Working Document
Global film production

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Introduction

This document has been prepared by David Hancock as a basis for discussions at MEI's August Conference in Venice. The research that follows aims to present in a clear and understandable fashion the nature of the global film economy, profiling certain key countries within this system. In keeping with the theme of this working session, I have concentrated on providing information on national film industries outside Europe. There are many major film producing economies around the world that are little known at the world level, even though they have strong and significant film industries that operate largely within internal borders.

The emphasis is on providing accurate and up-to-date statistical information combined with a presentation of industry dynamics from which MEI's members can draw to stimulate and inform their discussions during the conference. All research has been carried out recently and all data, unless otherwise sourced, is taken from Screen Digest, the research-oriented trade magazine, for whom the author works.

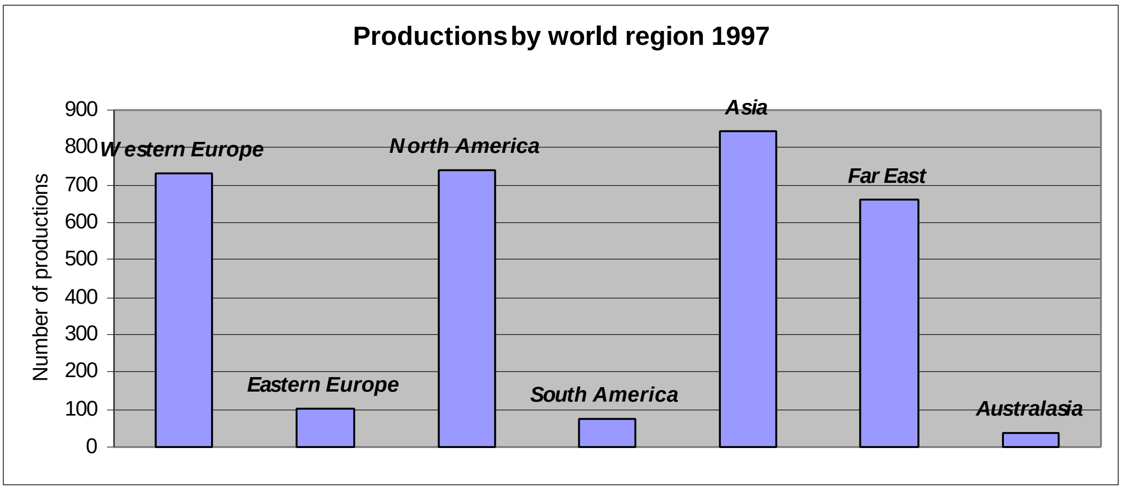
As participants in the Conference have a daily working experience of the industries presented within these pages, they may have information to add or they may wish to correct existing information. The author would welcome such well-informed feedback

Most currency values are given in US dollars for comparative purposes.

1. Global film production industry

1.1 Global film production

Globally, over 3,200 feature films were made in 1997, slightly up on the previous year but down on a recent high of 4,564 films produced in 1990. In the world's regions, there have been mixed experiences.



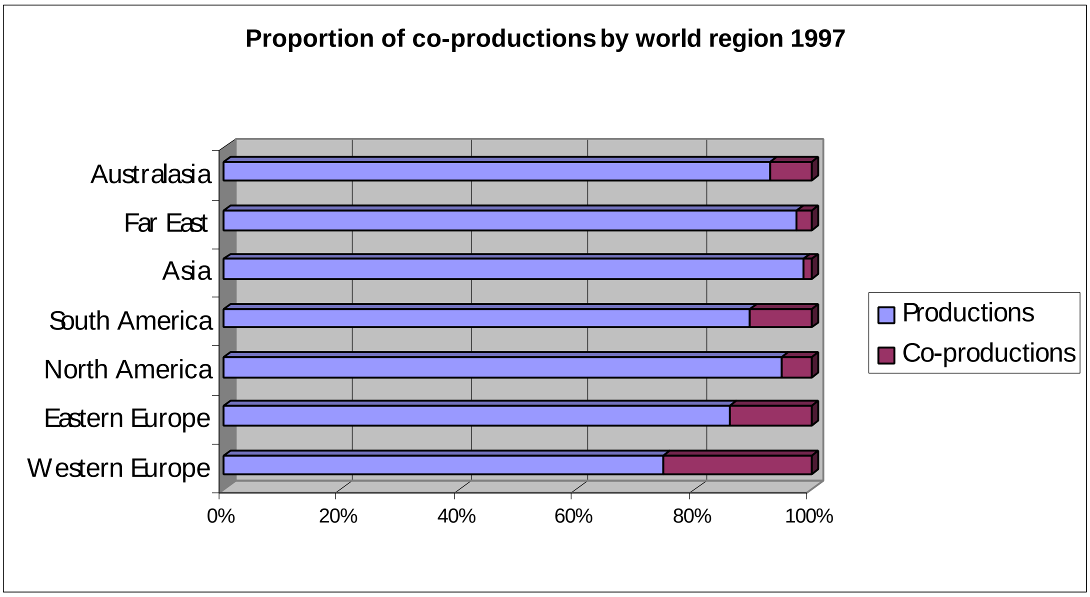
Film production in the EU has once again risen, to 666 films in 1997 against a revised 645 in 1996. The lions' share of this growth comes from France, which actually hides a drop in countries such as Spain, Italy and Germany. This is not necessarily a bad thing, as film production levels that are too high are as damaging as those are too low due to the distribution bottleneck it causes. Irish production is rising again after reduced fiscal incentives led to a drop in 1996. Total Eastern European production has remained fairly stable, although this masks substantial drops in Hungary and Czech Republic, more than made up for by an increase in Russian production.

South America is seeing something of a production boom, backed up by increased success at the box office and positive state support. Brazilian drop in films produced is more likely to be an aberration than a confirmed trend. Argentina, Venezuela and Mexico all saw rises in production levels. US feature film production fell to 676 in 1997 in wake of a restructuring of US majors' production sources. Canadian film production rose to 65 films.

Despite widespread economic crisis, feature film production in Far East was largely unscathed in 1997, actually rising slightly to 663 films although predictions for this year are far worse. Asian production was more quickly affected and this shows up as a drop of 15 films in the countries where information was found in 1996 and 1997. The number of films produced in India rose to 697 in 1997, from 649 in 1996. However, there is still some way to go before producers regain the high of 948 films produced in 1990.

1.2 Global film co-production

During 1997, the number of European co-productions dropped sharply, from 253 to 226 features, after several years of growth. Growth in French co-productions was outweighed by falls in Italy, Germany and UK. However, the 1997 level is still above that of 1994. A reason for this drop may be found in criticism of co-production schemes such as Eurimages for being too rigid and over-dependent on rules. The burgeoning number of domestic and international sources of finance becoming available to producers could spell an end to political pan-regional schemes.



Countries tend to have favoured trading partners for co-producing films. Nordic countries have very close production ties and common production schemes. Hong Kong producers mainly co-produce with Mainland China, a trend which is likely to develop as the two economies become more integrated. The large French feature production sector has spawned a set of satellite producers who only exist to co-produce films with larger French producers. These satellite producers are found in countries such as Belgium, Luxembourg and Switzerland. Austrian and German producers have a similar symbiotic relationship.

Co-productions are not as common throughout the world as in Europe. For example, while Asia produced around 845 films in 1997, only 14 of these were identified as co-productions. US distributors and producers invest heavily overseas in the form of output deals, presales and one-off film projects yet the USA is rarely a co-producer of films in the sense of shared financial, technical and artistic resources. India is slowly opening up, with giant NFDC establishing co-production partnerships around the world. Australian producers only collaborated on 3 co-productions in 1997 out of 34 films made. However, Australian features do receive about 40 per cent of budget finance from overseas in the form of pre-sales.

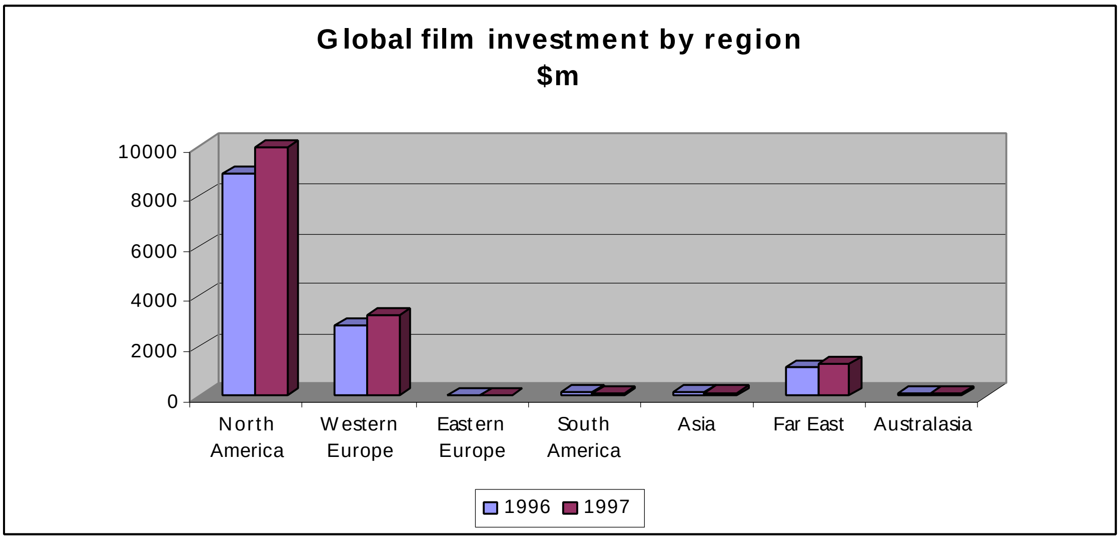
There seems to be a fundamental difference in approach to co-financing films between Europe and the rest of the world. Foreign money is able to invest in a production nearly everywhere in the world. However, Europe has chosen to institutionalise co-productions for political and economic ends. This is a model that is being followed by some Latin American countries and Spain that are setting up a Eurimages-style production fund. Recent criticism directed at Eurimages, and the lack of such schemes elsewhere, suggest that the rest of the world prefers not to be limited to certain countries for production partners and finds the bureaucratic European model too restrictive.

We cannot be sure that the fall in European co-productions is a confirmed trend but it should make some policymakers sit up and think. The Asian currency crisis is likely to have the effect of making these countries more insular, as domestic production is the only way to feed distribution markets although Asian producers may see co-production as a way of obtaining distribution rights to films it could not afford to acquire. Latin America, generally in a production boom, is likely to see more co-productions with each other and favoured trading partners such as Spain.

1.3 Global film investment

A key measure for analysing a national film economy is production investment, which rose in France, Germany, Italy, Spain and UK. Unsurprisingly, highest average production budgets are found in USA ($14.53m), followed by UK ($9.48m), Germany ($5.68m), France ($5.53m) and Ireland ($5.08m). Three out of these five countries are English-speaking, showing the impact of this language on a film's potential revenues and thus its production costs.

North American production costs, in the case of the majors, are reaching titanic proportions, standing at $52.4m in 1997. However, in the wake of James Cameron's *Titanic*, studios have taken steps to reduce budgets or have scrapped projects that were likely to run into silly money and this should feed into 1998 figures



Source : Screen Digest

It is clear from the graph that three world regions dominate overall film investment: North America, Western Europe and to a lesser extent, the Far East. Indian feature film production sector is known for producing the highest number of films world-wide yet it does not invest much money. This highlights the nature of film budgets in India, where films are churned out for low sums of money.

2. US major studios

The US major studios dominate the global film economy. Although producing a relatively small amount of films a year, the revenues that flow through integrated distribution mechanisms run into tens of billions of dollars. For this reason, I feel it is worth a discussion of these organisations with particular emphasis on production strategies and their world-wide production presence. In this research, I have taken the majors to mean the following companies: Paramount, Disney, Twentieth-Century Fox, Sony Pictures Entertainment, MGM/UA, Universal, Warner Bros and Dreamworks.

