Groupe d'Economie Mondiale

A Culture of Evaluation in an Open World

**Working Paper**
**GEMWP–2007–01**
**January 2007**

# The Support for the French Cinematographic Production: Who Benefits from the French « Cultural Exception »?

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ABSTRACT

French cinema benefits from a massive public support: the aids verge on 38% of the unassisted value of the cinematographic production, and the effective rate of assistance approaches 101% of the value added. The assistance certainly brings about an abundant production (240 films were accredited in 2005 by the National Centre for Cinematography) but it does not seek to sustain the quality and the creativity of French cinema. The concentration and the constancy of the public manna on few integrated and powerful firms reveal how incoherent, regarding its cultural ambitions, the French policy is. The detailed calculations of the effective rate of assistance of Gaumont and EuropaCorp, confirm the capture of the cinematographic policy by a few firms that are completely embedded in international competition and markets. In 2002, the direct and indirect aids represent 95% of the value added produced by EuropaCorp, and 90% of the one produced by Gaumont. The point is not to criticise the existence of a market-oriented French cinema: it obeys a legitimate and crucial logic. However, those films and those firms could now subsist on their own on the market. In its current shape, the French cinematographic policy does not improve cultural diversity but on the contrary amplifies the market failures (improper concentration, standardisation of one part of the production, imitation of Hollywood Blockbusters). Moreover, the support system has progressively become illegible. New aids have recurrently been created: they are now numerous, intertwined and above all incoherent. Those mechanisms result in such a complex system that few agents are really aware of their position in the system: are they net winners or net losers of the current architecture? The uncertainty drives them not to reform the system and reinforces the global inertia. Nothing but a detailed assessment of the support system will allow getting out of the *statu quo.*

Keywords: French cinematographic policy, cultural exception, automatic and selective support, effective rate of assistance.

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# INDEX

**INTRODUCTION………………………………………………………………………….. 4**

**I. Reforming the French Cinematographic policy: « Emergency Room »……… 4**

A. Domestic pressures are rising....................................................................................... 3

B. An almost obsolete policy ........................................................................................... 4

C. International opportunities ........................................................................................... 4

**II- The reform of the French policy "There's nothing out there" …………………7**

A. A lucid diagnosis.......................................................................................................... 5

B. But a regulatory « fuite en avant » ............................................................................... 5

**III- The Assistance toward the French Cinematographic Production: « The Colossus of Rhodes »................................................................................. 6**

A. How does the French cinematographic policy work? .................................................... 6

B. The Effective Rate of Assistance .................................................................................. 7

C. Methodology................................................................................................................ 7

D. Results and Comments ................................................................................................ 8

**IV- The Main Beneficiaries of the Assistance toward Production: « The Color of Money » ............................................................................................... 10**

A. The concentration of the aids ...................................................................................... 10

B. The main Beneficiaries of the Automatic Support ....................................................... 10

C. Gaumont and EuropaCorp Cases ................................................................................ 11

**V-The Cultural Objectives of the French Cinematographic Policy? « Black Box »................................................................................................................ 13**

**Conclusion ........................................................................................................ 14**

# The Support for the French Cinematographic Production: Who Benefits from the French « Cultural Exception »?

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## INTRODUCTION

The release of a study about the transparency in the distribution of Common Agricultural Policy aids drew embarrassed comments from the French Minister of Agriculture: "*I am favourable to transparency, but to total transparency… If it concerns agriculture, it has to concern every economic sectors*". A top civil servant belonging to the Ministry of agriculture even talked up the French agricultural model, which he described as an "*alimentary exception modelled on the cultural exception*" (Liberation, 11-09-2005). Such statements move us to investigate one of the most symbolic illustrations of the French cultural exception: the cinematographic policy.

This paper seeks to evaluate the coherence and the efficiency of the French support for the cinematographic production. The analysis leans upon the calculation of the nominal and effective rates of assistance. Thanks to those estimations, the net winners and losers of the current system can be identified. Such an evaluation process is crucial prior to an efficient reform of the French cinematographic policy.

