NOM : Benhamou F. and Moureau N.
Prénom : Françoise and Nathalie
Firme ou Institution : Matisse, université de Paris 1 and Montpellier 3
Adresse : 106 bd de l'Hopital
75013 PARIS
Téléphone : 0033144078132
Télécopie : 0033144078336
Mél : fbenhamo@univ-paris1.fr
Souhaite présenter une communication, titre :

Public support to the motion picture industry. An evaluation of the French “model”

Résumé (2p) ci-joint

Public support to the motion picture industry. An evaluation of the French “model”

Summary of the paper

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Françoise Benhamou, Université de Rouen et MATISSE, Université de Paris 1 and Nathalie Moureau, Université de Montpellier III

The paper emphasizes the contradictions of the “French cultural exception policy” for the motion picture industry and stresses the question of its efficiency.

1. The foundations

Two series of factors must be involved to explain public support to the motion picture industry.

- The first one is the necessity at the turn of the Second World War to protect the French industry against the American one in order to preserve the French industry. But it would be necessary to show that non-domestic films and TV series generate negative externalities. American films and programs are especially supposed to create eviction effects for French ones.

- The second one arises in the 1980's when the TV appears as a serious rival of the picture industry. TV is assumed to be a strong substitute for cinema.

Support relies on an hypothesis concerning individual preferences: it assumes a strong preference for diversity (understood as a preference for local goods and services).

2. The French « model»

The first step of the support was submitted to strict industrial considerations. The *Centre national de la Cinématographie*, settled in 1946, allocates automatic subsidies to French producers. It is financed by a tax levied on the consumption of films (called *taxe spéciale additionnelle* - approximately 11% of the ticket price), whatever their nationality, that is re-allocated to the only French/European movies. Therefore the success of US films helps subsidizing French ones. American companies consider that they have a right to apply for subsidies. In the same way taxes on video and network turnover are levied on all purchases but only finance domestic goods.

In a second step, after 1959, a cultural logic was introduced through interest-free loans, repaid only once a film went into profit (*avance sur recettes*), for films selected by a commission on the basis of their quality.

This twofold system of support (automatic and selective) can be considered as a mechanism of forced saving for professionals, since it is for its largest part based on a re-allocation mechanism : the main resources of the CNC rely on a levy on cinema tickets.

Moreover, during the second period, and especially after 1965, the rise in the competition of television led to a decline in attendance. This new competition increased with the deregulation of the television activities and the multiplication of networks that it brought about. The model of the autonomous generalist hertzian channel in oligopoly declined to the advantage of paying multichannel packages in competition on the cable and the satellite.

Therefore, regulators tried to take into account this change through a set of new regulations. Among them :

- Bounds to the broadcast of new films on TV (called "chronology of media") in order to set boundaries to the competition between cinema and TV.
- New resources allocated to the *Compte de soutien*: a tax on TV channels in 1984 (5.5% of their turnover; 36% of the sum is reallocated to the cinema industry) and a tax on videos (2% of the turnover of video producers; 85% of the sum is reallocated to the cinema industry).
- Quotas of production for TV channels settled in 1996. Non-coded TV broadcasters must invest at least 3.2% of their turnover to film production including at least 2.5% for French films, and 0.7%

for European ones. Those investments consist in pre-purchases and co-production. Canal+ must devote at least 20% of its turnover to the purchase of rights of which at least 12% of European films and 9% of French films.

3. The boundaries of the model

These regulations give a birth to an unstable situation

1/ TV channels progressively become the main financing source of the movie film industry. Support for films does not rely any more on a mere internal re-allocation system, but mainly on transfers from TV to cinema.

2/ The study of the evolution of tastes and practices reveals a change in consumers behaviors and TV programs, with a rise of TV shows, reality shows and TV series that decreases the number of films. Films are less and less a means for increasing channels market share, and the financing of films by TV is less and less legitimate.

The paper shows how the evolutions of the French support for cinema industry, justified by the idea of a "cultural exception", do not respect anymore the latter.

Some issues are positive:

- Public policy seems to have contributed to creating a flourishing French film industry, with a strong support in favor of young directors. France produces more films than the other European countries; 72.4% more films than the European average in 1984, 75.5% in 1993 and 76.2% in 2001. A large proportion of new films are first or second films made by young directors.
- In spite of a decline at the end of the 1950s, attendance remains higher in France than in the rest of Europe (14.8% higher than the European average in 2001).
- Moreover, between 1993 and 2001, general French attendance grows 41% but French films attendance grows 66%, showing a propensity of French consumers to "resist" to foreign supply, in spite of a very unequal strategy by programmers: on average, a French film is programmed on 70 screens, and an American one on 180 screens. Some French films have notable success abroad. Export receipts represent on average 13% of total receipts between 1993 and 2000 (50% for American cinema) (CNC 2002). But this percentage will probably remain stable or even decrease: tastes are widely modeled by American films, which benefit from costly promotion investments.

But the model is more and more fragile:

- The polarization grows between big budget films and small budgets ones. The recent increase in attendance relies on "blockbusters" (films with more than 2 million tickets) and 45% of the French films had less than 25 000 tickets. Therefore support to blockbusters is more and more predominant. Automatic support depending on previous audiences is not an incentive to innovate

- The automatic support granted to films as well as the obligations of TV channels increase the inflation in costs.
- TV finance in priority films with large audiences. Data show a deepening gap in the structure of the budgets of films depending on the potential size of their audience
- Film financing mainly relies on TV channels, which contribute in 2002 to about 40% of the total investment in production. The deterioration of the economic perspectives, especially for Canal+ which is responsible for 50% of this sum, generates uncertainty and will probably lead to new regulations, showing the boundaries of the "French cultural exception policy".

In a nutshell, our analysis of the data shows that

- Public support benefits films that do not need it, reinforcing their financial means, while it tends to neglect innovation.
- Moreover, the rise in the number of films is considered as artificial, since about one fourth of them are considered as "out of the market" and one fourth as "difficult films" with a very short life span in theaters (two weeks maximum).