2.1 Film production strategy

Film production is the genesis of an economic chain dedicated to bringing entertainment to an audience, whether this is done in cinemas, on video, on television or over the internet. Without production, there is no need for distribution strategies or cinemas. Its importance established, we can then note, as Polygram's Michael Kuhn did, that 'you don't make money out of producing films, you make it out of distributing them'. Yet, even though production is not the revenue source, it is still important to have a focused strategy in order to keep costs down or, as has been the case over several years, push them up in a manageable way.

Rights split deals

Thus was born the split rights production arrangement where two parties come together to co-finance a feature and share out the distribution rights in accordance to financial input. By now the most famous of these arrangements is the case of "Titanic". Twentieth-Century Fox and Paramount split initial production budget of $120m in half and agreed to a share-out of distribution rights. Fortunately, for Paramount, company had the foresight to cap their financial injection at $60m. As production costs rose, it was Fox who found themselves having to invest a further $80m. However, Paramount will receive the same revenues as if it supplied half of the budget. Like the ill-fated ship, this case will go down in history. A disadvantage of split rights deals is that they reduce the potential profit to be made from a film and they reduce product supply to overseas distribution outlets. It is for this reason that there has been a concerted move away from them by several studios. However, Warner and Polygram have announced a split-rights output deal to Castle Rock product, sharing out US and international rights while investing up to $150m each in production of five films a year. Paramount is also keen on such arrangements as international distribution is handled by UIP, thus Paramount will only lose a third of revenues from a particular film while splitting the costs in half. This has led to UIP acquiring own product in the international market place, as do all the partners. MGM/UA will make up some of the shortfall with its increased production slate for 1998.

Overseas production sources

The expansion of overseas markets is forcing the majors review their production strategies in order to include local product in their distribution release schedules. Despite talking a good game for several years, negative pick-ups were for long the real extent of overseas involvement for US majors. Now, however, moves are being made to establish production bases and deals overseas. Obviously, in the case of Polygram, its European background reverses this situation, in that it needs to set up sources of American product. Warner Bros and Disney have particularly run with this strategy. Disney has first-look deals in UK, Germany Netherlands and Italy and also co-produces films in Japan and Argentina. Warner is mainly active in Germany, with two output deals and a link through Castle Rock Pictures (part of Time Warner Entertainment), and Australia in a split rights deal with local group Village Roadshow. Twentieth-Century Fox, through a niche subsidiary Fox Searchlight, financed the UK hit “The Full Monty” which was produced by a British company. Locally produced features will be crucial to sustain market shares of US distributors, especially faced with increasing popularity of native films, particularly in Europe. Of the fully-established majors, only Paramount and Universal currently have no production activities abroad although Universal is in the process of setting up deals with filmmakers in all parts of the world and declares overseas co-productions and acquisitions as a key part of its diversification strategy.

Niche units

US majors, particularly, are criticised for the formulaic approach they bring to movie making. However, this is not strictly fair as, although this may be true for the high-profile films that eat up the budgets, nearly all the majors now have niche units working on lower budget films and acquiring foreign and niche films. Only Paramount and Dreamworks do not own such a subsidiary unit, and Paramount is actively searching for one. Most recently, in October 1997, MGM/UA announced it was to transform Goldwyn Films into a unit specialising in production of films in $3m-$7m budget range. This diversification of product range can only enhance the majors’ image but it is not clear how profitable they will be. It is also to be note that the popularity of mid-budget range films, as in Europe, is declining due to the difficulties in returning a profit.

What is an independent film

Many independent production companies in the United States, the financial heart of film industry, have recently been busy establishing output deals, some exclusive—for example, FGM Entertainment with MGM/UA--, with the majors and Polygram. This assures an outlet for their films but it also leads to a further blurring of the lines between independents and majors. An independent producer with an output deal is to a greater or lesser extent tied to a larger financial structure. In reality, many perceived independents, such as October Films and Miramax, are subsidiaries of major groups. Even if they retain editorial control, ‘independent’ may overstate the case. Some independents do retain green-lighting power over their own slates but they also invariably have to bring their own finance to the table when dealing with the major studios.

Animation

It is worth mentioning here the popularity of animation as a genre. While Disney has traditionally dominated this market, in both theatrical and video release, other studios are investing in high-quality animation recognising its potential as a long-term revenue stream. Dreamworks is focusing on animation, signing a deal with UK's Aardman Animations for US and non-European rights to three upcoming features. Twentieth-Century Fox is also devoting considerable energy to the genre in establishing an animation division. MGM revived its MGM Animation in 1993, spotting the lack of major theatrical features. Europe is the focus of much attention by the above companies, especially UK, thanks to the talent base for animated programming.

2. Country profiles

This section provides film production profiles of key filmmaking territories around the world. These have been chosen with particular emphasis on those territories outside Europe, in order to fit in with the global theme of this day of the Conference. Short profiles have been included on UK, France, Germany and Russia for comparative purposes.

The following territories are profiled:

1. UK
2. France
3. Germany
4. Russia
5. India
6. Egypt
7. China
8. Hong Kong
9. Japan
10. Philippines
11. Singapore
12. South Korea
13. Taiwan
14. Australia
15. USA
16. Argentina
17. Brazil
18. Mexico

The information given for each country varies, according to how much data is available and the significance of the industry in global terms. Ideally, the following information will be given:

- Feature films produced
- Co-productions produced
- Total feature film investment
- Major players in local production
- Market dynamics

Certain of these national film industries have less developed statistical reporting structures than others, making it difficult to find official and/or accurate information.

In these cases, estimates have been used, drawn up on the basis of existing information and conversations with local industry players.

UK

UK production sector is fairly healthy, with the number of films produced and average budgets rising. First quarter 1998 production was down slightly on last year, maybe as producers realise the difficulties in distributing a finished film. However, many overseas companies are establishing bases in the UK, helping to maintain confidence, and investment funds are springing up all over the place. This should keep production stable this year although 1999 levels will depend on rectifying any problems in the distribution sector, such as lack of domestic independent distributors with sufficient size to compete in the area of higher budget films.

Lottery-funded franchise scheme expects to part-finance 90 films over six years, all of which must be distributed. So far, two have been made. The three firms winning the franchise scheme all maintain that they are able to concentrate on improving quality thanks to the guaranteed funding in place for a period of six years. This is good news as there are signs that too many films are being made in the UK at the moment. A film must be distributed to make money and not enough new British films are managing to achieve either a wide release or a release at all in a country dominated by US distribution companies and consequently, their product.

In April 1998, the UK government unveiled a package of policy proposals aimed at consolidating improving position of UK film sector, building on recently awarded production franchises and tax break. Proposals adopted from Film Policy Review Group--set up to co-ordinate efforts to turn ' aims and objectives into specific actio-- are:

• All Industry Fund—co-operative, voluntary contribution of 0.5 per cent of filmed entertainment revenues from all companies whose business is exploitation of British films—exhibitors, distributors, video companies and broadcasters. Money would support development, distribution, marketing and training schemes but not production.

• Skills Investment Fund, contributions to which would be set at 0.5 per cent of production costs up to £10m ($16.3m) and 0.25 per cent for those above this level. Contributions will be voluntary but other public sector funding is conditional on contributing. The scheme is to be reviewed after two years.

• Increasing proportion of Lottery film funding going into development and distribution. Distribution support scheme is proposed, aimed at promoting circulation of British films by matching distributor investments in prints and advertising costs. Money to be repaid from earned revenues.

• Definition of a British film to be updated with additional definition of a culturally-British film.

• Film Finance Forum to foster better relations between financial sector and film industry.

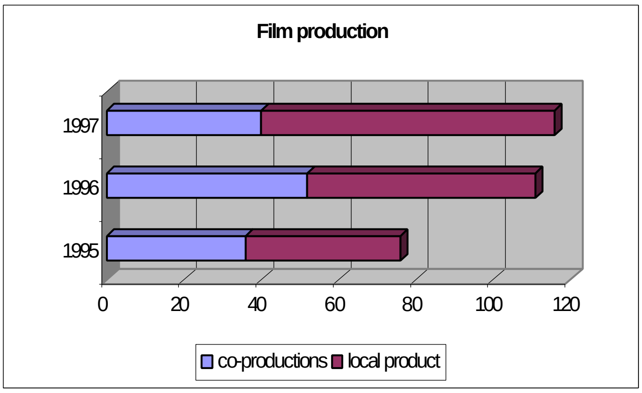
• UK Film Office in Los Angeles to attract US investment into UK and private sector Film Marketing Agency in UK to provide marketing expertise to film industry.

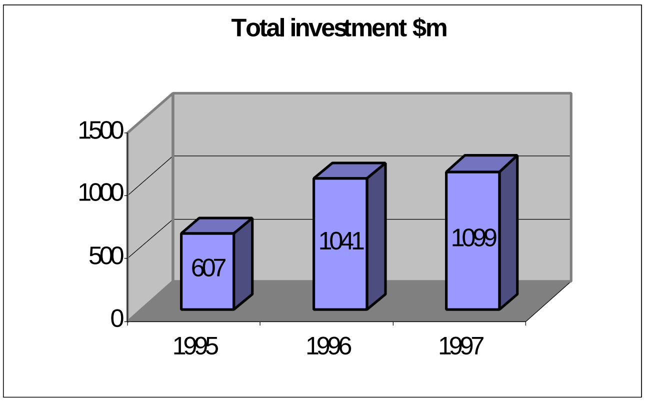
• Winning European support in building up Europe-wide companies that can compete in global marketplace.

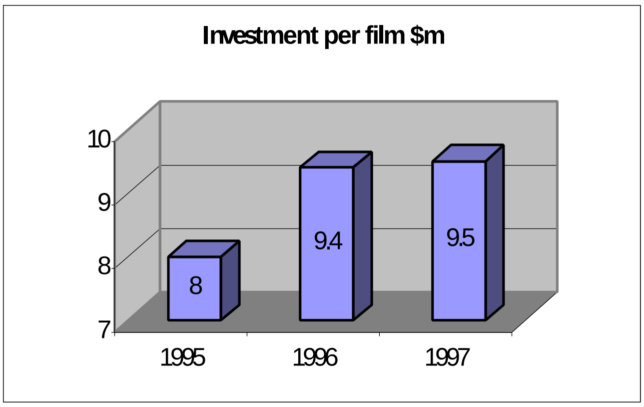
In addition, tax break scheme will be extended, allowing 100 per cent tax write-off of film production investment and acquisition costs in first year for films budgeted up to £15m ($24.5m).

British broadcaster Channel Four, one of the companies that did most to keep the British film industry going during the 1980s, is to establish a single, vertically-integrated company uniting its film production, distribution and sales operations under the Film Four banner. Budget-wise, £28m is earmarked for investment in new films this year, rising to £32m in 1999—latter figure is more than double Channel Four's total 1996 film budget. Film Four, a wholly-owned subsidiary of Channel Four, intends to finance or co-finance eight to 10 films annually and will be involved with other titles on a licence fee basis.

UK


Film production
1997
1996
1995
0
20
40
60
80
100
120
co-productions
local product


Total investment $m
1500
1000
500
0
607
1041
1099
1995
1996
1997


Investment per film $m
10
9
8
7
8
9.4
9.5
1995
1996
1997

France

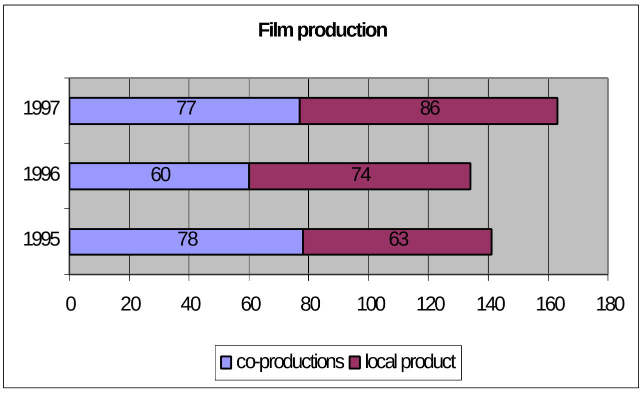
French film production saw a large increase in overall investment and numbers of feature films produced during 1997. French productions have been rising in number for some years and reached a total of 163 films with French participation last year, up from 134 in 1996. Majority or wholly produced features also rose—to 125 up from 104 in 1996. However, there are signs that industry structure is changing, notably a polarisation of budget levels: number of films with budgets less than Ffr 15 ($2.5m) increased from 45 to 51, whilst films costing over Ffr 50m ($8.2m) rose from 12 in 1996 to 22 in 1997.