## I- Reforming the French Cinematographic policy: « Emergency Room »

### A. Domestic pressures are rising

Audiovisual services represent a touchy sector to deal with because they convey the specificity of a culture, the cultural identity of a country. Besides, the professionals of the cinematographic industry are in essence experts in public relations. That explains why an outstanding political and professional consensus reigns about the public audiovisual policies. Consequently, those policies have progressively become untouchable and extremely difficult to reform.

Nonetheless, many incidents have confirmed the increase of the tensions inside the audiovisual sector for the last ten years:
- acerbic denigrations of the cinematographic critic by some directors in 1996,
- contentious introduction of the unlimited season tickets by UGC and Pathé/Gaumont/MK2 in 2000,
- tough disputes between professional organizations about the opportunity to allocate the French public aids to extra European firms in 2004/05 (the Warner case following the accreditation of A very long engagement),
- chronic conflicts about the special unemployment regime called "intermittence" (dedicated to artists and technicians working in the cultural industries) especially since 2003,
- political and professional arguments during the passing of the law concerning the adaptation of the copyright to new technologies (called DADVSI law) in 2006.

In the course of those (various) events, the professional organizations expressed various and sometimes contradictory stances, revealing a recurring divide between the big firms (and directors)

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belonging to the centre of the market and the smaller ones located in the competitive margin. Each of these disputes uncovers how defective the cinematographic policy has become in correcting the harmful effects of the market on the diversity of the structure and on the diversity of the offered and consumed contents.

### B. An almost obsolete policy

Technological and industrial mutations drive the current French regulation to be reformed.

The growing convergence between computing, electronic, telecommunication and content industries modifies the traditional equilibriums of the cinematographic sector. Indeed, technological progress implies an increasing liberalization of the audiovisual markets. The new ways of distributing and consuming movies render a large part of the traditional protectionist regulations obsolete, resulting in a rising de facto liberalization. The content of the bilateral free-trade agreements recently concluded by the United States shows that the traditional instruments are falling into disuse. According to Bernier (2004), the American strategy regarding the treatment of cultural goods and services in commercial agreements rests nowadays on three pillars: not dismantling the aids toward the production of audiovisual contents, maintaining the local content exigencies and the other impediments to audiovisual trade related to traditional technologies, and committing not to protect the digital networks. The United States anticipates the emergence of a huge communication sector that will be dominated by the IT industries and the decline of the traditional business models and regulations.

Moreover, new entrants coming from computer or telecom industries redefine the competition for the audiovisual rights purchases. Consider the case of the recent merger between TPS and CanalSat, the two French satellite TV bundle offer: it appears to be a defensive reaction from the historical actors of the broadcasting market confronted to new entrants. There is little doubt that in the mid term the large and internationalized computer, electronic and/or telecommunication groups will take control over the essentially national firms that produce contents. Such an evolution will reinforce the de facto liberalization of the audiovisual markets.

### C. International opportunities

The recent relaxing of the international constraints represents a significant but temporary opportunity that the French authorities should rapidly seize in order to reform serenely the cinematographic regulation.

On one side, on the 22nd of March 2006, the European Commission validated once more the French aid system until 2011. On the other side, the American negotiators are softening their pressure inside the WTO on the audiovisual issue: they prefer ensuring the cooperation of the Member States rearing the fight against piracy rather than reopening the conflict about quotas and subsidies. The United States addresses those themes only during bilateral negotiations.

Consequently, France should take advantage of this favourable period and initiate a deep reform of its cinematographic policy. The fact still remains that negotiations about services inside the WTO should not sink. The interest of Member States that wish to preserve their cinematographic productions and cultures rests in pursuing multilateral, transparent and regulated negotiations and not in the current proliferation of bilateralism, which is dominated by the law of the strongest. Above all, there are many reasons to put into perspective the recurring fears of the French professionals about the WTO. The actual regulation on the international trade of services practically imposes practically no constraints on the Member States. Messerlin (2003) emphasizes that "[The WTO] will only impose accepted and useful constraints for France, if it manages properly the forthcoming negotiations on services". Furthermore, the services liberalization process is far different from the goods liberalization process: there is practically no place for the reciprocity principle in services negotiations (Jacquet, Messerlin and Tubiana, 1999), especially in audiovisual services negotiations (Messerlin and Cocq, 2004).

