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AIDS TO THE FILM INDUSTRY IN EUROPE

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A. INTRODUCTION

1. A truly comparative analysis of the aids provided in Europe would require an entire book or, better still, a constantly updated manual. This is because the subject is highly complex in the case of one country and even more so when one compares countries with one another. Moreover, these systems develop over the years.

2. Thus, a document such as this one must be limited to the case of a few countries and to some aspects of the problem. It is necessary however to recall some general notions.

3. What is an aid? This is a financial intervention by public authorities in the normal market process. But where do the funds come from? There are at least four possible sources:

a. grants in the strict sense of the term (direct intervention by public authorities);

b. tax concessions (the public authorities give some tax exemptions);

c. financial guarantees or loans at preferential rate;

d. financial transfers (ordered by the state) from private individuals to other private individuals, which is the case for aid funds supplied from amounts levied from the revenue of cinemas (and from amounts levied from TV and videos).

4. Who receives aids? Firstly, the film production industry and then cinemas and, more recently, the film distribution sector. There are other beneficiaries such as: promotion of the national film industry, cinema-school etc.

5. How is the financial aid distributed? There are several ways:

a. distribution on a selective basis (with juries called upon when needed) or automatic distribution (depending on the turnover or the revenue);

b. granting of aid, refundable or not;

c. attribution of amounts which it is compulsory (or not) to reinvest in the film industry.

6. Lastly, the history of the last few years shows that the technique of financial aid is quite closely associated with two other techniques: that of co-production (films) or that of a quota (in favour of national films).

B. SOME NATIONAL CASES

I. GREAT BRITAIN

1. It may seem paradoxical to begin with a country which has just, as it happens, cancelled its aid. The English case is, however, useful in its lessons.

2. Let us state at the outset why the word Eady is often used when English aid is mentioned. Wilfred Eady was a senior civil servant who, in 1950, launched the idea of a fund supplied on a voluntary basis by a levy on the income of cinemas, a levy which at the time amounted to a little less than £3 million. For what purpose? The idea was not to provide direct financing for film production but to encourage private investment in films. These investors could count on a minimum return: financial aid being proportionate to the box office results, the more successful the film from a box-office point of view, the higher the aids.

3. Three remarks must be made:

a. producers (and their association, the FPA) were in favour of automatic aid and hostile to selective aid;

b. the aid did not include any obligation to reinvest in another film;

c. cinema owners were rather hostile to the principle of the levy on box-office revenue.

The idea of the non-reinvestment was to interest sectors outside the film industry, and financial sectors in particular, in film production without permanently associating them with the latter. With regard to cinema owners, of whom it must be said that in Great Britain particularly they are allowed to run their cinemas by showing films which are not necessarily national films (American films for example), they managed to have the entertainment tax (which was rather high, almost 20%) adjusted and to have some low turnover cinemas exempted from the (aid) levy (1).

4. Moreover, the national film industry enjoyed a screen quota . By virtue of a law dating back to 1927, English distributors had to acquire and distribute a minimum British content that is 75% of footage and cinemas had to reserve 5% of screen time to British films. Twenty years later, however, in 1947, after the war, American films accounted for 75 or even 85% of box office revenue. This was a time of great economic problems for Great Britain and the British

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(1) Apparently the lesson was not lost by the German exhibitors: in 1967, they accepted the first German AID LAW (the FFG) on the condition that the VAT rates on tickets be reduced by half.

Government decided on 8 August 1947 to impose a 75% tax on films imported from the USA. This led to the MPAA imposing an immediate embargo on the exporting of films towards Great Britain. On 3 May 1948 the British Government cancelled the tax in exchange for a promise from the Americans to encourage the showing of English films in the USA. As for the quota it made it compulsory to show 45% of national films for the first part of the programme and 25% during the second part. The lack of British films resulted in almost one third of cinemas being exempted from the quota which was to be eliminated on 1 January 1983 to the great satisfaction of the Cinema Owners' Association.

5. Three years later (1986) the Eady aid was removed by the Thatcher Government. What conclusions can be drawn from these 36 years of Eady aid?

a. English production had received a certain amount of selective aid with special loans from the Film Bank (NFCC).

b. On the market side, the English public was the highest consumer of audio-animated pictures in the world. When aid began, there were still 1,400 million spectators in 4,500 cinemas. Shortly afterwards, however, TV sets invaded English homes (that is much earlier than on the continent) and the sound and picture consumption transferred from cinema to TV screen.

c. This is where the vicious circle which should have served as an example to continental Europe began: fewer spectators, more cinemas closing ... more cinemas closing, fewer spectators ... along with a blind and short-term policy of the distributors which accelerated the death of small and medium-sized cinemas.

d. TV never subscribed to the aid fund. Nor did it subscribe in a significant way to the production of films. BBC and ITV are almost self-producing. This policy was to change with the Channel 4 channel (launched on 2 November 1982) since, making use of programmes external to the channel, it was to lead to the existence of several hundred independent producers. The current Minister (Mr Douglas Hurd) endeavoured to get BBC and ITV to entrust up to 25% of their requirements to external producers.