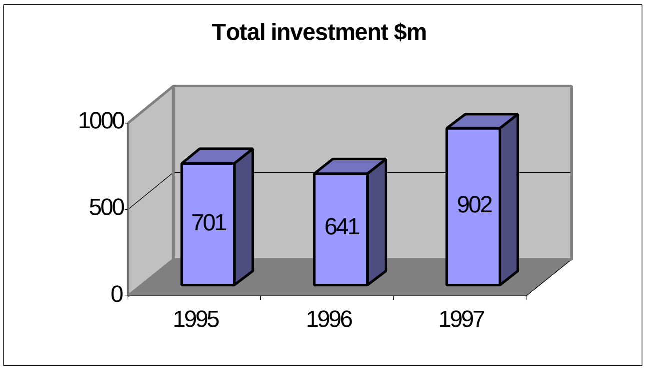
Investment from television companies increased 22.5 per cent overall to Ffr 1,432.1m ($235m) but their proportion of overall feature investment dropped from 35.5 per cent in 1996 to 30.9 per cent in 1997. Fledgling satellite broadcaster Télévision Par Satellite took its first steps into feature production by contributing Ffr 44.1m ($7.2m) to six features. Canal Plus pre-bought 134 films for a total of Ffr 845m ($138m)—up 24.4 per cent from previous year. Average budgets for majority or wholly produced French films jumped 28.8 per cent to Ffr 31.3m ($5.1m) per feature. Favourite co-production partners were Italy (13 films) and Spain (12 films). Conversely, films made with UK dropped to six—more than likely prompted by UK's withdrawal from Eurimages, pan-European co-production fund.

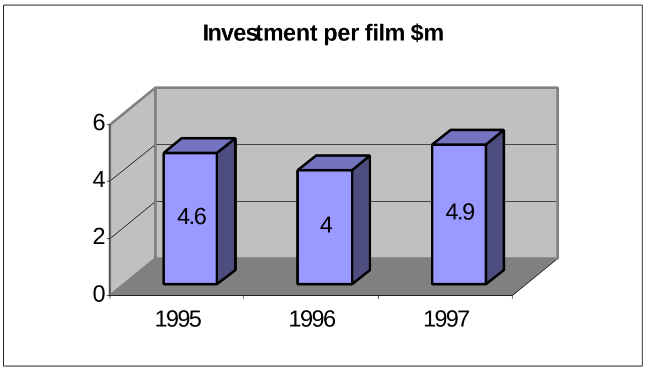
Meanwhile, European Commission (EC) has accepted a plan by the French government to rescue the state-owned film producer Société Française de Production (SFP). The restructuring plan is to invest around Ffr 2,500m ($417.4m), while keeping it in the public sector, aiming for profitability by 2000.

The profitability of French films was in question recently after a report commissioned by French audio-visual regulator Centre National de la Cinématographie (CNC) was published. The study, into the performance of 27 domestic or co-produced films released in 1992, showed that only one in five had made a profit after five years and one in three was expected to do so eventually. Six of the titles, all of which received state subsidies, recorded a profit, three are currently showing loss of 30 per cent or less (but are expected to move into profit as result of television sales), two have lost 30-40 per cent and 16 over 65 per cent.

France


Film production
1997
1996
1995
77
86
60
74
78
63
0
20
40
60
80
100
120
140
160
180
co-productions
local product


Total investment $m
1000
500
0
701
641
902
1995
1996
1997


Investment per film $m
6
4
2
0
4.6
4
4.9
1995
1996
1997

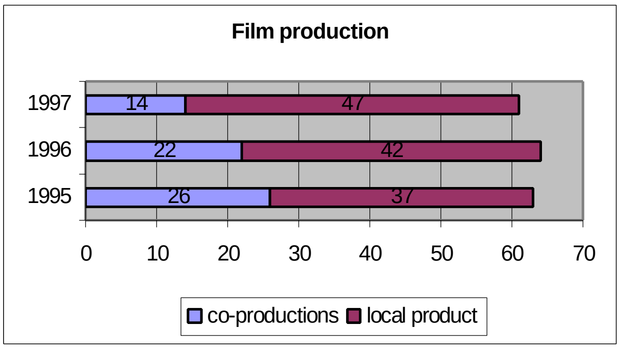
Germany

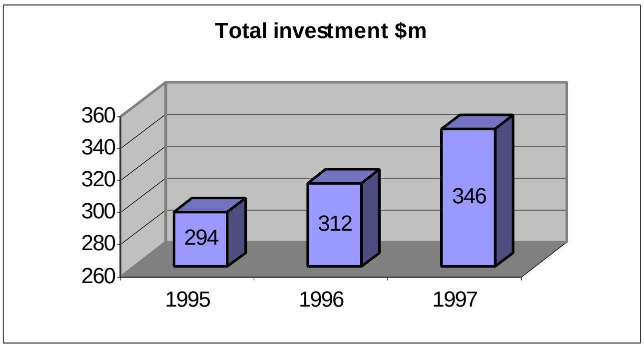
German production sector is showing stability in the number of films produced but the number of co-productions fell by over a third in 1997 over the previous year. Most notable fact is the lower number of films being made with French producers in the past two years: 9 in 1995 and 2 in 1997. German co-productions with the US only numbered 2 in 1997 but should rise as several deals have recently been done between German and American producers, for example Nova Entertainment and Phoenix Pictures. Overall investment rose a healthy 11 per cent in 1997 and average budgets have risen 21.5 per cent over the past two years.

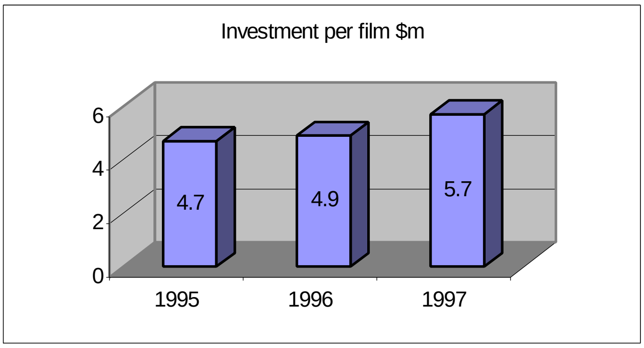
Subsidies attracting filmmakers to the German region of NordRhein Westfalen may be subject to investigation by European Commission (EC) if a complaint lodged by Dutch film companies captures EC's much vied-for attention. Dutch professionals are concerned by NRW luring away Dutch producers through big subsidies, leaving Dutch studio space unfilled and staff under-employed. Filmstiftung NRW is to establish a joint working group with Dutch Film Fund to look at the complaint.

A feature indicating the health and importance of German market to global film players is the interest of American studios in German film market. The first studio to open both dedicated film and TV production facilities in Germany is Sony Pictures Entertainment (SPE), which has entered into an investment and support agreement with Federal State of Brandenburg to create Deutsche Columbia-TriStar Film Production. SPE is keen to tap a resurgent market for local films, which accounted for 18 per cent of German box office in 1997 compared with six per cent in 1995.

Germany


Film production
1997
1996
1995
14
47
22
42
26
37
0
10
20
30
40
50
60
70
co-productions
local product


Total investment $m
360
340
320
300
280
260
294
312
346
1995
1996
1997


Investment per film $m
6
4
2
0
4.7
4.9
5.7
1995
1996
1997

Russia

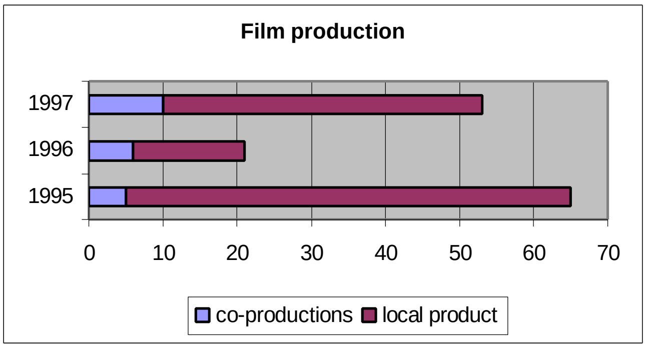
Russian production sector saw 53 features completed in 1998, up from 21 in previous year, according to European Audiovisual Observatory. The rise is fuelled by increasing private investment as state support virtually dried up during 1997. Confirming the upward trend, Russian producer Gorky Film Studios intends to start 15 features in 1998 with budgets up to $1.5m. Theatrical release in Russia will be handled internally but Gorky wants to set up international sales arm to capitalise on potential world-wide revenues.

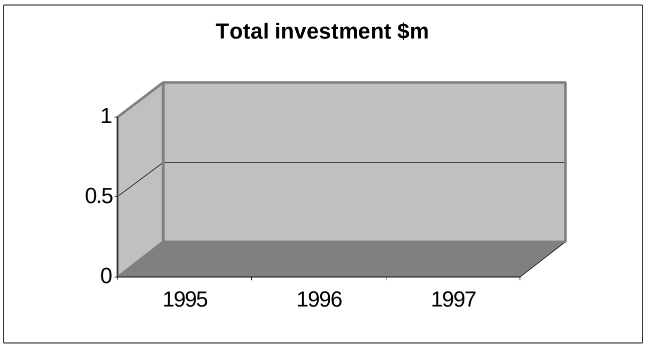
Russian filmmakers interrupted production schedules last summer, as subsidy money from the Ministry of Film, Roskino, was not forthcoming. The Russian Treasury was said to be at fault, as it has not passed on any funds to Roskino, 70 per cent of which are used for production financing. Funding promised for 1997 amounts in total to $25m, helping to increase Russian film production from a low of 30 production starts in 1996. Shortage of public money is one more hurdle for Russian producers who are already trying to balance rising production costs with stagnant domestic earnings potential.

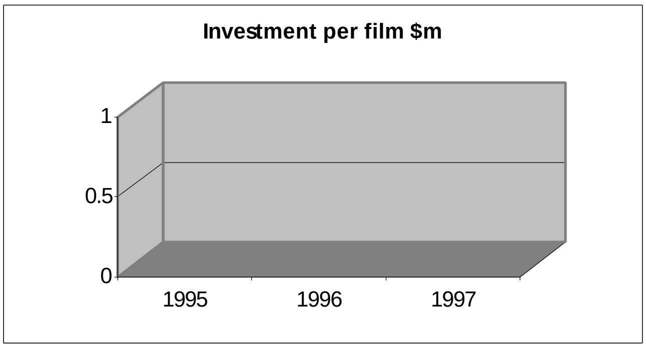
In an about-turn, City of Moscow is to take a controlling stake in Mosfilm, state-owned studios. Mosfilm is one of the largest studio facilities in Europe but has fallen on hard times since government money dried up five years ago. The studios were to be privatised and bids were received last year, notably from Most Media. Private investors could now turn their attentions to the privatisation of LenFilm, based in St Petersburg, if it goes ahead.