Thus, Roy (2005) concludes that the WTO does not represent a threat for the French cinematographic sector, but could be on the contrary a driving force for an efficient reform of the French public policy. By the way, the adoption on the 20th of October 2005 of the Convention on the protection and the promotion of the diversity of cultural expressions inside the UNESCO introduces, if necessary, a further guarantee of the weak degree of the international constraints over the French regulation. But in spite of the domestic pressures, range of opportunities and low degree of international constraints, many facts highlight the global immovability of the French system.

## II- The Reform of the French Cinematographic Policy: « There's Nothing Out There »

### A. A lucid diagnosis

The French authorities are fully aware of the growing dysfunctions of the system and of the urge to reform it. In 2002, a report by the working group from the National Centre for Cinematography (CNC) pointed out that: "…*the professionals of the cinema industry worry and perceive a growing crisis climate… The fear (…) comes from the new configuration of the French production which is characterized by a strong development of big budget films. They imply substantial funding and capture many funding sources*" (CNC, 2002).

Similarly, Jean-Jacques Aillagon, when he was Minister of Culture in 2003, identified some "*symptoms of the destabilization*" of the French cinema. Among them were the strong difficulties encountered by the "*independent producers, well-known driving forces for the creativity and the renewing of talents*" and by "*the independent distributors [who] are in a similar position*". This double diagnostic instantly pleads for an internal reorientation of the public instruments, in order to clearly favour identified cultural objectives.

### B. But a regulatory « fuite en avant »

The fact still remains that the political answer given to this double diagnosis has been the exact opposite: new instruments were created (tax credit and increasing assistance from the regions). They were inadequate to answer to the identified problems. Moreover, they made the system even more complicated than it was. At the eve of the opening of the Cannes festival in 2006, Veronique Cayla, the new director of the CNC, can do nothing more than note the continuing dysfunctions of the French system "the CNC has to ensure that the aid system does not favour an overmuch production" (Les Echos, 18th of May, 2006). The status quo riles Patrick Sobelman, the audacious director of the firm ex-Nihilo: "Profit is not the only motivation for shooting a movie… Our logic is close to fundamental research".

This irrationality can perfectly be explained by the elaboration process of the cinematographic policy in France for the last ten years. Sectorial reports are elaborated by so-called experts (who often work or have worked in the cinema industry). Between 2000 and January 2006, one can count no less than 17 reports about the cinematographic sector of the audiovisual production (without counting the parliamentary reports). Then, the authorities generally choose to apply the recommendations advocating for the creation of a new instrument. But the numerous propositions dealing with the reorganization of the Support Account are practically never taken into consideration.

The system appears to be obviously inflationist: new aids proliferate under the pressure of the lobbies or every time a slight reversal of the conjuncture occurs. The new instruments overlay the old ones; they are all intertwined without any rationality. The system is so complex that the professionals do not know if they are net winners or net losers of the current regulation. It follows from this that the inertness of the sector is reinforced. Only a detailed evaluation of the existing regulation will allow the sector to leave the current status quo behind.

# III- The Assistance toward the French Cinematographic Production: « The Colossus of Rhodes »

## A. How does the French cinematographic policy work?

The comparison with other European support systems reveals the specificities of the French policy. Because of the amounts distributed and because of the high number of instruments involved, the French policy represents an international exception. In 2004, France allocated 523.4 millions of euros (cinema and television), the biggest amount in all Europe (table 1).

