% and 15-17%, while there is no such tax any more in the United States.

5. The film-making industry in Europe is a sector whose complaints of crisis are particularly loud. Yet, paradoxically, it is well ahead of Hollywood in terms of volume. While the Majors are hard pressed to make more than 200 films a year, no less than 700 full-length features are made in Western Europe, ./.

(1) See my report (April 1978) to the Council of Europe on "The economic situation of the cinema in Europe" for the Symposium on "Cinema and the State", (Lisbon, 14-16 June 1978). It should be noted that the figures quoted are not as accurate as one might wish and should all be taken as approximations.

(2) These figures can vary considerably from one country to another.

with countries like France and Italy turning out an annual average of 187 and 238 respectively over the last few years (1). The same applies to the number of producers, where the figure runs into the hundreds, as there are more than one hundred in each of the major countries. The distribution picture is much the same, to which must be added that production and distribution in Europe are rarely in the hands of the same company as they are in Hollywood.

6. To these differences of structure may be added another couple of factors which differentiate the European film industry still further from its American model: subsidies and the relationship with TV. Subsidies, whatever one may say, amount to intervention by the state - or at least by the political authorities through legislation - in an industry which is generally quick to denounce any state interference (2). In any event, both on account of the amounts involved and of the multiple ramifications of the process, subsidies have become - for better or for worse - one of the decisive factors in the financing of films, and have forced film companies and film makers - in varying degrees, depending on the system - to involve public authorities, civil servants and even members of parliament in important decisions.

7. Television, which almost everywhere in Europe is a public institution more or less directly dependent on the state, is generally accused by the cinema of contributing to its decline, or even to its ruin, by screening too many films and paying a totally inadequate price for the privilege.

8. One may go so far as to say that, owing to its relationship with TV and its system of subsidies - two factors which are compounded together in a number of countries - and the differences described above, the European cinema presents an image that is practically the exact opposite of the American. Nor should it be forgotten that the differences are reinforced by discrepancies of scale, as soon as one refers to individual European countries rather than "Europe" as a whole, since there is no such thing as a European film industry. We find, for instance, that the US market is 10 times the size of the British market, and five times the French market, and that a single American company - such as Warner or MCA - may have a turnover double that of all French cinemas put together (800 million dollars as compared with 400 million).

9. On the other hand, although the United States film industry does not enjoy financial support under specific legislation as in Europe, it has taken advantage of a number of tax rules, such as the "Tax Shelter" system (until it was abolished in 1976) or the "DISC" system (Domestic International Sales Corporation). Under the "Tax Shelter" scheme, private individuals could form partnerships to invest in film production. The copyright of the film was vested in the partnership, and the partners were entitled to deduct any operational losses from their taxable income, while any profits the film made were only taxable if they were not reinvested in another film. When

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(1) The figures are for France 1970-74 and Italy 1972-76.

(2) This is only paradoxical, however, in terms of the structure of the film industry of the behaviour of film makers. For instance, the "price" at which films are sold to the public bears no relation to the cost of making them, seat prices tend to rise in spite of falling demand, etc.

campaigning vainly against the abolition of Tax Shelter by Congress in 1976, J Valenti argued on behalf of the MPAA that by encouraging "run-away production" abolition would benefit foreign countries and put American film makers out of work. A similar tax scheme in Germany ("Abschreibungsgesellschaft") did in fact attract a good number of American productions, especially at the Bavaria studios in Munich. Tax Shelter, however, also covered the purchase of existing films, thus enabling the American buyer to charge a higher amount for depreciation than he had really invested, while for the producers, and European producers in particular, the operation meant trading the US sales rights of their films on a guaranteed minimum basis. In the period preceding the abolition of Tax Shelter by Congress, most French films exported to the US came under the scheme and its disappearance may have been one of the causes of the subsequent fall-off in French exports to North America. The DISC system was challenged by GATT (by the EEC countries in particular), which considered it represented a colossal export subsidy, since it amounted in practical terms not only to a postponement of tax payments but also to a partial tax exemption, contrary to Article 16-4 of GATT.

10. There is one further feature of the Majors which rarely appears in the European film industry; they are virtually all part of a much wider industrial and commercial business network. In other words, they belong to the familiar conglomerates, which consider the cinema as only one "department" amongst others but which provide it with a degree of financial security, since the diversification they offer undoubtedly reduces the risk in any one particular sector. Finally, this structure, again in contrast with the situation in Europe, is marked by an increasing involvement in traditional and new audio-visual activities (1).

(1) In this connection, see T GUBACK's report.

Chapter II: THE AMERICAN CINEMA AT HOME

Recovery of the Majors

1. There is no talk of crisis in the United States as there is in Europe. In 1978, American cinemas took in some 2,782 million dollars, 15% more than in 1977 (2,372 million dollars) and double the figure for 1971. Some of the increase in sales can be attributed to a rise in the price of cinema seats estimated at about 5% (1). In terms of sales volume (ie the number of tickets sold) the figure for 1978 was 1,168 million, compared with 1,063 million a year earlier, in other words a rise of 10% (2).
2. The mood of optimism is reflected on the stock market. On Wall Street, it was felt in 1977 that the big film companies (the Majors, especially those belonging to the MPAA in the US and the MPEA abroad) had never offered better investment prospects. In 1978, the General Cinema Corporation (GCC), the largest group of cinemas in the US, made a block offer for 20% of Columbia's shares at 24 dollars a share, against a market price of only 22 3/8 dollars (3). The cinema had clearly become a growth business, since it was attracting investors.
3. At the same time, one of the Majors - admittedly the richest of them all, MCA - was prepared to pay 35 million dollars to add one or another company to the group (eg Sea World Inc, a company running marine leisure parks), and it was clear that with its available liquidity and borrowing capacity, MCA could afford to buy not one but several companies at this kind of price (4). The comfortable financial position of the Majors even became a matter of some concern to banks specialising in film finance, which saw their traditional customers disappearing (5). The figures for total box-office takings of individual films were also quite significant in this respect; in all the years before 1950, only five films had brought in over 15 million dollars, whereas in the seven years between 1970 and 1976 alone, the figure was exceeded by no less than 57 films, with 25 passing the 25 million dollar mark. However, it is important to recognise that this prosperity was in fact the outcome of a deliberate effort of recovery.