Russia

N.B. Investment data not available







India

Production of feature films in India

	Up to 1970	1971-1980	1981-1990	1991-95	1996	Average per year 1980-1996
Hindi	4,999	1,246	1,651	899	126	167
Tamil	1,545	901	1,558	852	138	159
Telugu	1,046	958	1,665	817	154	165
Malayalam	348	818	1,139	408	65	101
Kannada	370	428	705	421	85	76
Bengali	1,196	332	419	220	37	42
Marathi	491	168	234	139	11	24
Gujarati	139	193	205	39	5	16
Punjabi	103	69	151	59	12	14
Oriya	42	66	130	67	12	13
Assamese	41	65	66	32	4	7
TOTAL	**10,320**	**5,235**	**7,914**	**5,849**	**745**	**768**

Source: Doordashan (website)

Indian feature film production began in the silent era. Since 1913, there have been feature films and documentaries made in 52 languages. *Raja Harishchandra* was the first feature film made in India in 1913. In 1920, 27 films were made and in 1931, 207 films were produced. In recent years, production has been declining: 948 films in 1990 to 697 in 1997. Film investment is fairly stable at around half a million dollars for a film on average, valuing the industry at $340m in 1997. The above table breaks down the films produced in India up to 1996. India is the world's largest film producing nation, although production is decreasing in recent years. Films in three languages dominate the market: Hindi, Tamil and Telugu representing 56 per cent of overall production in 1996.

India's filmmaking economy is very self-sufficient, with very few co-productions being ventured into and relatively few outside films making it onto screens. Indian film import regulations are quite complicated as laid down by the Ministry of Information and Broadcasting. The same Ministry lays down and monitors the shooting of overseas productions in India with similar complexity in guidelines.

One of the major players in film production is the central agency for film promotion, National Film Development Corporation. In twenty-five years, NFDC has produced over 150 films, documentaries and shorts. The relatively few co-productions undertaken include Richard Attenborough's *Gandhi* and *The Making of the Mahatma* with the South African Broadcasting Corporation. NFDC is also involved in financing and distributing programmes and films, post-production work (sub-titling, dubbing, special effects) and import/export of films.

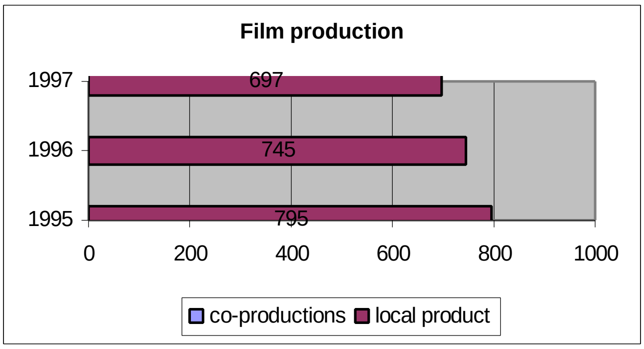
Financial transparency is not a feature of the Indian film industry. Rumours constantly link criminal elements with the industry, and one source estimates that nearly 40 per cent of film transactions are in black money. Recent disappearances and suspected murders of film industry players plays up these suspicions and have had a negative impact on film production in some areas.

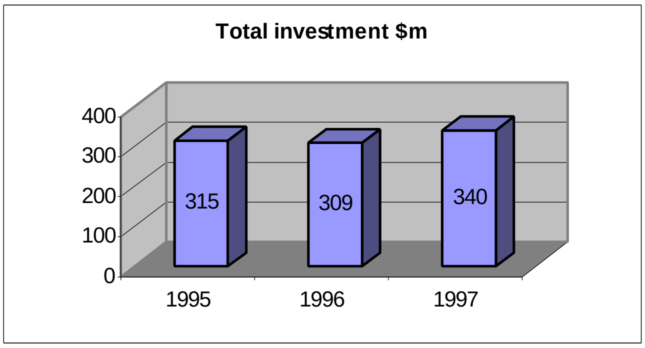
At end 1997, The Times of India asserted that film shoots in the Hindi film industry, had dropped 70 per cent, partly because of fear and partly due to a string of commercial flops that have discouraged further investment. A trade dispute between Andhra Pradesh Stunt Directors Association and the Film Employees Federation of South India in late 1996 also had a knock-on effect on production in Madras, Kerala and elsewhere in the South.

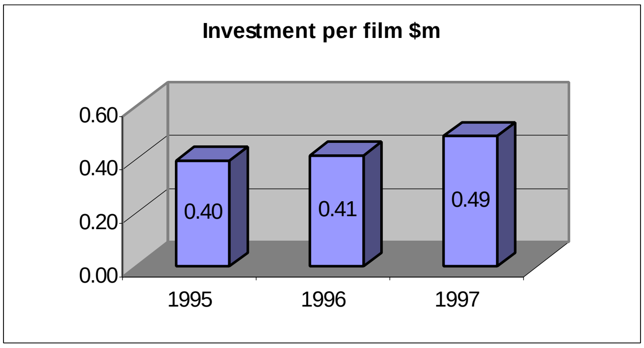
Nowadays, Indian films are dependent on music and television for money and publicity. Pre-sales of music rights play a significant role in film financing and the use of television as a publicity medium has encouraged the use of songs within films to attract audiences. Many filmmakers also work in television.

In further signs of getting to grips with problems in the sector, Southern Indian State of Tamil Nadu has presented a support package to rescue its ailing film industry in the wake of public demonstrations in Madras. State's chief minister announced tax concessions worth $10m and police task forces to alleviate levels of piracy. Minister helped cinemas by refusing to give licences to video theatres or renew existing licences. Steps are being taken as film production in local Kodambakkam studios has dropped to 34 films so far this year from an annual average of 159 in recent years. Problems in producing films are seen to be caused by popularity of Video CD and resulting piracy. Films are appearing on VCD market hours after theatrical release, sometimes before, causing an attendance drop-off. In addition, distributors are refusing theatrical distribution of some films that have already played on competitive cable TV, claiming to have lost around $10m in this way. Run-down cinema sector is also of some concern: 192 Tamil cinemas closed in last two years, with others nearing this end. Industry employs 50,000 people.

India


Film production
1997
1996
1995
697
745
795
0
200
400
600
800
1000
co-productions
local product


Total investment $m
400
300
200
100
0
315
309
340
1995
1996
1997


Investment per film $m
0.60
0.40
0.20
0.00
0.40
0.41
0.49
1995
1996
1997

Egypt

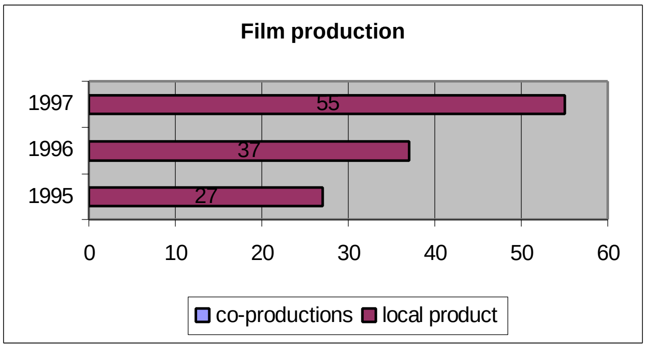
Film production in Egypt began in earnest in the silent era with the production of *A Kiss in the Desert* and *Laila* in 1927. The first talkie was made in 1932, *Awlad Al Zawat* (The Children of the Privileged). Accurate information on Egyptian production is difficult to find but current production is now around 65 films. The industry hit a high in 1986, producing 91 films, but the years since have been fairly stagnant. Some sources put 1995 films production at 13 films but this is probably understated. In 1997, an estimated 55 films were produced. Film budgets are rising as actors demand more money. An average budget is now around $700,000. High cinema taxes and the lack of screens on which to release films reduce the money flowing back to producers.

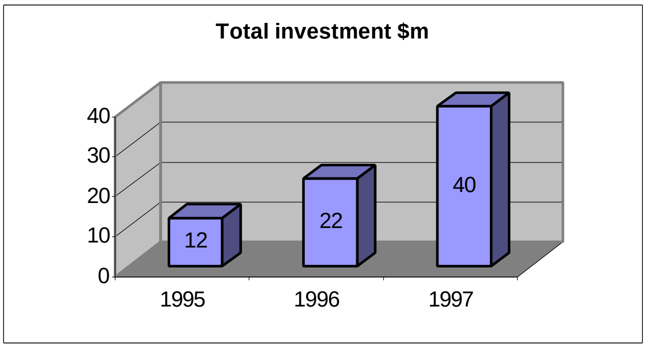
Plans to revitalise the Egyptian cinema industry by investing in production and exhibition infrastructure emerged in 1996. Egyptian Cinema Company was established with the mandate to build cinemas, studios and processing facilities, and invest in film production. With an initial investment of $147m (E£500m), the Egyptian Cinema Company was backed by Egyptian Chamber of Cinema (20 per cent), National Bank of Egypt and MISR National Bank (20 per cent) and individual strategic investors (30 per cent). Remaining 30 per cent was floated on Cairo stock exchange.

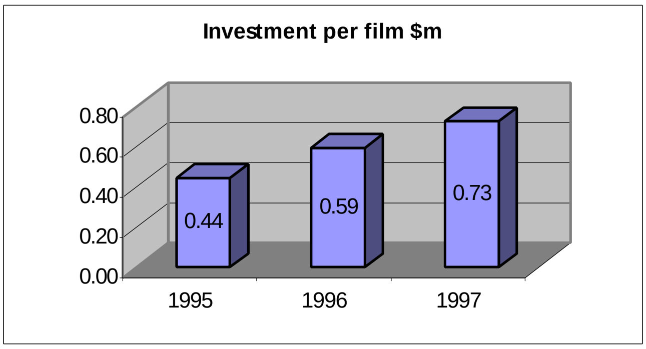
Film studios are essentially government controlled and this does lead to accusations of film content being influenced by government policy. For example, in 1996, filmmakers embraced a call for films to portray Islamic fundamentalists as extremists, partly for revenge at the attacks that fundamentalists made on the film industry. A film about terrorism took three years to gain permission from the censors to go into production. Its tone was critical of the government. Their reason may also have been security as producers and actors have been the subjects of attack after making films or playing roles connected with terrorism.

A major new ten-year studio construction project is currently underway. Phase one of Media Production City is costing $314m and involves construction of six digital production studios and related facilities. It will be built on a 500-acre site and will eventually incorporate 13 indoor studios and various outdoor sets for audio-visual production, processing labs, office space and other amenities. Outdoor sets are already built and being used for production and for an amusement theme park based on the studios. Sony Broadcast & Professional Europe won the contract to manage the phase one project from Egyptian Radio and Television Union (ERTU), the public broadcaster.

Egypt


Film production
1997
1996
1995
55
37
27
0
10
20
30
40
50
60
co-productions
local product


Total investment $m
40
30
20
10
0
12
22
40
1995
1996
1997


Investment per film $m
0.80
0.60
0.40
0.20
0.00
0.44
0.59
0.73
1995
1996
1997

China

Chinese film sector is highly controlled by the government and is relatively closed to overseas companies. It is also in a period of some problems as production falls to below 100 films. The number of co-productions is also falling, practically all of them in partnership with producers from Hong Kong.
In late 1996, increasingly restrictive governmental control over Chinese film production and censorship caused levels of public and private investment to fall, with dramatic results for production levels in that year. Three studios--in Beijing, Shanghai and Changchun--traditionally produce about half China’s annual slate of films; Beijing studio’s 1996 slate was less than half the 30 titles it made in 1995 while Shanghai’s output was down from 15 to 12 in the same period. The rising problems and restrictions led to a noticeable production trend away from feature films towards television series and commercials. In addition to increasing levels of control over the content of new films, government action also delayed many titles (including those financed from outside China) for months.