**Table 1**
**Evolution of the public support for the cinematographic and audiovisual sectors in Europe (reduced to 15)**

| M€ | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| France | 417,4 | 492,0 | 492,0 | 488,4 | 523,4 |
| Germany | 152,9 | 189,9 | 187,6 | 199,3 | 205,8 |
| Great-Britain | 73,6 | 67,6 | 76,0 | 120,9 | 114,1 |
| Italy | 94,5 | 99,0 | 77,3 | 91,5 | 90,4 |
| Spain | 55,4 | 57,2 | 71,3 | 99,3 | 74,9 |
| Total | 793,8 | 905,7 | 904,2 | 999,4 | 1008,6 |
| Europe 15 | 992,2 | 1 120,5 | 1 129,2 | 1 216,3 | 1 232,3 |
| French subsidies/ Domestic subsidies of Europe 15 | 42,1% | 43,9% | 43,6% | 40,2% | 42,5% |

*Source: European Audiovisual Observatory (2006).*

The KORDA database elaborated by the European Audiovisual Observatory counts nearly 160 instruments favourable to the audiovisual and cinematographic sectors in France, 50 of which are dedicated to the production of long feature movies.

The majority of the mechanisms passes through the National Centre for Cinematography (CNC) and its Support Account. It is mainly funded by transfers between the different actors of the sector (taxes deducted from cinema ticket sales, from broadcasters turnovers, from DVD rentals and sales…). Aids are distributed among the different steps of the sector (production, distribution, exhibition) and are attributed either on an automatic, or on a selective basis. In addition, local and regional aids spread out in France for about 20 years. At the end of 2005, conventions between the CNC, the State and the different regions were signed in 24 regions (only two regions still have not signed any). In 2005 they amounted 61.3M€ (34.3% more than in 2004).

Moreover, the French cinematographic policy rests on a tax shelter (SOFICA) and a tax rebate system. Besides, the intermittence mechanism refers to a specific unemployment benefit regime, which concerns a great number of artists and technicians belonging to the cultural sector. This regime allows the cinema industry to benefit from a cheap and hyper flexible working force and constitutes an indirect transfer toward the cinematographic and audiovisual sectors[3]. Finally, cinema production received important amounts thanks to the domestic regulation on broadcasters, which is more constraining than the directive Television Without Frontiers (TWF). According to the production quotas, the free-to-air national broadcasters must devote 3.2% of their turnovers to European cinema productions (12% for Canal +), 2.5% of which to French speaking movies (9% for Canal+). Similarly, 60% of the movies broadcasted must be European, among which 40% of French speaking movies.

At the European level, aids are allocated through the Eurimages fund from the European Council (which sustains European co-productions) and through the different MEDIA programs initiated by the European Commission (which sustains the competitiveness of audiovisual and cinematographic industries).

[3] Menger (2005) and Dantec & Levy-Hartmann (2006).

### B. The Effective Rate of Assistance

The present assessment of the public support of French cinematographic production is based on the calculation of Effective Rates of Assistance (ERA). This indicator was created by the Australian authorities in the middle of the 1960's. It is very close to the Effective Rate of Protection (ERP), frequently used in international trade analysis. Both instruments take into account all the public mechanisms affecting a particular sector: the ones that concern the final output, but also the ones dealing with the inputs and with the value-adding factors.

The well-known ERP measures the protection over a given product (tariffs, quota equivalents, subsidies etc…), also considering the protection over inputs. In fact, the protection over inputs may induce growing prices and consequently a diminishing value added of the final output. Protecting its inputs involves de-protecting the final industry.

As for the ERA, it makes an inventory of the assistance for a product (direct and indirect, for the output and its value-added factors) and takes into consideration the de-assistance provoked by the aids allocated to the inputs.

The ERA analysis assumes that the following hypothesis is satisfied: the assistance to the sector is captured by the industry and not transferred to consumers through diminishing prices. It is particularly true when the assisted products face a unique world price, in agricultural markets for instance. The film market generates important international trade (as opposed to most services), but is not characterized by such a unique world price. However, the French cinema markets are structured in such a way that the assistance is truly captured by the domestic industries and do not generate a decrease in French movies prices. Thus, measuring the ERA of the French film production is relevant.