6. What then is the current situation? There are about 20 times fewer spectators and three times fewer cinemas. The British public now hold a new record for the consumption of sound and animated pictures. They own the greatest number of videos in Europe (almost 50% of households). There are however more spectators in cinemas and new cinemas are being built (partly by American investors) since 1986.

II. NETHERLANDS

1. Another case which greatly differs from Great Britain and other continental countries is that of the Netherlands. This is a case of a country which is small in geographical terms and therefore in terms of cinema market (less than 500 cinemas) which does not facilitate the amortisation of the national film production. Moreover, this is one of the most cabled countries in Europe.

2. As early as 10 April 1948, the film industry provided itself with an efficient organisation, the NBB. On 3 August 1956, with the help of the Ministry for Education and the Arts, the latter set up a film development fund, partly financed by the government and partly by the NBB from the subscriptions which it received from its members.

3. Currently, the system of aid basically operates as a two-stroke engine.

a. Dutch Film Fund No. 1. The fund has available a sum of 7 million Florins ($3.7 million) supplied by the government. The fund may allocate aids of up to a maximum of 60% of the cost of the film for a full length film of fiction. Aids are reimbursed to the fund from the portion of the box office revenue exceeding the investment of producers.

b. Dutch Film Fund No. 2. With 5.3 million Florins provided by the government (approximately $2.9 million), aids of up to 100% of the cost may be allocated to cultural and/or artistic films. A small portion of the fund is reserved to aid scenarii.

4. There is also a Co-production Fund called COBO constituted by radio TV organisations. This fund is supplied by royalties received when Dutch TV programmes are shown on foreign cable channels (in Belgium, the most cabled country in Europe). One-third of the fund is reserved for co-production between TV and film producers. In this case, any revenue from this co-production is paid back to the fund.

5. This system of financial aids is completed by a National Re-organisation Plan. Set up by the NBB, the Ministries for Economy and Social Affairs and the Unions, its purpose is to develop a greater awareness to cinema entertainment on the part of the public and to study the various categories of cinema-going public as well as to improve cinematographic structures. This involves a series of measures and operations: audience analysis, ticket price awareness, marketing, training of cinema personnel regarding their dealings with the public. The NBB provide 1 million Florins to this fund ($0.525 million) while the government provides 1 million Florins.

III. ITALY

1. With Italy, France and, to a lesser extent the Federal Republic of Germany, we reach the heavyweight category of aids given to the film industry. These countries have extensive and complex systems. With regard to Italy, it has the oldest system of state intervention in the film industry: in 1927 (under Mussolini) the BNL (Banca Nazionale del Lavoro) included a special film industry section, the SACC which is still in operation. Another characteristic of the Italian case is the existence of a state cinema company: Ente Autonomico di Gestione per il cinema with a studio branch (Cinecitta) and a distribution branch (Italnoleggio).

2. Contrary to what is the case in France, the Federal Republic of Germany and Great Britain, the Italian aid does not come from box office revenues but from the budget of the state. What is its finality? Successive laws (and in particular Law 1213 dated 4 November 1965) acknowledging the film industry as being an artistic means of expression, a means of cultural training, of social communication stated formally that aids should be granted paying particular attention to the artistic and cultural film. In 1985, the government voted a law for the financing of the entire entertainment sector: 25% of this total, that is about 200 billion Lire are reserved each year for the film industry.

3. How is the aid allocated? The production (full length movie) of an Italian film makes it possible to receive, over five years of showing of the film, an aid of 13% of the gross box office returns. This automatic aid is completed by a selective aid taking the form of 20 prizes of 250 million Lire (that is 5 billion in total). The total of the automatic aid, taking into account an Italian box office revenue of 180 billion Lire for 1986 and on the basis of 13% can be estimated at 23 billion Lire. As in Great Britain, and contrary to the Federal Republic of Germany and France, the aid produced by the showing of a film does not have to be reinvested in subsequent films.

4. A film producer may also be entitled to a loan with the BNL/SACC which can reach up to 60% of the cost of the film for a duration of two to three years with an interest of only 6%. With regard to films made on a co-production basis with Cineasts, they can be given a loan at 3% of up to 30% of the cost of the film.