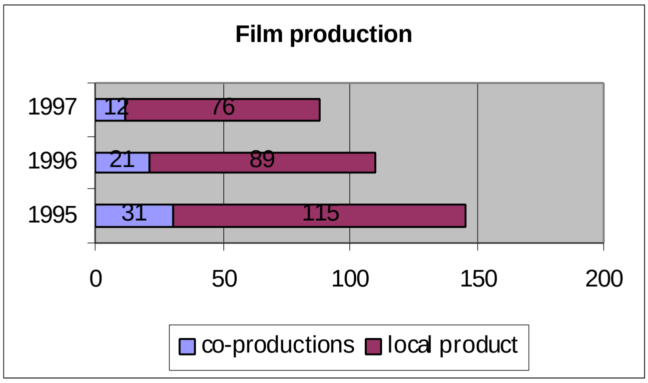
However, it is clear now that reform is underway and may make the Chinese market both more open to foreign films and producers. First step towards restructuring China's film production and distribution business may have been taken by the creation of Liaoning Northern Film Shareholding Company (LNF) in China's northeastern Liaoning Province. LNF shareholders include provincial film company of Lianoning and municipal film companies of provincial capital Shenyang (where LNF is based), Dalian and Anshan. Film companies from a further 11 cities will operate as agents for the new group. Plans to set up similar China Midwest Film and Television Shareholding Company are also reported to be under discussion. Development has received support of monopoly film importer China Film, which is keen for it to extend to other provincial film companies.

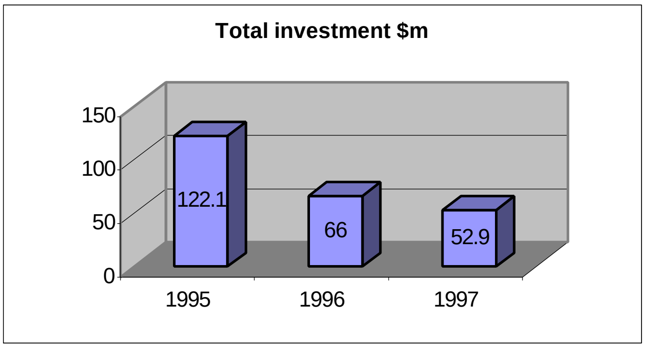
In July 1998, China took further steps to open up its film economy to foreign investment, a move deemed necessary by authorities. The measures unveiled included:
• films co-produced with China—12 in 1997—will be able to be made in two versions, one for internal market and one for overseas. This should lead to fewer censorship problems;
• China Film Corporation (CFC) will lose its monopoly on exporting films. However, CFC will retain sole right to import films, usually US blockbusters and around 10 a year. In these cases, overseas companies may share in revenues taken;
• quotas on films imported at a flat fee will be lifted, aimed at increasing number of overseas films in China. Accordingly, exhibition quotas will be adjusted to allow foreign companies access to a third of all screens;
• foreign companies will be able to approach film studios directly, instead of going through a ministry.
Chinese government had already relaxed restrictions on cinema building by joint ventures.
These measures are announcements and have not yet come into force.

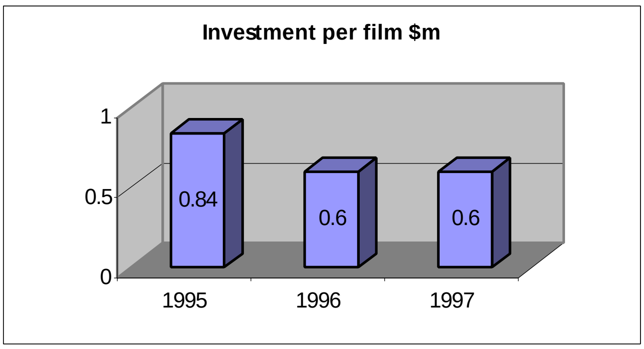
There are signs that sector is becoming more professional. Pacific Insurance Company of China (PICC) has begun insuring film and TV productions, starting with co-productions between Xiaoxiang and Inner Mongolia film studios and Cantonese partners. PICC evaluates production potential and guarantees a minimum profit for legally registered companies, with help from China Film Producers Association.

In 1996, Phoenix Pictures struck deal with Shanghai Film Studios to set up $25m film studio that would become first production outfit in China to be majority owned by foreign company. Studio was planned to open at end of 1996 and produce 10 Mandarin-language films a year.

China


Film production
1997
1996
1995
12
76
21
89
31
115
0
50
100
150
200
co-productions
local product


Total investment $m
150
100
50
0
122.1
66
52.9
1995
1996
1997


Investment per film $m
1
0.5
0
0.84
0.6
0.6
1995
1996
1997

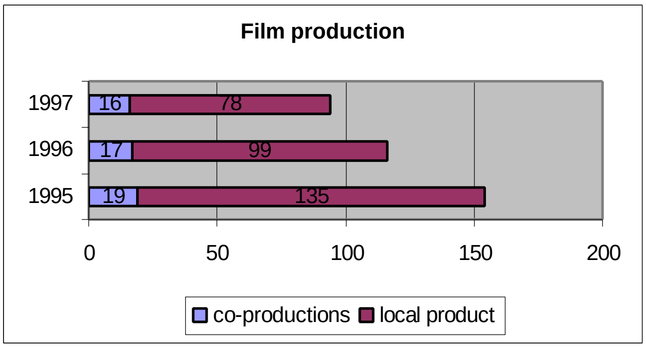
Hong Kong

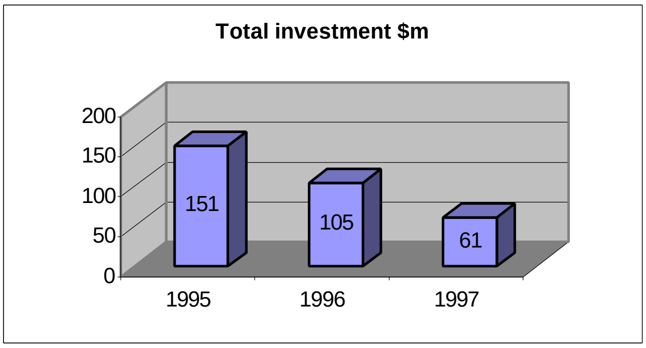
Film production in Hong Kong was in full swing in the 1930s, with 150 films being made in 1937, although a studio-based system came into its own after the Second World War. Majority of Mandarin and Cantonese films were churned out of studios, a situation only transformed in the 1980s. History of the industry since then has been a struggle between Mandarin (official Chinese language) and Cantonese (a local dialect) production. Mandarin became dominant in the 1970s, largely thanks to two companies: the Motion Picture & General Investment (Dianmou) Company and Shaw Brothers (Shaoshi). Shaw brothers closed down production in 1986, marking the end of the studio-based system. Control now was in hands of a production-house system, although the finance came from three major companies: Golden Harvest, Golden Princess and D & B. All three were distributors who were calling the tune in terms of film output. The addition of two new distribution outlets (Newport and Mandarin) only fuelled to raise production, much of which was very mediocre. This led to the decline in box office popularity of local films that has sent the film industry reeling. Lower box office revenues for local films led to the initial drop in domestic features from 243 films in 1993 to 94 in 1997. This has now been compounded by the economic crisis present throughout Asia and the Far East. Hong Kong has been hit hard by the crisis, with production dropping 20 per cent in 1997 over the previous year and budgets falling. Piracy and introduction of laser discs have also contributed to declining audiences.

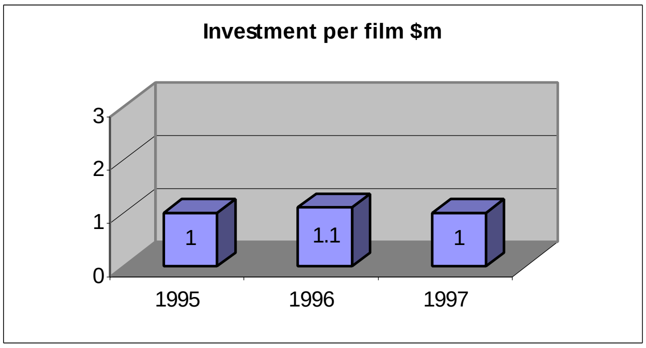
International finance is now a major part of Hong Kong's film financing whereas budgets used to be covered within South East Asia alone. A certain level of production is guaranteed by the success of Cantonese films in other Asian territories, notably Taiwan, Singapore, Thailand and Indonesia, which are very dependent on standard output. However, if these countries react like the domestic population to lower film quality, this safety net could be taken away.

While productions drop, co-productions remain stable. Hong Kong producers are very dependent on mainland China for international co-operation, a situation which will develop as the two economies become more integrated.

Hong Kong


Film production
1997
1996
1995
16
78
17
99
19
135
0
50
100
150
200
co-productions
local product


Total investment $m
200
150
100
50
0
151
105
61
1995
1996
1997


Investment per film $m
3
2
1
0
1
1.1
1
1995
1996
1997

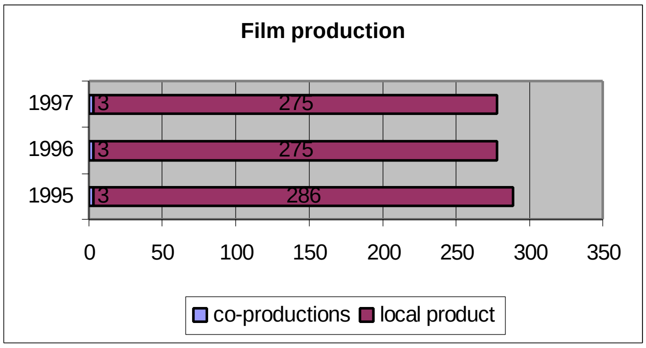
Japan

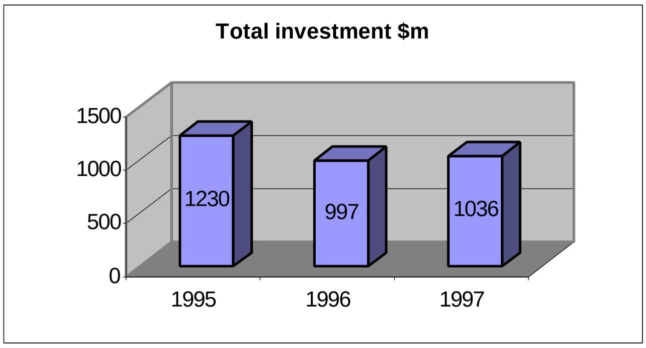
The Japanese film industry really began with the outbreak of the Russo-Japanese War in 1905. This led to war films and fake documentaries that pulled in home audiences. First film studio was built in 1909 and this created the move-making system that has evolved into today's industry.

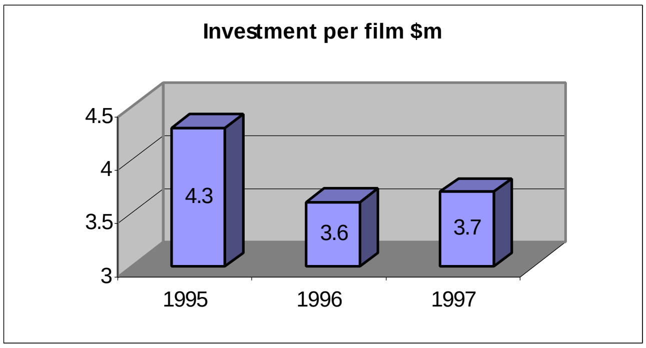
Japanese production has been relatively stable in recent years after a climb in early 1990s although average budgets are rising appreciably. In 1997, 278 films were produced, the same as the previous year, of which only three were co-productions. One producer sees a brighter future as Japanese film major Toho intends to double film output in 1998 on the back of potential revenues from digital television channels. Shochiku intended to double its 1998 output of feature films, feeding through its Cinema Japonais label but this was closed down in early 1998 after a management shake-up and the productions probably won't materialise. Electronics manufacturer JVC has extended its reach into the film industry by committing itself to finance a package of six films as well as other one-off investments. Pictures will be produced by young Asian directors through Chrome Dragon Project, a joint venture with French Bac Films and German Pandora Films. In general, Japanese companies are involved in very few international co-productions. Among the few there are, territories favoured are major film players: UK, France and US.