The calculation of the ERA allows to draw some conclusions:
It increases the knowledge and the understanding of a sector thanks to the detailed inventory of the direct and indirect forms of assistance for the outputs, the inputs and the value-added factors.
It mixes those different instruments in one unique simple indicator, economically coherent and full of information. It leads to inter-sector and inter-temporal comparisons.
It reveals the coherence of a public policy.
It raises the transparency of sometimes quite opaque industries. Giving information to the regulator, it allows it to increase its potential efficiency.

### C. Methodology

The ERA requires a review of the different forms of assistance to the French cinematographic production. The present inventory is of course not exhaustive: the amounts attributed through marginal subsidies are not always made public (aids for long-features movies music, aids for overseas movies etc…), some others are very difficult to estimate (specific local tax rebate, subsidy equivalent of the copyright system etc…). In any case, a great number of aids are here estimated, which is quite rare for a service industry. Actually, very few ERA calculations have been led until now because of a data availability problem. As far as we know, no ERA has been calculated until now over the cinematographic production.

Concretely, the calculation is composed of four steps:

- The assistance to outputs. It represents the various aids that increase the income the producer gets from the film. Those aids are deducted from the observed value of the production (which is the assisted value of the production) in order to obtain an unassisted value of the outputs. Then, the nominal rate of assistance to output is calculated (assistance to outputs / unassisted value of outputs).
- The assistance to inputs. Taking into account the measures that modify the prices of inputs leads to a nominal rate of assistance on intermediate inputs. This symbolises a de-protection for the film production.
- The assistance to value-added factors. Numerous instruments sustain the value-added factors involved in a film production: for instance, the capital is assisted through the tax shelter system or the labour force is supported by the special unemployment regime.

- The net subsidy equivalent is composed of those assistances and de-assistances. It is divided by the unassisted value-added (unassisted value of the outputs minus unassisted value of the inputs) in order to get the final ERA.

Our estimations of the outputs value and of the various subsidy equivalents are based on careful hypotheses. The detailed calculations and sources used may be found in annex 1.

### D. Results and Comments

Table 2 shows the detailed calculation of the French cinematographic production ERA in 2004. The nominal rate of assistance amounts to 38% but the effective rate of assistance adds up to more than 101% of the value added. This is a particularly significant result. Let us remind that the ERA of a sector represents the rise in the value added of each output provoked by the different forms of assistance, compared to a hypothetical situation of non assistance.

**Table 2**
**ERA calculation in 2004 (M€)**

| | | |
|---|---|---|
| **Outputs** | | |
| AP | Assisted Value of Outputs | 1260,47 |
| **Assistance to outputs** | | |
| | tariff | 0,00 |
| | Support for outputs : | 348.97 |
| | _ including : Subsidy Equivalent of the broadcasting and production quotas | 193,61 |
| | _ Including : Automatic support for production | 74,30 |
| | _ Including : Advance on receipts (before and after production) | 26,18 |
| | _ Including : Other selective aids for production es sélectives à la production : | 9.25 |
| | ___ Including : Support for the project development of long feature movies | 2,70 |
| | ___ Including : Support for multimedia artistic creation (DICREAM) | 1,30 |
| | ___ Including : Support for the experimental production | 1,01 |
| | ___ Including : Support for movies in a foreign language | 0,67 |
| | ___ Including : Support for international co productions | 3,57 |
| | _ Including : Regional support from the CNC | 6,25 |
| | _ Including : Support from the regions | 24,76 |
| | _ Including : European supports : | 14,62 |
| | ___ Including : Eurimages (assistance for co productions) | 11,12 |
| | ___ Including : Media program (project development) | 3,50 |
| GSE | Gross subsidy equivalent to output | 348.97 |
| UP = AP - GSE | Unassisted Value of Outputs | 911.50 |
| NRA= GSE/UP*100 | **Nominal rate of assistance on outputs** | 38.28 |
| **Assistance to inputs** | | |
| AM | Inputs | 542,00 |
| | Tariffs | 27,10 |
| TEM | Tax equivalent on materials | 27,10 |
| UM= AM - TEM | Unassisted Value of Inputs | 514,90 |
| NRM= TEM/UM*100 | **Nominal rate of assistance on intermediate inputs** | 5,26 |
| **Assistance to value adding factors** | | |
| | Special unemployment regime for the employees in the production sector | 19,41 |
| | Special unemployment regime for the employees in the technical industries | 4,78 |
| | Tax shelter (SOFICA) | 21,00 |
| | Tax credit | 25,00 |