5. Regarding cinemas, the aid is linked to the tax imposed on box office revenue: VAT at 9% and the tax on entertainment at 8%. By showing an Italian or EEC film, the cinema owner obtains a rebate of 35% on the tax on entertainment and temporarily (until 30 June 1989) of 25% more. Non-European films only entitle the cinema owner to a reduction of 25%. Moreover, up to 70% of the profit made by the cinema owner on the operation of his cinema is free of income tax.

6. There remain the loans which may be obtained from the BNL/SACC. By investing in modernisation work or opening a cinema in an area in which there are not any, the cinema owner may obtain a three-year loan

at 5.5% for up to 40% of the investment if the cinema comes under the category of small or medium sized . To replace machinery or acquire new techniques, all cinema owners may obtain a five-year loan at 6% for up to 50 to 70% of the investments. The total of all loans allocated amounts to 10 billion Lire and the total amount of investments during the last three years amounts to 150 billion Lire.

IV. FRANCE

1. The French system, launched in 1948, was introduced as a temporary aid (for five years) and is still in operation without limitation as to its duration. It was then very simple and it is now remarkably complicated. There were two beneficiaries, the production sector and the cinemas themselves (plus a grant to Unifrancefilm). There are now a number of beneficiaries and new sources of financing (a state grant and the tax on TV companies' revenue). Lastly, to the support to the film industry is added a support to programme industries that is to TV production. It appears at the end of the day that by relating the global aid to the film market, one has a ratio of 8% at the beginning (from 1948 to 1953) against 19% today.

2. Regarding the automatic aid, the ratio between payments to production and cinema owners has not significantly varied. Cinemas receive roughly two thirds of what production receives (300 million FF and 200 million FF). To this should be added the selective aid. For production this is called advance on revenue . In 1986 52 films shared 75 million FF that is an average of 1.44 million FF per film while the average automatic aid per film is of about 1.22 million FF. In total, since 1960 when advances on revenue were introduced, and out of 1,013 films thus selected, only 97 reimbursed the advance in full. Thus, for an average cost of 13 million FF for French films in 1986, automatic aid amounts to about 10%, which goes up to about 20% for a film which also receives an advance on box office revenue.

3. Over many years, cinema owners were only entitled to the automatic aid, proportionately to their revenue and the work carried out to modernise their premises. In 1986, 1,042 dossiers put forward (out of 5,154 screens , 3,329 of which were in multi-theatre complexes receiving 83% of the spectators) received 190.5 million FF of aid for 309 million FF of work. In 1983, selective aid appeared with the setting up of The Regional Development Agency . As its name indicates, the purpose was to:

a. encourage the opening and the modernising of cinemas in ill-equipped areas, and

b. to help distribute films.

In 1986, with 26 million FF given by the state, 20 rooms were modernised and 77 created. Four travelling circuits were also created for towns of less than 15,000 inhabitants. Over a period of three years, 700 cinemas were modernised or opened and 67 travelling circuits were set up in 750 localities. The agency also had 1,153 copies made of 42 films (80% of which were French) destined for 334 medium-sized towns (15 to 80,000 inhabitants).

4. Let us add that in recent years, the distribution sector has been receiving financial aid. The 176 companies with a turnover of 10,747 million FF are thus encouraged to participate in production financing and to increase the number of copies on condition that the aid thus received be reinvested in production.

V. FEDERAL REPUBLIC OF GERMANY

1. It is only on 22 December 1987 that Germany adopted its first law on financial aid (FFG Law). This was regularly renewed later and completed with agreements signed with television. Thus the ARD and ZDF channels provide the fund managed in Berlin by the FFA with a significant financial contribution (42 million DM for the years 1987 and 1988). The text in force since 1 January 1987 led to relatively clear changes. The cinema revenue levy which was approximately 3.5% (contributing about 30 million DM to the fund) was reduced by approximately one third and one third of the 3,300 cinemas were exempted. This levy (Film Abgabe) is on a scale of 1.5% to 2.5% of the revenue. On the other hand, the video market was subject to the Abgabe at a rate of between 1 to 2%. It is true that the VCR penetration rate (about 35% of households) places this country in first position on the continent, behind Great Britain, and that the video turnover is almost as high as that of cinemas (825 million DM against 784.7 million DM for cinemas). Lastly, the fund makes it possible to have additional copies made. One must also take into account the new importance of regional aids . Almost every Land government (and Bavaria is the first in this) allocates from its budget some mainly selective aids amounting to approximately 60 million DM in total.