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- (1) In 1978, the average seat cost \$2.34 compared with \$2.23 in 1977, but some cinemas charged as much as \$4.50.
 - (2) In Europe, some markets registered growth in 1978 (GB, F, D) while others (Italy) continued to shrink.
 - (3) K KERKORIAN, President of MGM, which already owned 47% of Columbia's shares, was offering to buy 1 3/4 million more (20%), while urging the anti-trust department in Washington to oppose GCC's offer of purchase.
 - (4) In 1977, MCA held cash assets of \$150 million, with a share capital of \$452 million and no long-term liabilities. In 1978, MCA had record takings of \$1,120 million, ie a 27% rise over the 1977 figure of \$877.6 million.
 - (5) This would explain the Bank of America's move, at the 1977 Cannes Festival, to set up an international bank consortium for the benefit mainly of the "independent" producers. The object was to raise \$75 million a year (including \$50 million from the Bank of America itself) to finance films with international appeal costing \$5 to \$7 million each.

4. The outlook had not always been so rosy in Hollywood. Some 10 years earlier, the most noteworthy feature about the accounts of the Majors was the alarming number of entries in red. Between 1969 and 1971 there were very few companies that were not showing a loss. Already in the 1950s, sales figures in the US film industry had been falling; Hollywood had been slow to realise that it was no good trying to sell the same entertainment in cinemas as the public could enjoy for nothing on their TV screens at home. In the period 1969 to 1971, although the lesson had been learned, the wrong solution was tried; it was not enough to embark on costly productions like "The Bible" to induce people to forsake their TV sets for the cinema.

5. The effects of lax management, which had too often tolerated lavish expenditure on film production, were compounded by one of those errors of commercial strategy which are generally the surest way to bankruptcy, namely over-investment and overstocking. Hollywood had in fact overproduced and overstocked, since in 1970 the film stocks of the Majors were estimated at 1,200 million dollars for a market of barely 750 million dollars, split between domestic sales of 400 million and foreign sales of 350 million. The sensible approach adopted subsequently was to bring stocks down to the capacity of the market, ie to a figure of some 600 million dollars, a few hundred million dollars being drained off through the profit and loss account. By 1974, the adjustment was complete throughout the industry.

6. But how did Hollywood manage the transition from crisis to its present prosperity, which probably dates back to the success of "The Godfather" in 1972? Hollywood's recovery, all the more remarkable in that it could no longer blindly count on the practically captive audience so long provided by the "star system", and still less on vertical integration - with all operations, from filming to screening, carried out by one company - blocked by the anti-trust laws of 1949, did not happen merely by chance. Furthermore, the shape of the US film industry was substantially transformed in the process; the main features may be summarised as follows:

- smaller volume of production;
- much stricter management, operating right down the line from the choice of subject to advertising and marketing;
- increasing involvement in television and the other new media;
- co-operation with "independent" producers, but confirmation of the key role of distribution both on the domestic market and on foreign markets;
- incorporation of most of the Majors in the diversified industrial and commercial enterprises known as "conglomerates".

Apart from the business of production and distribution, the US film industry also runs its own network of cinemas. And here too, as we shall have occasion to remark further on, there have been significant developments, with a shift of advantage away from exhibitors in favour of producers and distributors.

The production system

7. According to E Gerard, one of the four members of Warner's Brains Trust, "it's a poor sector and poor business if you make only one or two films a year, but it's a great business if you make 10 to 15 films a year and have your own distribution network". This seems to sum up the situation in Hollywood in 1978. The last few years have indeed shown that when a series of films are produced and distributed, it is enough for two or three of them to turn out to be box-office "blockbusters" to swing the whole operation into profit. Just as the return on any one particular film is uncertain and therefore carries a high risk factor, as in the past, so reasonable economic forecasting becomes possible with a whole series, especially since experience has shown that the success of a blockbuster boosts the success of other films on the circuit; thus "Jaws" (1) together with a handful of other films, is thought to be responsible for the market recovery of 1974-75.

8. One of the reasons why series production was successful, however, is that it was part of a new attitude to management. Although it cannot be said that management had always been bad in the past, it is clear that the new generation of Hollywood managers are no longer prepared, as had so often been the case, to accept open-ended cost increases or to let their takings vanish into thin air. Production risks are minimised by a very careful choice of subjects and scripts and firm control over film budgets, while the commercial risks are met with series production backed up by a new emphasis on advertising. With budgets (2) tending to approach those of the films themselves, advertising campaigns are generally custom-made for each film and make liberal use of television, whose impact on potential cinema-goers the Majors have finally recognised.

9. Although tight control of production does not preclude high costs, rising to 20 million dollars or more in some cases (3), it has been linked to a drop in quantity. With a total production of 15 or 16 films in 1977, a company such as Universal, for instance, is still well below the levels of the 1960s. It is estimated that in 1976, Hollywood's output of some 210 films was the lowest ever and the shrinking supply began to be a source of concern to exhibitors.

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- (1) A good example of a "blockbuster" since, although it cost only \$9 million, worldwide box-office receipts were \$200 million.
- (2) Here are a few examples: to launch "The Pink Panther", the distributor flew about 100 journalists to a Swiss ski resort for a weekend holiday. After that sort of experience, which of the guests would have the poor taste to give the film a bad review? For their 1979-80 programme on the German market, Fox and Disney will be working from a budget of 12 million DM, with each film costing between 0.8 million DM and 2.5 million DM to launch.
- (3) Although the figure of \$5.4 million was quoted as an "average cost" in 1977.