An innovation was brought into the Japanese production sector in 1997 as a film production joint venture between ad agency Hakuhodo and producer Pony Canyon adopted American filmmaking techniques, including market-testing. Japanese ad agency Hakuhodo, is also to form a film production partnership with Hong Kong production and distribution company Mei Ah Group—further sign of growing economic relations between Japan and Hong Kong. Venture is seeking to build on perceived critical success of Asian films outside of region. First production is budgeted at around $3m: Hakuhodo is putting up 30 per cent of costs, Media Factory 20 per cent and Mei Ah will find remainder through investments from China, Taiwan, Singapore and elsewhere in Asia. Three backers intend to keep European and US rights for themselves. This is not the first production venture by Hakuhodo, which also established PeacH, joint venture with Pony Canyon production company for medium-budget films. Nor is it the first Sino-Japanese production venture—Cantonese production company Golden Harvest has also established a Hong Kong-based joint venture with Japanese talent agency Amuse and has a separate agreement with Japan's leading talent agency, Yoshimoto Kogyo.

Japan


Film production
1997
1996
1995
3
275
3
275
3
286
0
50
100
150
200
250
300
350
co-productions
local product


Total investment $m
1500
1000
500
0
1230
997
1036
1995
1996
1997

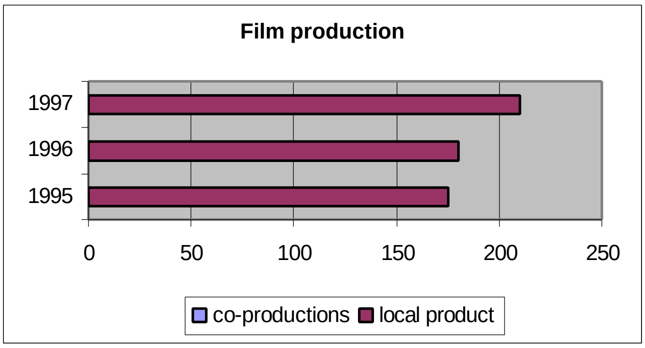

Investment per film $m
4.5
4
3.5
3
4.3
3.6
3.7
1995
1996
1997

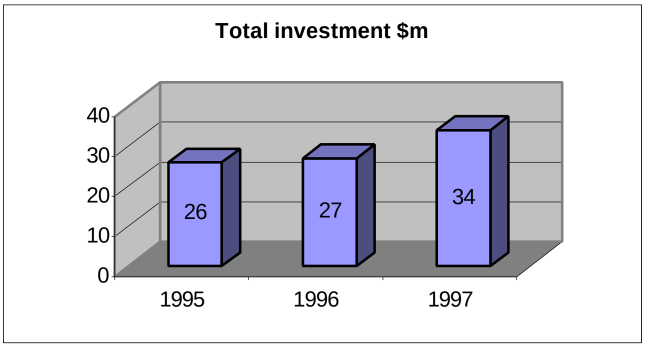
Philippines

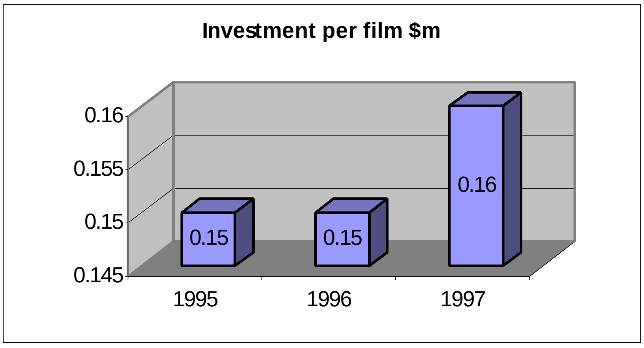
Philippines is a major film producing country, with 210 films made in 1997. While average film budgets remain low in global terms, production numbers are going up. Local productions are popular internally, taking about 40 per cent of the audience. Estimated average film budget stand at around $160,000.

Filmmaking became easier for foreign producers with the rebirth of the Film Development Foundation of the Philippines in 1995, which has opened the door to several productions. This has culminated in US major Paramount's plans to build an entertainment and studio complex, in association with Philippines' second television channel GMA-7, in Subic Bay Free Port. This area was previously part of an American military site. Complex will include film and video production facilities and sound stages as well as multiplex cinema and restaurants and a museum dedicated to Legends of Hollywood.

Philippines







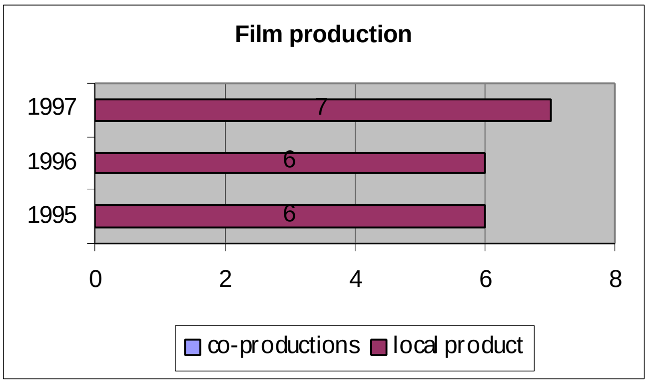
Singapore

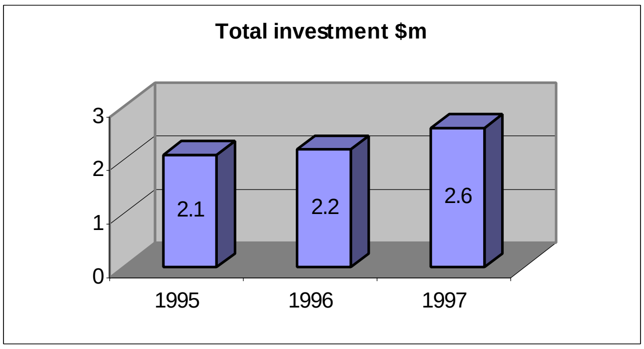
The country currently has very low levels of film production, an estimated 7 in 1997. Film production was at its peak in the 1960s—27 films were produced in 1962.

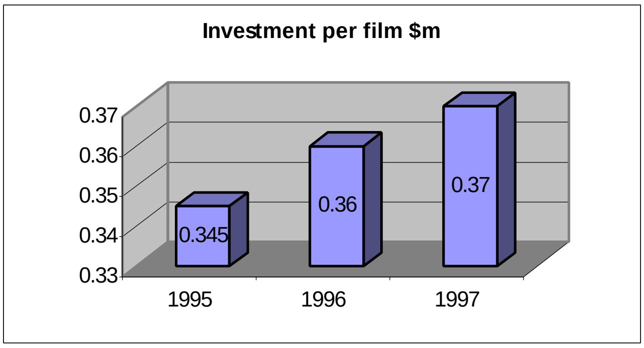
In May 1996, Singapore's Cathay Organisation announced a return to feature film production for the first time in 20 years. Cathay believed that the success of local production *Mee Pok Man* would auger new life for Singaporean production, and set up a new division called Cathay Asia Film. Its first film was $500,000 comedy *Army Daze*, expensive by local standards, a success taking over twice this amount at the box office. This film began a mini-boom in local film production. While the numbers of films produced did not rise significantly, budgets and quality of existing films did rise.

In June 1998, following the perceived success of several domestically produced films, Singapore government is to set up Film Commission to foster this success and attract overseas filmmakers into the country. Commission is being given $2.5m for 1998 which will be distributed in grants, seed money and scholarships, as well as setting up logistical support schemes for producers—such as procuring shooting permits. Commission's Board of Management includes several prominent film professionals but also members from other service industries. Singapore's Ministry of Information and Arts intends to promote Singapore as a 'Films Event Centre' and Commission as a 'one-stop centre' for filmmakers.

Singapore


Film production
1997
1996
1995
7
6
6
0
2
4
6
8
co-productions
local product


Total investment $m
3
2
1
0
2.1
2.2
2.6
1995
1996
1997

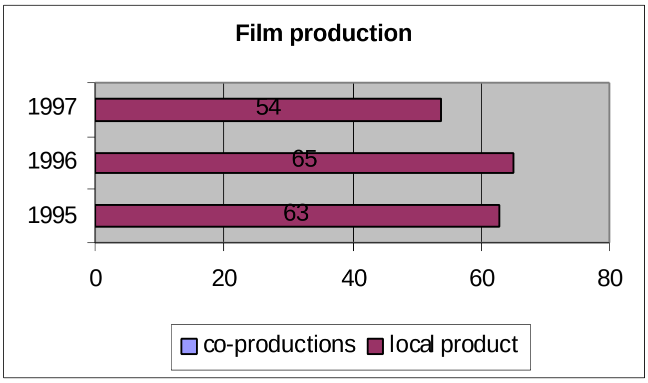

Investment per film $m
0.37
0.36
0.35
0.34
0.33
0.345
0.36
0.37
1995
1996
1997

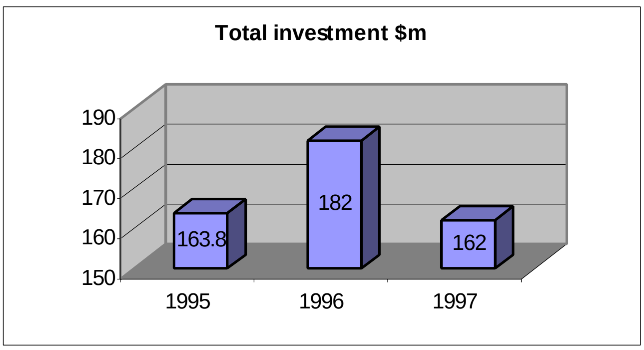
South Korea

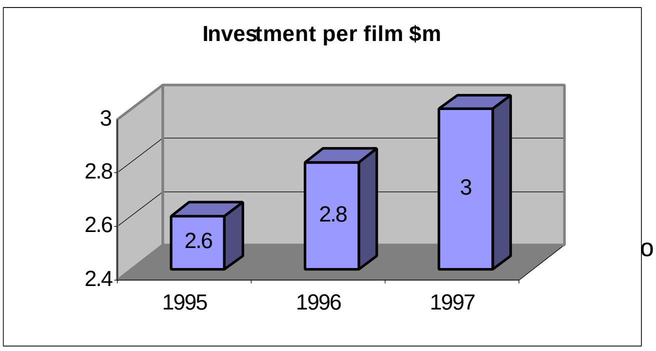
South Korea produced around 50 films last year, a significant decline on previous years. Part of this can be attributed to current economic problems. This stands to worsen as many of the major Korean producers, for example Diamond, have cut 1998 production levels following the crisis in Asian financial markets.

Other sources of funding are also drying up, leading to production starts dropping. Last year’s problems have made overseas films very expensive to buy and this may lead to more films being made locally, as cinemas and television will still need product, but given the depth of the problem this may be unrealistic.

South Korea







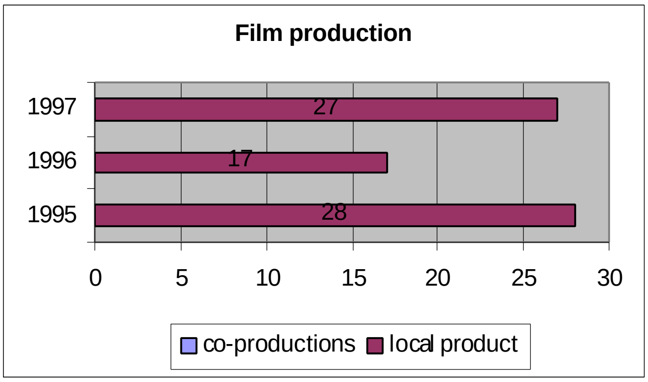
Taiwan

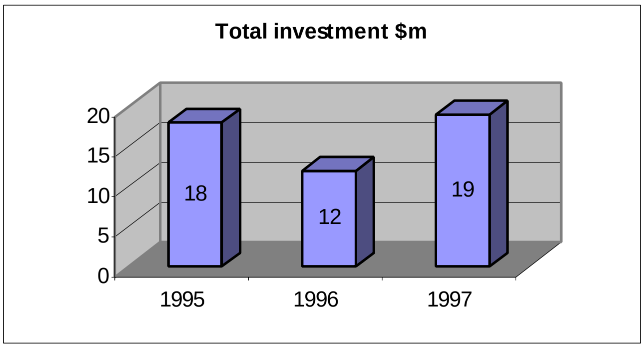
Taiwanese film production stood at 27 in 1997, well up on the previous year but returning to 1995 levels. Average production costs are around $700,000.