| | | |
|---|---|---|
| | RIAM project | 3,10 |
| | Support for research and development | |
| | Support for the use of new technologies in the production of movies | 0,49 |
| | Support for the investments of the technical industries | 5,40 |
| | Support for script writing and re-writing | 0,50 |
| | Prize for the best first scenario | 0,06 |
| SVA | Subsidy to value adding factors | 79.74 |
| AVA= AP-AM+SVA | Assisted value added | 798.21 |
| UVA=UP-UM | Unassisted value added | 396.60 |
| NSE=GSE-TEM+SVA | Net subsidy equivalent | 401,61 |
| ERA=NSE/UVA*100 | **Effective rate of assistance** | 101,26 |

*Sources : see annex 1 ;Calculations by the authors*

At this stage, international comparisons could be particularly relevant. Unfortunately ERA calculations in service sectors are very rare. Thus, no comparative study with the assistance of other cinema industries can be completed for the moment. Purely as an indication, in 2002-03 the higher ERA in Australia was calculated on the textile and clothes sector (among the agricultural and manufactured sectors) with 24.2%. In other words, in an international landscape truly critical for the textile industries of developed countries, the Australian textile producers were proportionally far less assisted than the French movie producers.

Despite the weight of the public cinematographic policy, it has to be noted that it is not especially incoherent in its inputs/outputs distribution. The aids toward inputs raise their prices by only 5.26%. This proves the strong willingness to protect primarily the producers and to contain the cost of their intermediate inputs.

The inter-temporal analysis reveals the remarkable stability of the cinematographic production ERA during the last ten years, although the value of the outputs nearly doubled during the same time. That means that the amounts allocated to this sector were constantly re-evaluated. Of course one part of the aids is constituted of automatic mechanisms which evolve with the value of the production. But the regular establishment of new instruments also plays a strong part in this phenomenon and entails the stability of the ERA around 100%. One of the most striking examples is the year 2004. Because 2003 was characterized by an important increase in the value of outputs and consequently a diminishing in the ERA (to 69%), the assistance was strongly amplified the next year with the establishing of the tax rebate mechanism, and the ERA again totalled more than 101%.

**Table 3**
**Synthesis of the ERAs 1995-2004.**

| M€ | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Assisted value of the Production | 681,00 | 785,00 | 876,00 | 861,00 | 924,00 | 963,24 | 1103,64 | 1054,78 | 1333,31 | 1260,47 |
| Unassisted value added | 185,94 | 236,30 | 267,37 | 238,19 | 270,89 | 286,46 | 348,27 | 323,37 | 482,83 | 396,60 |
| Net subsidy equivalent | 226,07 | 239,23 | 264,06 | 286,91 | 292,13 | 307,23 | 323,82 | 328,54 | 332,49 | 401,61 |
| ERA (%) | 121,59 | 101,24 | 98,76 | 120,45 | 107,84 | 107,25 | 92,98 | 101,60 | 68,86 | 101,26 |

*Calculations by the authors*

The assistance for cinematographic production in France is massive and systematic. If it tried to correct for the market failures, to sustain difficult films and quality or to renew talents, it would be legitimate regarding economic theory. But the analysis shows that the distribution of this manna benefits mainly to the integrated firms located in the oligopolistic centre of the film market. In so doing, the cinematographic policy betrays the cultural objectives it claims to defend.

# IV- The Main Beneficiaries of the Assistance toward Production: « The Color of Money »

## A. The concentration of the aids

The examination of the Support Account for the cinematographic industry reveals similarities between the agricultural and the cinematographic public policies. In both cases, there are two ways of distributing the aids:

Automatically: the extent of the support is linked to box-office takings, broadcasting revenues since 1986 and video receipts since 1994. This is close to the CAP direct aids, which depend on the quantity produced.