10. Finally, there is another key to the success of the Majors, one of a more traditional kind, which should not be overlooked; they not only finance and produce films, but they also distribute them. This is a crucial factor, since it is the distribution of films, including those produced by other companies, which provides the best chances of offsetting inevitable loss-makers with a few box-office successes, especially since the distribution commission earned in this way far exceeds the real cost of the operation (1).

11. As far as the financial aspects of the recovery are concerned, a noteworthy feature - as we had occasion to see above - apart from the increased cash-flow and profits generated after a period of losses and debts, has been the use to which these new funds have been put. Instead of reinvesting in an increasing number of films, as they used to, the Majors have been investing outside the film sector altogether. Hollywood "under new management", with expenditure under control and investments outside the industry, has clearly achieved, for the time being at any rate, the kind of financial stability which inspires confidence on the stock exchange.

The independents

12. Alongside this world of "management", there must be room for adventure, and the American cinema does not consist only of the Majors, as witnessed by the last of the blockbusters. Warner had the copyright of "Superman", yet did not produce the film. It was made by A Salkind, for a cost approaching the figure for "Cleopatra" - one of the best-known failures in Hollywood history. The Warner conglomerate would not risk putting up the 35 million dollars or so, which A Salkind and his son were then allowed to raise elsewhere (partly in Europe), and only agreed to buy the distribution rights after viewing half-an-hour of the finished film. Examples such as this make it impossible to overlook the role played by the so-called "independent" sector in the United States. The truly independent producer is one who has to manage with neither a major distribution company, nor famous actors and scriptwriters, nor bank loans backed by the Majors. It is estimated that, as a category, the independents are responsible for about 300 films. These cost between 10,000 dollars and 1 million dollars to produce - most of them in the 400 to 700,000 dollar bracket - and account for only 10 to 15% of the domestic market, where they are distributed by some 20 specialised firms. However, these figures probably fail to reflect the true influence of this particular sector of the American film industry. By spotting and training new artists and commercial talent, the "independents" are a means of introducing new blood, which seems to be somewhat hard to come across in Europe.

13. At an intermediary stage between the pure independents and the Majors, there is a category of films for which a Major acting as sponsor is associated with a more or less "independent" producer, who actually makes the film. Once the subject of the film has been selected, the Major puts up the funds, while the producer retains technical and artistic control over the production. However, the film distribution rights are retained by the Major, who merely pays the producer a contracted sum upon receipt of the film (2).

(1) Conversely, TV networks, ABC and later CBS, launched into film production, then withdrew (in 1972) after losing money when their films were distributed by other companies.

(2) There is nothing to prevent film magnates reinvesting their personal wealth to produce new films. Thus F FORD COPPOLA is said to have mortgaged all his property to produce "Apocalypse Now" (the cost of which escalated from \$12 to \$30 million).

Exhibitors

14. Alongside the recovery achieved by the major Hollywood film companies, there has been a change in the situation of cinemas which, though less apparent, is no less significant. A notable feature of this change has been the increase ~~in the proportion of first-run cinemas, from about a quarter of the total~~ 10 years ago to nearly half. Adapting to urban decline and the growth of suburbs by opening multiple cinemas in shopping centres, the exhibitors have now acquired an increased number of outlets and occupy a key position as far as programmes are concerned, forcing the distributors to adapt their own system accordingly. The main explanation for the recent increase in takings is the growing number of people who are willing to pay top prices in an easily accessible suburban cinema showing the latest releases on a first-run basis.

15. This new situation has also raised some new problems. It is hardly surprising if the increase in the number of cinemas at a time of falling production has caused exhibitors to complain (1) that the dream situation of 20 years ago, a buyer's market where distributors competed to offer their films, is well and truly over. It has now become a seller's market, in which distributors practise block booking and dictate guarantee terms which can run into hundreds of thousands of dollars (eg "The Godfather" and "The Exorcist"), booking rates as high as 90% of gross takings and sometimes even the price of admission for a particular film. The Majors' counterargument is that the reason for asking cinemas for a guaranteed return is the need to recover rapidly the heavy outlays on film budgets and advertising. and J Valenti (2) adds that it is the only way of stopping cinemas from holding back millions of dollars in takings which should normally be handed over to the distributor within a matter of 2-3 days.

16. But these are not the only bones of contention between exhibitors and producers. The former accuse the latter of controlling the American market through six companies running a kind of shared monopoly, cutting output from 500 to only a little over 100 films, 85% of which are moreover offered to cinemas on a "blind bidding" basis (3). Exhibitors felt it was the last straw when in April 1977 the Minister of Justice declared the "splitting" system (4), which had been practised for 25 years by many cinemas with the backing of a number of regional court judgments, contrary to anti-trust law. Exhibitors, particularly those belonging to NATO, are now reacting to this small group of production and distribution companies, "whose tills are overflowing with profits", with a three-point offensive:

- a. action in every state to have an "anti-blind-bidding" law passed;
- b. a test case to be brought before the Virginia courts to have the Washington decision outlawing "splitting" rescinded;

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- (1) Statement by Mr Goldman, in his capacity as President of the NATO Association.
- (2) Currently President of the MPEA.
- (3) A system whereby exhibitors book films without seeing them.
- (4) A system whereby exhibitors "split" a regional market between them, sharing films sometimes without the distributor's agreement.

- c. encouragement for any move from any quarter to increase film production (1).