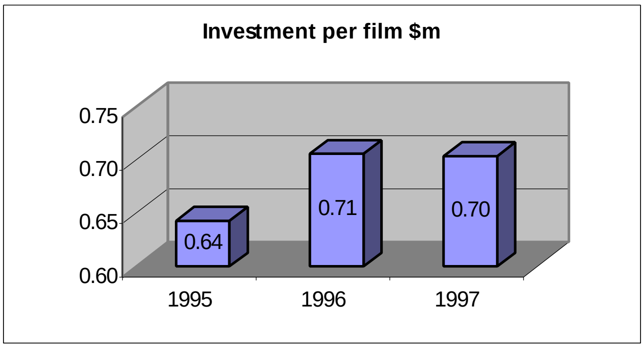
In recent times, Taiwanese cinema became culturally and economically significant with the emergence of the New Cinema in the late 1970s. The term denotes an attempt to marry art more closely with commerce and a rejection of traditional narrative styles. A series of young directors took up the challenge of competing with Hong Kong films and the rejection of locally produced films by audiences. This style developed during the 1980s and early 1990s and Taiwanese cinema was regularly producing over 150 films a year by 1989. However, a crash came in the early 1990s with a rejection of this film making style by audiences. Now the term New Cinema is now more or less obsolete and production levels are down around 25 films a year. Hong Kong entertainment films dominate the market and many of the former film directors are working in television.

In July 1996, Taiwan increased the number of indigenous film productions that it subsidises through Government Information Office from eight to 17.

Taiwan


Film production
1997
1996
1995
27
17
28
0
5
10
15
20
25
30
co-productions
local product


Total investment $m
20
15
10
5
0
18
12
19
1995
1996
1997


Investment per film $m
0.75
0.70
0.65
0.60
0.64
0.71
0.70
1995
1996
1997

Australia

Production has been climbing for the past few years, reaching a high of 34 films in 1997. Australian producers are insular, only venturing outside national boundaries to make 3 co-productions. Average budgets are also rising. 40 per cent of film budgets are made up of overseas distribution pre-sales.

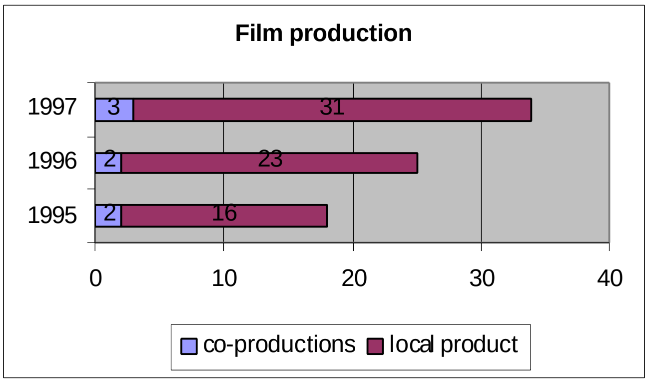
Government support is quite high--government money makes up around 37 per cent of overall investment--and direct aid is assured until 2001. However, government funding is being restructured and a scheme to raise private finance was launched last year, following a report recommending the way forward for the industry. In consequence, the Australian government has recently closed Commercial Television Production Fund that feeds into the feature film sector. The initiative, set up by the previous government, was worth around A$13.5m ($12.7m) to filmmakers and is likely to lead to Australian producers going abroad for funds. However, government is maintaining production fund of the public broadcaster, SBS Independent, worth A$19m ($12.1m) over the next four years.

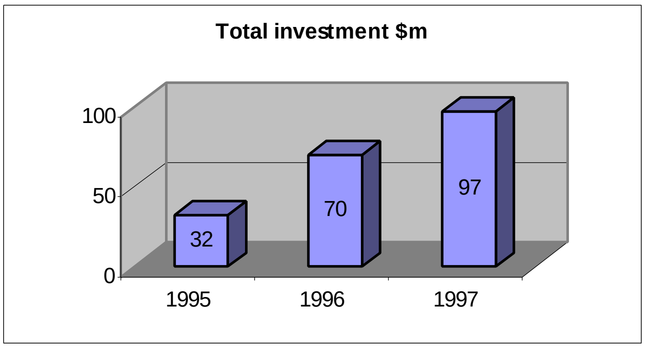
Employment in the Australian film, television and video markets rose progressively between 1991 and 1996 according to figures just published. Using comparable figures, numbers employed in these industries rose 53 per cent to stand at 29,069 people in 1996. However, bringing newly created categories into the equation--video hire outlets and undefined categories--, the total number employed throughout Australia was 40,688. Of this, 41 per cent work in New South Wales and a further 24 per cent in Victoria. Highest growth rates were experienced in Queensland (72 per cent) and South Australia (68 per cent) while lowest were in Tasmania (10 per cent) and Australian Capital Territory (19 per cent). Research was published by Australian Bureau of Statistics.

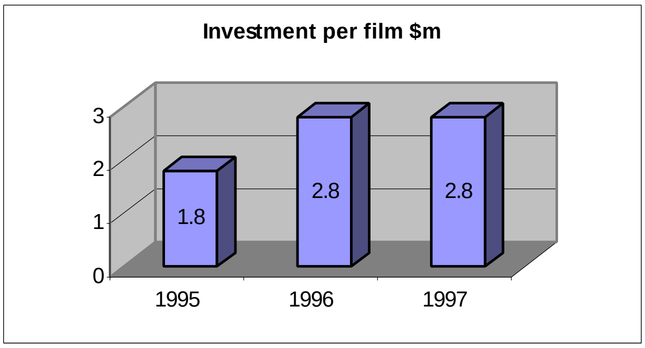
In late 1997, the Australian government gave the go-ahead to a scheme to attract private capital into the film industry. Following on from review of assistance to film industry earlier in the year drafted by Hoyts' chairman David Gonski, the federal government agreed to pilot the scheme of Film Licensed Investment Company (FLIC) in parallel to existing tax concessions. FLIC will give investors 100 per cent tax deduction on investment in films. The government confirmed that direct aid would remain central to film policy, Film Finance Corporation receiving around A$48m ($33.3m) a year until 2001.

Last year, the Gonski Report also inspired the announcement that Film Australia, Sydney-based studio facility was to be sold off, due to uncertainty surrounding its future. New South Wales' government intends to privatise both Film Australia and Australian Multimedia Association, following publication of the Gonski report, which recommended amalgamating Film Australia's commissioning activity with Film Finance Corporation. Studio complex has been valued at A$ 30m ($22.8m).

Australia


Film production
1997
1996
1995
3
31
2
23
2
16
0
10
20
30
40
co-productions
local product


Total investment $m
100
50
0
32
70
97
1995
1996
1997


Investment per film $m
3
2
1
0
1.8
2.8
2.8
1995
1996
1997

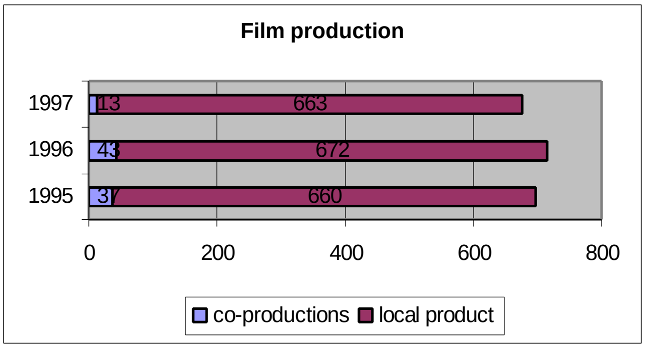
USA

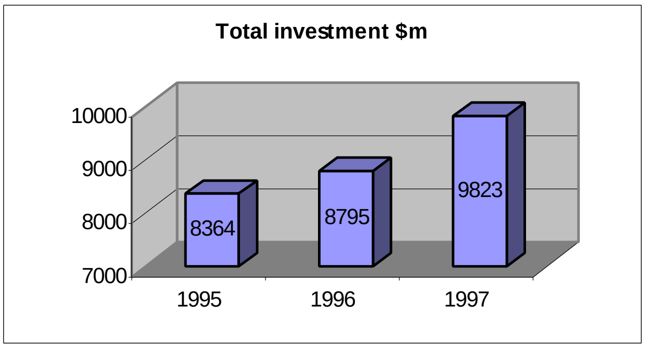
There has been a major shift in the structure of the US film industry as independent producers increasingly align themselves with US majors while the majors themselves experiment with ways of cutting risk. Several major producers and distributors have sought off-balance sheet production finance deals as a way of raising money for the long-term. Animation is growing in popularity among the majors: Disney, Fox, MGM and Dreamworks are all competing on this ground. There is unlikely to be another *Titanic* in the near future; many studios shelved or cut costs of high budget films.

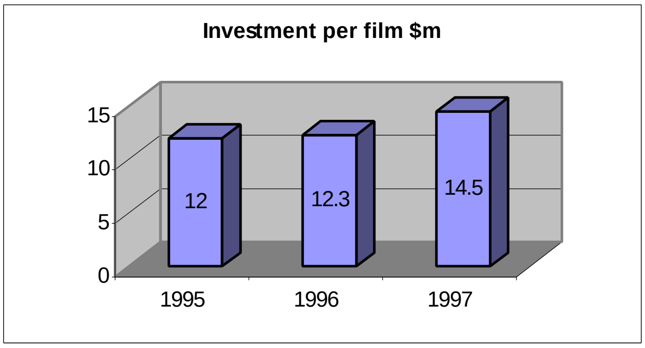
The United States film economy is a study in extremes. Firstly, there is no country with a higher polarity in its film sector. The major studios (eight of them including the recently formed Dreamworks SKG) dominate the US and global film markets through their sheer size and presence. The US majors have recorded successive growth in average production and marketing costs over several years. In 1997, average production costs rose 34 per cent to $52.4m while average marketing costs stood at $23.2m. This is 5.5 times what it costs to produce a film in the Netherlands. Meanwhile, the American independent sector has an average production cost of $6.4m, roughly equivalent to some European territories.

For more information on the American studio sector of the film industry, see above section concerning US majors.

USA


Film production
1997
1996
1995
13
663
43
672
37
660
0
200
400
600
800
co-productions
local product


Total investment $m
10000
9000
8000
7000
8364
8795
9823
1995
1996
1997


Investment per film $m
15
10
5
0
12
12.3
14.5
1995
1996
1997

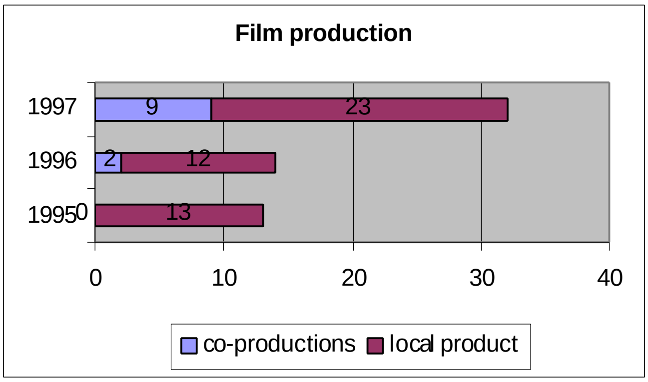
Argentina

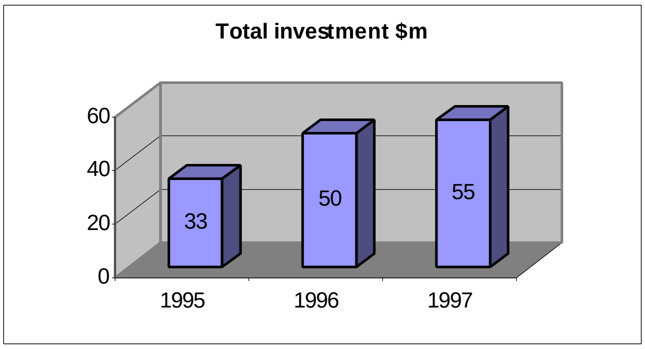
Argentine film production collapsed in the late 1980s and only now is feature film production rising, fuelled by changes in film legislation over recent years. Distributors are being offered incentives to take domestic films, ensuring that production can continue without fear of a bottleneck. This approach, similar to the problems experienced in UK, appears to be working. 32 films were made in Argentina in 1997 up from 14 the year before and local films are making more at the box office, with distributors being offered incentives to release Argentine feature films in an attempt to avoid a bottle-neck of local product. Total investment and average budgets are rising.