2. The showing sector of the German film industry which, as is the case with its European neighbours, is exposed to the competition of new media asks the legislator, through its Chairman, H Strate, to set up a legal framework allowing a satisfactory cohabitation between the various audio-visual media. In this perspective, cinemas find significant advantages in the latest FFG law:

a. the share of the aid fund reserved for cinemas goes from 15 to 20%;

b. the refunds of financial aid received for work carried out in cinemas are reinvested in the portion of the fund reserved for cinemas;

c. the fact that additional copies are made (with 10% of the showing portion of the fund) must enable the cinemas of localities of less than 20,000 inhabitants to better face the problems of frequentation.

3. Lastly, it should be noted that the FFG law stipulates the chronology of the first showing of films in the various media (but only for those films in receipt of aid). Films are issued in video six months after they have been issued to cinemas and to television five years after they have been issued to cinemas. Derogations are however possible. Films can be issued in video within four months and to television within two years. With regard to films co-produced with television, they can be shown on TV within six months only.

VI. SPAIN

1. The aid is fixed by a Decree dated 28 December 1983 and the budget of the state gives it 2,300 million Pesetas.

2. Film production receives both an automatic and a selective aid. In the first case, the advance on revenue may reach 50% of the budget of the film. In the second case, automatic aid is calculated on the basis of 15% of the gross revenue of the film over a period of four years but without exceeding the cost of the film. If the film has been placed in the special quality category, it receives an additional aid of 25% that is a total of 40% of the gross revenue. Lastly, short films receive a quality based aid which is proportionate to the cost of the film.

3. Cinemas may receive a grant for technical improvement work which can reach up to 60% of the investment of the cinema owner. Loans are also allocated at preferential rates by the Industrial Credit Bank. They can reach 70% of the investments allocated to improvement work or used to open new cinemas. Lastly, small cinemas (up to 1.5 million Pesetas of annual revenue) may also receive small grants.

4. A screen quota is also applied in Spain. One third of films shown must be Spanish or EEC films.

CONCLUSION

Having briefly looked at these systems mainly concerning financial aid to cinemas, some remarks can be made.

1. Aid to production is not exactly of the same nature as the aid to film theatres. In the first case we are dealing with an aid to the product and in the second case with an aid to the infrastructure. Let us add that while the European Commission sometimes contested that aids to production fully complied with the Treaty of Rome because of the criteria of nationality of films as a condition of the granting of aids, it had no objection to aid to cinemas since the latter show all EEC films without discrimination. Moreover, while a cinema sometimes needs grants or loans, it always needs films in satisfactory quantity and of a satisfactory quality. Whence the question: <u>Has financial aid to production in Europe reached its objective?</u>

2. Before we reply to this question, two remarks spring to mind. It is said everywhere that there is no European film, that there cannot be such films since there are only national films and culture. Of course, one should prefer the term of European origin for films made in Europe by Europeans. It must also be said that there is nothing as artificial as the nationality criteria adopted by states and their aid institutes. It is also rather peculiar to hear so many official voices celebrate the cult of nationality while the great majority of European spectators (40 to 80% and more) although they are not English speaking buy a ticket to see a film which is not particularly European since it is of American origin.

There is also a chapter of the European economy which is all to often left out of discussions: exports. One understands better when one knows the tragic situation of a country like Italy, which, although it is not the last in Europe for the 7th art, spends in film imports about four times as much as it exports. The ratio in favour of Italy's partner the USA is of about 30. It is true that European film makers always refused to barter the each one for himself of national initiatives for a cheaper and more efficient European action. One might then assume that this cult of a certain cultural nationalism masks an ardent desire to change nothing to existing structure and to the advantages of which some benefit while talking year after year about the crisis in the film industry .

3. Let us go back to the question: has aid to production in Europe fulfilled its objectives?

4. After almost 40 years of existence, aid to production has not really made it possible to block American pressure (which even now is increasing where American made films were heretofore in a minority) or to meet the strong demand for films by new media or to enable producers to live and stay alive and, at management level, take the double economic and artistic risk or to keep distributors alive, without whom a film cannot be properly marketed.

These various challenges could only have been met by putting into competition, within Europe, all creative and management talent. We are now faced with the date of 31 December 1992 and the great internal market . There will be absolute freedom of service, freedom to open new theatres, tax systems, including VAT will have to be harmonised. These changes will have a more obvious impact in the financial sector and it is therefore hard to see how the film industry will be able to escape this impact. Moreover, the cross-border traffic of audiovisual programmes will have become more extensive.

This is why in Europe which, if it wants to survive, will have to reject the rigid elements inherited from the past and become resolutely flexible, the structures of the film industry will also have to undergo thorough changes. In my opinion, national regulations including those governing co-production and financial aids will have to be rejuvenated, and it is about time something was done in that direction.