In a move to combat what they considered to be an excessive degree of concentration in the production and distribution industry, on 11 January 1979 NATO passed a resolution, which was forwarded to the Federal Minister of Justice, forcefully opposing the purchase by K Kerkorian, MGM President, of 20 or 25% of Columbia's shares (2).

17. This shows clearly that the strained relations between exhibitors and producers in the United States are not dissimilar to those which are so familiar in Europe. However, it is also true that the irritation caused among exhibitors by the restricted supply of films and stiffer booking terms (3) has been aggravated by fears arising from the Majors' growing participation in the development of the new media (cable and pay TV, video discs and cassettes etc). In this respect, although first-run cinemas seem to have a good chance of surviving the new competition, the future of other cinemas could well prove insecure.

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- (1) NATO approved the move by the Englishman Lew Grade to set up a distribution company, Associated General, for handling the films produced by his company (ITC) in the United States.
- (2) The reason invoked was the need to preserve healthy competition in the industry, in the interest of the industry itself and of the public.
- (3) Nonetheless, the share of gross takings retained by the exhibitor, though falling, is still considerable at an estimated 60% compared with two thirds 15 years ago.

Chapter III: THE AMERICAN CINEMA ABROAD

1. It is a well-known fact that the American cinema is present everywhere in the world. What is less well-known is the form its presence and penetration take. These may be said to be effective on the three different levels of distribution, production and trade representation (1).

2. Under the umbrella of an export cartel, the MPEA (2), the Majors long ago organised a network of subsidiaries abroad to distribute and market American films wherever there were cinemas to show them and audiences to see them. The system had to be "organised" since many countries tried to safeguard their own film industries with protectionist measures. Although the Majors act independently as far as distributing and exhibiting their films are concerned, their only way of defeating or circumventing these protectionist measures is through the combined efforts of the cartel.

Distribution network

3. The presence of the American cinema on foreign markets is borne out by the statistics. The Majors earn almost as much abroad as at home, the proportion (valued at almost \$600 million) varying between 48% (1974) and 42% (1977) of total world receipts from both cinemas and television. Out of this total, which increased by 85% between 1963 and 1977, some markets stand out, including five European countries among the top 10, namely the United Kingdom, France, Italy, Germany and Spain, alongside Canada and Japan. If the detailed statistics available in some cases are examined more closely, it may be seen that in Europe, for instance, the share of US films rarely drops below 30% and sometimes exceeds 40%, as in countries with a small film industry like the Benelux countries, where American films account for up to 60% of box-office takings. Even in countries with a well-developed film industry, such as France and Italy, the proportion of American films shown is still over half the figure for national films, while in the UK the positions are completely reversed, since the domestic film industry supplies only 20% of the market, compared with 70% for American films.

4. In fact, these statistics by no means tell the whole story. In the first place, American companies do not distribute only American films; they also handle films produced by other countries, and especially by European countries. This serves two objectives. Firstly, it enables the Majors to increase their portfolio of films for distribution, which is desirable at a time of reduced film production in Hollywood, and helps pay for the running of their expensive marketing organisation. Secondly, film distribution is a profitable operation. European producers who have failed to organise themselves, and therefore have to rely on one of the Majors to distribute their films, are hardly in a strong position to negotiate contract terms, which consequently tend to be more or less dictated by one of the multinationals - whose accounts, incidentally, are not open to inspection. As an example, French statistics give us some idea of the commercial advantage gained by the Majors from distributing non-American films on the French market. In 1978, the 28% share of the French market held by

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(1) This point has rarely been made, except by T GUBACK (see his book "The international film industry").

(2) MPEA: Motion Picture Export Association.
MPAA: Motion Picture Association of America, whose President is J VALENTI. It includes: ALLIED ARTISTS, AVCO EMBASSY, COLUMBIA, METRO-GOLDWYN-MAYER, PARAMOUNT, 20th CENTURY FOX, UNITED ARTISTS, UNIVERSAL, WARNER.

American films yielded 440 million FF in box-office takings for American companies, leaving about 180 million FF for the distributors, ie in this case the same companies. Another figure, taken from the distribution branch of the industry, attributes a share of 40% (1) to US firms operating in France, with total sales of 270 million FF (2). The difference between these two figures is of the order of 100 million FF, which would seem to show clearly that US subsidiaries in France add a further 60% of other income to what they earn from distributing their own films. This obviously represents a valuable source of revenue, which must recur in all the other markets.

5. Another reason why statistics tell only part of the story is that the nationality criteria on which they are based are legal rather than economic. How is one to define a truly American film? It must always be borne in mind that the idea of nationality which is so current in the European cinema is practically unknown in the United States. In actual fact, and leaving aside all artistic or cultural nationalism, the concept of nationality enshrined in the cinematographic legislation of European countries is a corollary of their system of subsidies, which is likewise unknown in the United States. In Europe, there are two types of film, those which qualify for subsidies and those which do not, that is, "national" films and the rest. The snag is that legal criteria and definitions are always a step behind the complex and moving scene of the business world, especially when the parties concerned are doing their utmost to bend them to their advantage.

Local production

6. It is worth noting at this point the role and presence of American firms in the production of films officially classified as "national", especially as the facts might well escape the attention of a casual observer. In European markets, the Majors began by distributing American films, then went on to distribute "European" films, then to produce the latter, either directly through their subsidiaries operating under French, Italian, British etc law, or indirectly by financing most of the production costs of local companies. In France, for instance, according to official statistics, in the six-year period from 1970 to 1975 American companies (3) contributed 292 million FF to the production of French films, out of a total cost of 620 million FF. The American share of the cost was thus 47% accounting for almost 14% of total investment in the whole French film industry. Another point to be made is that so-called "French" films include quite a number of co-productions involving a further proportion of American investment in the associated countries.