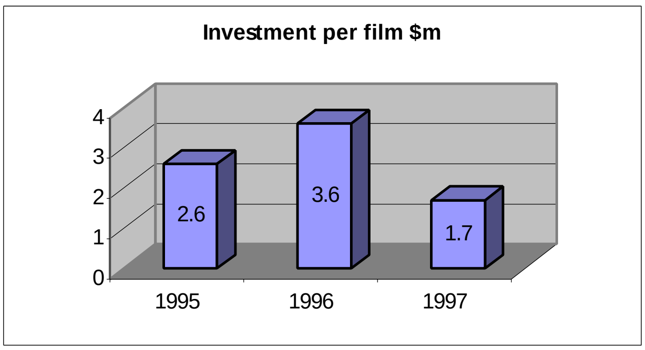
The Argentinean film body Instituto Nacional de Cine y Artes Audiovisuales (INCAA) is planning to modify its film funding policy by tying funding to box office success of backed films. At present, the fund operates a soft loan —between a loan and a subsidy —on which is difficult for INCAA to earn back revenues. The move is probably motivated by restricted government spending and the negative impact that could have on INCAA's allocated budget. Industry figures have objected to proposed modification on the grounds that it will be difficult for new directors to gain funding.

Television is also becoming involved as Argentinean broadcaster Artear has taken a 33 per cent stake in feature film production company, Patagonik, in a bid to increase its access to film product. Patagonik was established two years ago and has been central to improving local film production scene. Stake will increase Patagonik's production slate from two to five films a year, helped by new studio facilities nearing completion. Artear took the stake in Patagonik to access films without investing in the infrastructure.

Argentina


Film production
1997
1996
1995
9
23
2
12
0
13
0
10
20
30
40
co-productions
local product


Total investment $m
60
40
20
0
33
50
55
1995
1996
1997


Investment per film $m
4
3
2
1
0
2.6
3.6
1.7
1995
1996
1997

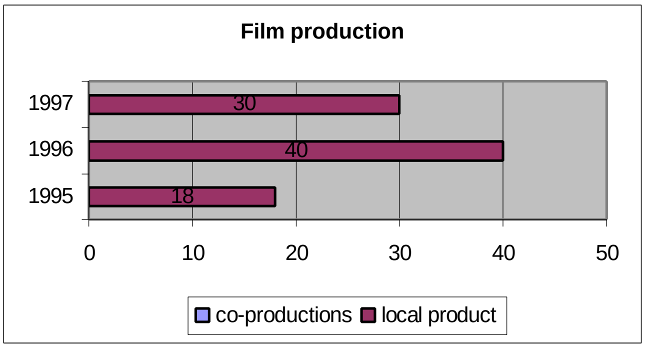
Brazil

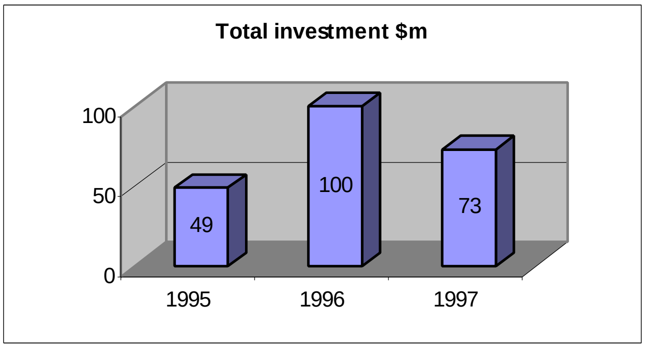
Brazilian film production is, despite the drop in films produced in 1997 to 30, in a relatively healthy state. A few years ago, the industry was very depressed with only 6 films being made in 1992 and 1994. A tax shelter law was introduced that has spurred local film production in past few years. Overall in Brazil, budgets are rising and filmmaking is being undertaken in areas other than the traditional locations of Sao Paulo and Rio.

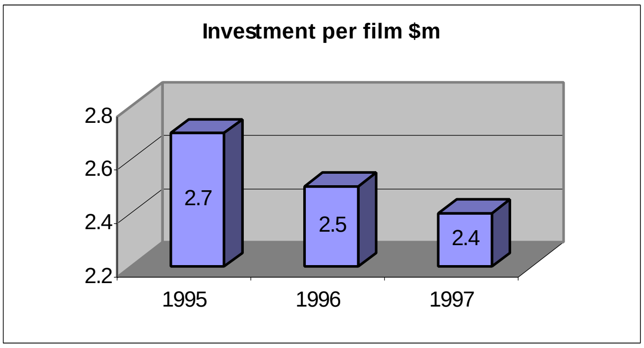
However, with Brazil's economy being in need of public expenditure cuts, there is a movement in Congress to abolish the tax shelter and all film subsidies, which would rein in the sector's growing confidence. This confidence is most visible with the return of Rede Globo to film making after 20 years absence. Rede Globo, the country's dominant broadcaster, will launch an initial slate of around six films a year, mostly in co-production with overseas partners.

In March 1997, Brazil's Securities and Exchange Commission permitted stockbrokers to invest in film production through country's incentive scheme; securities dealers, such as Oliveira Trust and Vera Cruz could already invest in such projects on behalf of clients. Launched in 1994, the Brazilian scheme, which allows investors to invest up to three per cent tax free in selected projects, helped increase levels of production investment.

Brazil


Film production
1997
1996
1995
30
40
18
0
10
20
30
40
50
co-productions
local product


Total investment $m
100
50
0
49
100
73
1995
1996
1997


Investment per film $m
2.8
2.6
2.4
2.2
2.7
2.5
2.4
1995
1996
1997

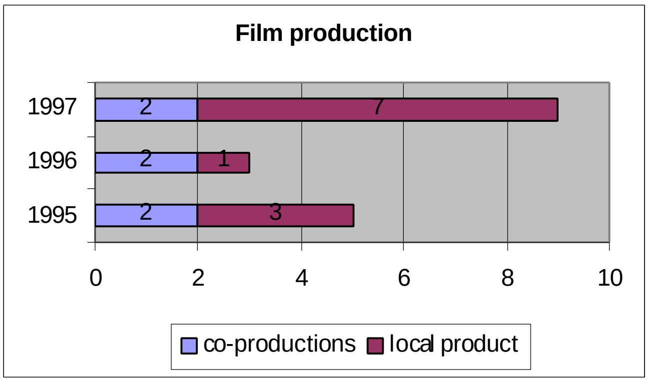
Mexico

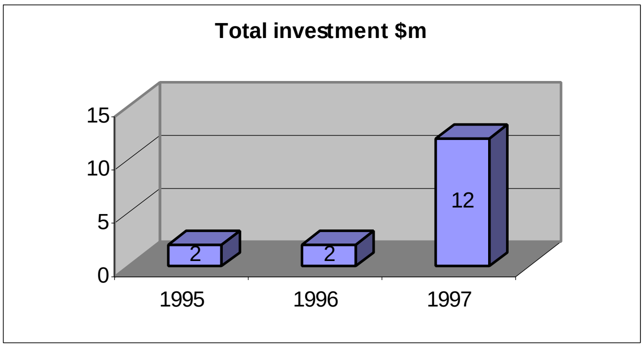
Mexico has been in a rut when it comes to film production but there are some signs of revitalisation. The slump dates back to 1995. Televicine--film subsidiary of Mexican television giant Televisa--was particularly hard hit by budget cuts resulting from peso crisis in late 1994. It made just three feature films in 1995, down from 23 in 1994. This was typical of the sector.

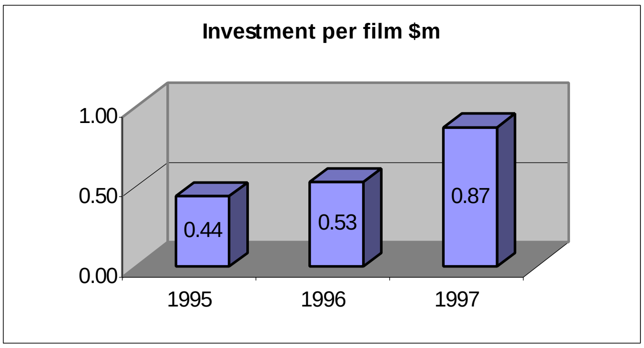
Last year, less than 10 films were made but this is an increase over the previous few years. Total investment in the industry is rising and government is beginning to consider positive moves to develop the sector's prosperity. Much of the problem was to do with the tax structure applied to the film industry. At the end of 1997, Mexico's National Film Commission began attempts to persuade the government to lower tariffs on producers importing film equipment for shooting purposes. Full tariffs are applied to all equipment although the Commission has succeeded in watering down a plan to impose a high tax on actors' salaries.

In another positive move, the Mexican government is to increase funding levels for the Fund for Quality Film Production, from 35m pesos ($4.22m) to 135m pesos ($16.3m). The Fund, created in December 1997, is managed by Mexican Film Institute and is expected to revive production activity.

Mexico


Film production
1997
1996
1995
2
7
2
1
2
3
0
2
4
6
8
10
co-productions
local product


Total investment $m
15
10
5
0
2
2
12
1995
1996
1997


Investment per film $m
1.00
0.50
0.00
0.44
0.53
0.87
1995
1996
1997

Conclusion

This document only provides an insight into the complex arena that is film production but it is possible to pull out certain themes that reappear in the wide variety of filmmaking systems that the world contains.

- Government is very present in the film sector, either through a system of state subsidy or through its ownership of the fiscal system. Tax laws can make or break film industries, as can levels of state support.
- The producer is the central figure to the film industry.
- Film industries are one of the first industries to go in a recession. Government cuts are thought to be easier to make in this industry than in others and financiers perceive the level of risk too high to continue investing during hard times.
- Television can play a central role in the film industry without harming it. It is important for television channels do not try to run the production process with their own medium in mind.

There is much world-wide activity in the filmmaking business and most nations have developed systems of greater and lesser complexity in order to ensure a national film industry survives. These systems are often fashioned by government, usually keen to associate themselves with the arts if less keen to finance their ambitions. However, we must not forget that governments do not make films – producers do. A government can put in place a structure within which the activity can be carried out but only the desire to make films and money, if possible, can sustain a healthy film industry: one that creates and develops. This is why state-controlled cinema, whether economically or politically, has no future and produces a system that becomes more important than the end product.

Asia is feeling the hardships caused by financial chaos but producers respond in a myriad of ways to straightened times. Witness the rise of the co-production in Europe, the off-balance sheet finance in Hollywood, television investment in Argentina, and this reaction to hard times will shape the way to come. Regeneration of a film industry is a satisfying spectacle, as success breeds success, but the death of a film industry is a tragic event. People and resources are redundant while talent is forced to go overseas or into television to make money. This state, however, is a dormant one. The human resources are there and come the time, they can awake. This is the role of government – to assist in the regeneration process, to provide money and infrastructure in order to get things moving and confidence growing, as is happening in South America.