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- (1) The five Majors operating in the French market (including the "CIC", officially "Dutch-owned", which alone accounts for 10% to 12% of the total) take in about 40% of distributor earnings.
 - (2) For the same year, the Majors reported takings of \$52 million on the French market.
 - (3) Not including the "CIC", which is officially classified in Paris as a Dutch-owned company.

7. For the Americans, this system presents a number of advantages. As we have seen, it provides a means of making up the shortfall in Hollywood's production. The method (1) of operating through subsidiaries set up in other countries and legally classified as "national" also enables the Majors, by getting round protectionist subsidies paradoxically instituted as a defence against American competition, to tap an extra source of finance. Finally it gives them access, for local films, to the services of famous actors and directors like TRUFFAUT, MALLE, LELOUCH, COSTA-GAVRAS, PASOLINI, BUNUEL, FASSBINDER, etc. Such a policy is particularly astute in that this "brain drain" in effect represents a transfer of assets to the Majors from their European competitors, i.e. the distribution circuits in France, Italy or Germany, which are then in danger of being reduced to handling unprofitable, if not second-rate, films. Moreover, there does not seem to be any trade-off in terms of increasing penetration of European films on the American market. Economic studies of multinationals in general have shown that parent companies are often reluctant to sell the products of their foreign subsidiaries on their own market. This seems to be true in the case of the cinema, in view of the fact that the share of the American market held by European films (other than British) remains tiny, estimated at less than 1%.

The export cartel

8. The Majors operating outside the United States are not only active as distributors and even as producers, but they are also present through their organisation and within the representative bodies of the industry. It is by the use of concerted action, i.e. by organising, that the Majors combat whatever stands in the way of a completely free trade in films. If a restrictive measure is taken by a particular country (eg a limit on film imports, on remittance of profits, etc), the MPEA, with the discreet support of the American Embassy in the country concerned, will negotiate with the authorities for its removal or for a greater degree of flexibility. If a dispute arises with the local industry, MPEA companies take advantage of their dominant position and take firmer action. In 1976 in Sweden, for instance, they simply boycotted cinemas which would not accept arbitrary booking rates and admission prices, until such time as the private operators were willing to compromise (2). There was a similar boycott in Norway (3), and it appears that the result in both countries was a fall-off

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- (1) Some French examples would be "L'Histoire d'Adèle H" by F TRUFFAUT, officially 100% French and co-produced with "Artistes Associés"; "Le Vieux Fusil" by R ENBICO, officially Franco-German and co-produced with "Artistes Associés"; "La Femme du Dimanche" by L COMENCINI, officially Franco-Italian and co-produced with FOX; "Le Locataire" by R POLANSKI, officially 100% French and co-produced with CIC.
 - (2) The dispute between MPEA and Swedish exhibitors lasted from 1 August 1976 to 30 March 1977 and ended in a compromise whereby Swedish cinemas accepted "differentiated booking rates" (i.e. a higher percentage on some films).
 - (3) The same had happened in Spain some years earlier.

in attendances. This goes to show that, to achieve their objectives, the Majors will not hesitate to depress a market, even when they regularly collect a majority share of its takings.

9. In Germany, it was a state of latent conflict with exhibitors accused of excessive delay in paying distributors' shares of box-office takings which led to the four MPEA firms (1) to set up a distribution cartel. This was finally approved on 25 July 1975 by the Federal Cartel Office (the BKA in Berlin) against the opposition of exhibitors, and it enabled American distributors to impose strict payment conditions on cinemas under threat of sanctions (2). In December 1977, an oral question was tabled in the Bundestag asking whether the Majors had not taken unfair advantage of the cartel to strengthen their position on the market. The reply was that a BKA enquiry was in progress and that if an unfair advantage was found to accrue from the cartel to the detriment of national firms, the approval would be withdrawn or the cartel would be changed. This provides another illustration of how effective an "organisation" can be in enabling a few firms to safeguard their own interests, even when they are operating abroad.

10. It should be added that the Majors, through the intermediary of their foreign subsidiaries, operating under local rules, are represented on industrial bodies in the various countries. They belong to associations of producers and distributors and, as regular subscribing members, are entitled to take part in their discussions and decisions. Such being the case, can these associations really be as independent as they should be? Although the situation is quite legal, it is nonetheless paradoxical in the sense that no major European firm has ever been admitted as a "member" of the MPAA in the United States, with the possibility of taking part as such in that association's discussions and decisions.

Weight of foreign earnings

11. As an illustration of the position of the Majors in relation to foreign countries, we can consider the case of Europe, where the US film industry uses its "concentrated" and "multinational" approach in dealing with a fragmented and compartmentalised economy. The result is that even though some European countries manage to retain 50% of their domestic market for their own film industries, American market shares, which may account for less than half in individual markets, add up from country to country to give the US film industry a majority share of the overall market. Furthermore, this typically multinational operation is concentrated among no more than half a dozen firms, compared with hundreds of European producers and/or distributors. Estimates of relative size, based on the respective sales figures, as between European firms and the Majors yield ratios somewhere between 1:15 and 1:30, which is to say that an American firm has 15 times more "weight" than an Italian firm, or 30 times more than a German.

(1) In Germany, the MPEA consists of CIC + FOX-MGM + UNITED ARTISTS + WARNER-COLUMBIA.

(2) The four companies also intended to set up a central fund of box-office takings, but it seems that the project was dropped.

12. It is hardly surprising, then, that through the combined effect of a quality product with mass appeal and the backing of an omnipresent marketing infrastructure, the Majors manage most of the time to maintain their exports at a level which is fairly consistently almost double that of the domestic market. Naturally, these exports are to some extent subject to variations in international economic and political factors. If the value of a local currency is being eroded by inflation, then dollar earnings will tend to diminish while the opposite is true in the case of appreciating currencies. Similarly, as the real value of the dollar has been falling in the US, the growth of earnings in real terms has not been as steep as the curve of nominal dollar earnings makes it appear. Nevertheless, over a period of 14 years, after overcoming the 1969-71 crisis, the US film industry has managed to more than double its world sales (from \$632 million in 1963 to \$1,365 million in 1977). Recovery was particularly strong in the period 1976 to 1977, and it is worth mentioning some of the causes (1). It was due partly to favourable currency movements (a reversal of the 1976 situation), partly to the exceptional success of a few films, but also - and this is quite significant - to increased sales of programmes to foreign TV stations. At an estimated value of \$200 million, these sales rose by 120% in 10 years (while the number of TV sets in the world only rose by 62%), that is a net gain of 50% after allowing for 70% inflation. The President of the MPEA, J VALENTI, is anxious to develop this market even further. Although he is aware that such a move would come up against protectionist barriers owing to the fact that "outside the US, TV constitutes a field of political and cultural action", he also feels that these foreign earnings are essential to ensure uninterrupted production of films for the cinema and to finance TV programmes for the American networks. Hence his highly significant conclusion that the sales constitute not so much profit as an essential feedback of capital.

(1) 1978 is reported to have showed gains of 15%.

CONCLUSION

1. Over the last nine or ten years, then, the US film industry, consisting mainly of the multinational (or "transnational") firms known as the "Majors", has been through a period of striking prosperity, both at home and abroad, in the cinema sector and in televised films. According to available statistics, the total income from films earned by the Majors amounts to \$1,365 million. On the other hand, \$750 million is the figure estimated by J VALENTI, President of MPEA, for the amount invested by MPEA firms in software, that is in film production. This would seem to indicate that in 1977 these firms practically doubled their investments, and it would explain, as we saw earlier, why they have been flooded with cash, part of which they have reinvested outside the film sector on the principle of risk diversification.
2. One is again forced to point out how alarming appears by comparison the situation of the European cinema. In a market dominated worldwide by the Majors, the European film industries perhaps show an excessive tendency to indulge in ambiguous attitudes and even errors of judgment and to compete among themselves instead of co-operating.
3. European attitudes are ambiguous in that, although an effort was made at one time to put up legal and economic defences against the worldwide imbalance of forces in the film industry brought about by the concentration of power in the United States, nothing is being done to change this protectionist system now that it has become clear that the Americans, with their well-known commercial "know-how", have managed to find a way round the obstacles. A further ambiguity is the frequency with which the very film-makers who complain about American superpower or "domination" make a bee-line for Hollywood when offered a contract by one of the Majors. And there is yet another ambiguity in the fact that the industry's representative bodies in Europe are prepared to accept the presence of American firms in their midst and on their governing boards without obtaining any compatible arrangements in the United States.
4. Competitiveness among European film industries is particularly misplaced when it is realised that they are not really in competition with each other (1) and that they all need an investment and distribution network at least on a European scale if they are to have any chance of showing their films without boosting the profits of the Majors, that is, of their real competitors. Similarly, it is hard to see how European films have any chance of establishing a lasting presence on the wealthy American market unless they succeed in setting up over there a suitable advertising and accounting machinery. In view of its cost, this would only be conceivable on a shared basis. Again it is because they are disunited that European film industries are unable to exploit the one asset they possess in relation to the American export cartel. According to J VALENTI himself, the income earned by the companies in his group from cinemas and television outside the US, and in particular in Europe, is essential to their financial well-being (2). Is it not something of a paradox,

(1) As pointed out by L COMENCINI at the Council of Europe Symposium on "Cinema and the state".

(2) It is a known fact that local investment by foreign subsidiaries of the Majors is always less than the profits they remit to the US.

then, that the Germans, French, Italians or British are quite prepared to accept that their marks, francs, lire or pounds should be used for such purposes as helping Mr K KERKORIAN to build the world's biggest hotel and the biggest gambling casino in Las Vegas, instead of swopping this flow of currency for some improved means, say, of marketing what appear to be endemically unprofitable European films in the United States?

5. But is the European cinema lucid at least in its appreciation of its bigger American counterpart, its workings and its success? The answer is not at all clear. Has the vital role of distribution, for instance, ever been properly assessed?

6. If we are ever led to wonder whether distributors play the same part as traditional wholesalers in business, the answer is NO, and this is where the error of judgment often creeps in. Distributors do, of course, arrange the "physical distribution" of films to exhibitors, a service which, like any wholesaling, is duly remunerated. But over and above that, distributors are also responsible for programme schedules, that is, for deciding when and where a particular film will be shown and on what terms - which, considering the special nature of the goods produced by this "emotion industry", can involve enormous risks. It is a game which requires flair, thorough knowledge of the market and sound organisation. These are the Majors' assets at home and abroad (1). Thanks to this know-how, supported by a worldwide marketing organisation, the Majors manage to balance their accounts, with super-losses on some films, super-profits (2) on others and the rest breaking even.

7. In return for the high risk he takes, a distributor will tend to want to be consulted about a product whose future will be largely in his hands. However, the magnitude of the task is such that only an organisation along the lines of the Majors can tackle it with any reasonable chance of success. This would explain why the "independents" often turn to the Majors, so that it might be said that the only thing worse than being forced to associate with a Major is not to be. Clearly, many films are produced and financed in the United States outside the Majors, but it is also clear that if the Majors are brought in at some stage films have a much better chance of success. It is also clear that this particular lesson has been learned by many European producers.

8. Nevertheless, one should not lightly dismiss the argument of those who, noting the presence of American films everywhere in the world, explain that the reason for this international success resides primarily in the quality of American films and not in the MPEA export cartel, whose role, according to them, is limited to "a rational exploitation of the quality advantage". As a general

(1) In 1973, it was estimated that the operating cost of the Majors' network came to \$10 million for the US and Canada and another \$10 million for the rest of the world.

(2) The very good results reported for the US market at the end of 1978 were entirely due to "Superman". According to "Variety" (10 January 1979), there was a veritable chasm between "Superman"'s takings and the rest.

rule, nobody seriously casts doubt on the "quality" of American films (1). It may, however, be going a little too far to say that the MPEA has practically nothing to do with the penetration of American films. In fact, this is another aspect of a problem to which economists like GALBRAITH have drawn attention by suggesting that, although we are always being told we are in a "consumer" market ("consumer-is-king" theory), in fact often we may be in a "producer" market, where the manufacturer, through a variety of means, including intensive advertising, influences public taste in favour of the product he is manufacturing. Might not the same also apply in the case of the cinema? It would be a mistake, then to underestimate the part played by "organisation", such as that available to American firms abroad (2). An initial effort was certainly necessary to introduce American stereotypes and get them accepted by world audiences, before the latter became receptive enough to create their own demand for American films without any further intervention by the organisation. It is probably true that American films are generally speaking "international" in their content and approach; but it must be remembered that if they do not strike an outlandish note in Rome, Paris or Frankfurt, it is because the people there are already familiar with Coca-Cola, jeans and tee-shirts. These items did not find their own way there. In fact, the international content of the films and their international sales machinery reinforce and justify each other (3). At the same time, no conquest is secure unless it is properly followed up, which explains the enormous sums spent and the ongoing effort produced by the US film advertising machine. Public taste is not everything and it is well known that where there is a will, there is a way of guiding and influencing public choice.

9. The conclusion of an enquiry into the cultural effects of transnational companies, to the effect that they produce their own form of culture which is unlike that of national companies or that of the host country (4), seems to be borne out in the case of the cinema. The conclusion is confirmed in the case of the UK with its peculiar blend of American and local participation in the film industry. In its report to the Prime Minister, the working party (5) chaired by J TERRY suggested that in economic terms many of the great successes achieved by British film talent had been distinctly more beneficial to the American economy than to the British. In cultural terms, the report went on, the continuing domination of the British film industry by Hollywood had prevented a typically British cinema from developing. It was often thought that a common language meant a shared culture, but this was a fallacy.

10. To sum up: whereas in Europe the number of laws and public bodies concerned with the cinema constitute a striking feature, they are at first sight absent from the American scene. On the other hand, what is soon apparent is the presence, both inside and outside the US, of a powerful private organisation, in

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- (1) "The Americans have the art of producing good quality popular films", according to "LE MATIN" (Paris, 23 July 1977) in its article: "What is the key to Hollywood's success?"
 - (2) To which should be added another almost universal and equally well "organised" American "presence", that of KODAK.
 - (3) The process is somewhat reminiscent of television; through the type of programme it broadcasts, it conditions public taste to a greater or lesser degree and then conducts opinion polls which "happen" to favour precisely the type of programmes to which the public has become accustomed.
 - (4) O SUNKEL and FUENSALIDO (University of Sussex) - UNSECO report, June 1976.
 - (5) "Future of the film industry", report of the Prime Minister's working party, London, January 1976.

the form of the MPAA and the MPEA, backed by effective government support (1). As the American P SALINGER once wrote, there are all sorts of links between government and the film industry in the United States (2).

11. Furthermore, whereas the cinema in Europe, labouring through its endemic crises, periodically seeks an unlikely solution to the alternatives "art or industry", "creativity or productivity", "work of art or show business", "the masses or the élite" etc, such problems simply never arise in the States. The American film industry tends to apply its own remedy to the contradictions and tensions which are inherent in the cinema, by giving trade and industry preference over art and by referring to "performances" and "entertainment" rather than creative works of art. It does fulfil its indispensable function of creativity and renewal, but indirectly through the channels of commerce and business organisation. In fact, the American cinema, having deliberately set out to impose its presence and sell its products, is in a position, thanks to its commercial activity which provides it with the necessary funds, and thanks to its organisation which enables it to be constantly present everywhere, to attract whatever talent it has been able to discover in the form of authors, directors or actors, wherever they are and regardless of their nationality.

12. Putting it succinctly, one could say that the selection committees, subsidies and experimental film theatres of the European film industry are replaced, in the case of the US film industry, by its worldwide experience. Bearing in mind that the strong are the first to benefit from total freedom, we can understand what the President of the MPAA and the MPEA meant when he said, with reference to the possibility of film subsidies and quotas being adopted by a certain country, that he laboured daily to divert government action from the industry (3). Need one point out that the government action referred to by J VALENTI is in fact that of other countries? The object is to preserve a situation where American films and the American way of life, which are inextricably interlinked, have succeeded in imposing their presence in most countries, through an effective combination of culture and commerce to which Europe and the rest of the world can offer only a feeble response. The conclusion must therefore be, if a tree is to be judged by its fruit, that the American "system" operates far better than its European counterpart....

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- (1) On 17 February 1979 in Berlin, on the eve of the festival, when the President of MPEA, J VALENTI, met representatives of the German film industry, he was accompanied by the US Ambassador, W J STOESSEL, who gave a reception in his honour.
 - (2) In his book "Je suis un Américain", published in Paris by Ed. STOCK, page 245.
 - (3) Speech in Montreal at the 1978 festival.

TABLE 1US CINEMAUS MARKET

	Box-office takings (US) (1)	Average admission cost (2)	Audience figures (US) (3)	Distribution earnings	
	(\$ million)	\$	(in millions)	US (4)	abroad (5)
1978	2,732	2.34	1,168
1977	2,372(*)	2.23	1,063	802	563
1976	2,036	2.13	957	700	550
1975	2,115	2.05	1,033	753	566
1974	1,908	1.89	1,011	649	470
1973	1,524	1.76	865	471	415
1972	1,583	1.70	934	500	389
1971	1,350	1.65	820	402	340
1970	1,429	1.55	921	443	355
1969	1,429	1.42	912	375	340

(*) T GUBACK (Illinois University - US) quotes the following figures:
1977 = \$3,490 million, 1978 = \$4,120 million (ie + 18%); average
admission cost = \$2.32 in 1978. To these box-office takings should
be added another \$700 million or so of related sales.

According to these figures, the audience figures should be much higher
than those given above.

PRODUCTION

<u>Majors/films produced (distributed)</u>	<u>Independents</u>
approximately 450	< "good years"
306	< 1970
	1972 > 244
222	< 1975 > 292
210	< 1976 > 312

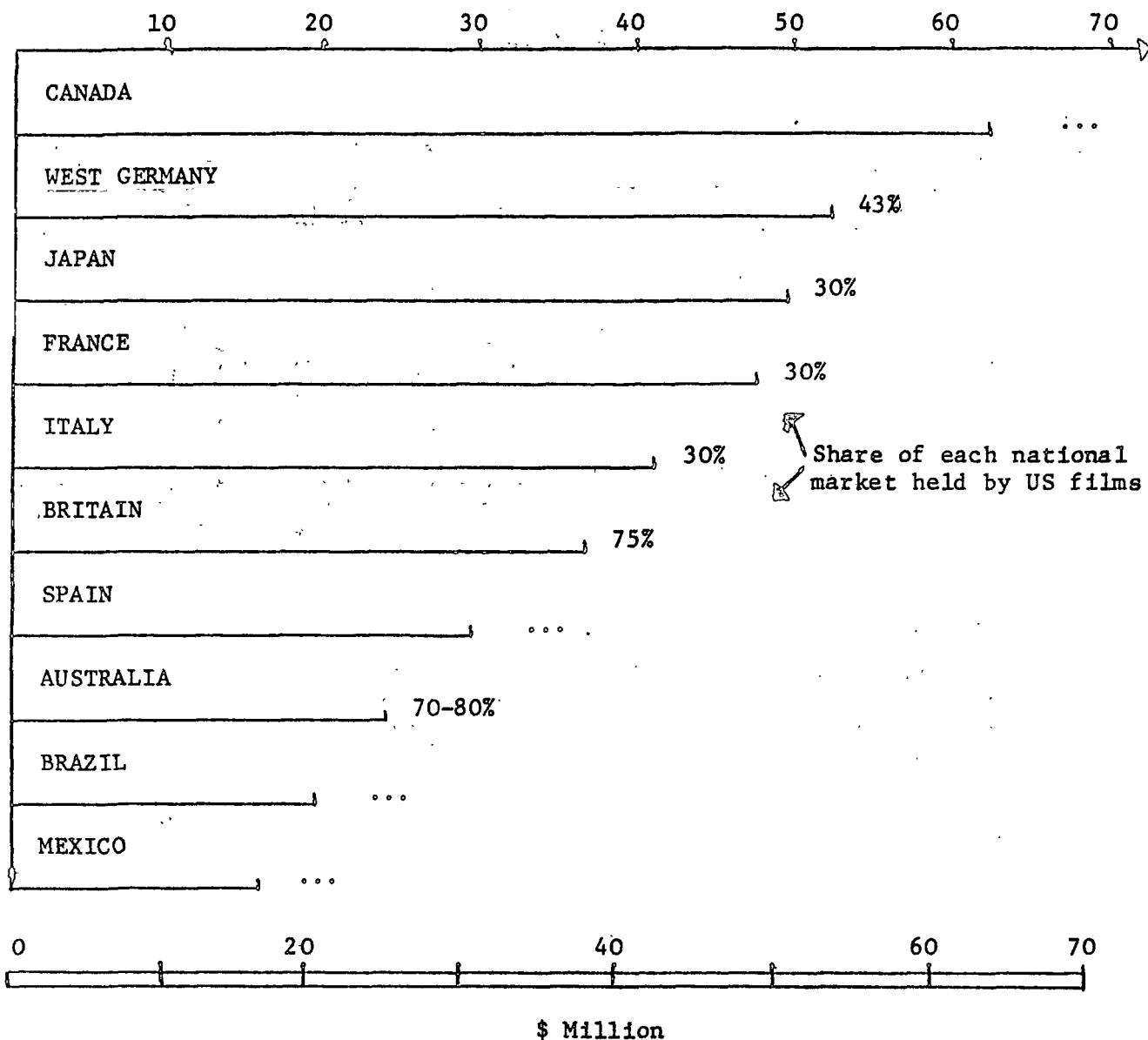
CINEMAS

1948 = 18,600

1963 = 12,652

1977 = 16,554 including 3,564 "drive-ins".

TABLE 2



USA | MAJOR FIRMS: FILM TAKINGS
 | MAIN FOREIGN MARKETS
 | (and share of these markets held by US films)

TABLE 3
SHARE OF EUROPEAN MARKETS
held by
US FILMS

ITALY from 1973 to	<u>76</u>	<u>77</u>	<u>78</u>
- US film share increases from 23% to	30.4%	32.7%	...
- National film share falls from 60.8% to	57.0%	52.4%	...
WEST GERMANY from 1969 to	<u>76</u>	<u>77</u>	<u>78</u>
- US film share increases from 28.5% to	43.0%	37.7%	...
- National film share falls from 39.3% to	11.0%	11.4%	...
FRANCE from 1971 to	<u>76</u>	<u>77</u>	<u>78</u>
- US film share increases from 24.5% to	28.0%	30.5%	32.6%
- National film share falls from 56% to	52.5%	46.5%	46.0%

From 1971 to 1978

Growth of French market as a whole 125%
but: growth of French films 87%
 growth of US films 201%
 (at today's values)