Selectively: commissions decide to distribute the support according to qualitative criteria. Among them one can find the renewing of talents, the distribution of unknown works or the audience education. This approach evokes the respect of environmental standards, of rural development in the case of agriculture.

In both sectors, the automatic support largely prevails over the selective mechanisms: in 2005, among the 125,5M€ allocated to French producers, 75M€ are attributed on an automatic basis. In the same way, concerning agriculture, the Confederation Paysanne assesses that the French farmers receive about 11 billions of euros of public support, among which 8.5 are distributed automatically. The problem is that automatic instruments benefit to the most powerful firms in the sector and that they reinforce market trends.

Under such circumstances, the automatic mechanism concentrates the public support in the hands of very few producers who do not take any risk regarding the market standards.

## B. The main Beneficiaries of the Automatic Support

The French National Centre for Cinematography releases every year the names of the main recipients of the automatic support for production. In 2005, 10 firms capture 61% of the total amount and 115 other producers share only 10% of the available support. The main beneficiaries in 2005 are essentially production subsidiaries of hertzian broadcasters (TF1 film production, France 2 cinema, France 3 cinema, M6 films, Studio Canal) along with the integrated firms dominating the cinema industry (EuropaCorp4, Gaumont, UGC or Pathé). The turn-over is extremely low: eight of the ten main recipients in 2005 appeared on the list in 2004. Besides, five among them were already listed among the main beneficiaries in 1995.

**Table 4**
**The main beneficiaries of the automatic support for production (AS), 2003-05**

| Rang | 2003 | 2004 | 2005 |
|---|---|---|---|
| 1 | Pathé Renn Production | EuropaCorp | TF1 Films Production |
| 2 | StudioCanal | TF1 Films Production | Pathé Renn Productions |
| 3 | Cinécomic (Gaumont subsidiary) | Gaumont | EuropaCorp |
| 4 | TF1 films production | UGC Images | Gaumont |
| 5 | Gaumont | France 2 Cinéma | France 2 Cinéma |
| 6 | France 2 cinéma | Pathé Renn Production | M6 Films |
| 7 | Cabale (TF1 subsidiary) | ARP | France 3 Cinéma |
| 8 | La petite reine | Vertigo Production | StudioCanal |

[4] The production company belonging to Luc Besson

| | | | |
|---|---|---|---|
| 9 | France 3 Cinéma | StudioCanal | SAJ |
| 10 | EuropaCorp | M6 Films | ARP |
| Total expenditures of the support account for cinema (M€) | 240.16 | 258.71 | 266.65 |
| __ including: AS for Production (M€) | 73,86 | 70,06 | 74,02 |
| __ including: AS for production spent by the 10 main recipients (M€) | 40,60 | 42,70 | 44,40 |
| Share of the AS for production which is spent by the 10 main recipients | 55.0% | 60.9% | 60.0% |
| Share of the total support for cinema spent by the AS toward production of the 10 main recipients | 16.9% | 16.5% | 16.7% |

*Source: CNC; Calculations by the authors*

One may point out in passing that the distribution of the automatic support illustrates one of the main inconsistencies of the public regulation system: the broadcasters have to invest in the cinematographic production because of an investment quota (5.5% of their turnover). Thus, they finance the Support Account. But at the same time, they benefit from this account via their production subsidiary. Cocq (2000) underlines the adverse effects of such a to and fro motion: “the public regulation finally induces the dispossession by the broadcasters of one part of the potential resources of the producers (…). Thanks to this situation, broadcasters lessen the cost of their regulatory obligations by 7.6%.”

In short, the close link between the main public instrument (automatic support) and the firms belonging to the centre of the market contradicts a recurring criticism addressed to the French cinematographic regulation. Cluzel (2003) complains that the French regulation is focused on the support for little films that only address a tiny educated audience. He is very far from the truth: in fact the selective instruments are still in a minority. The French policy benefits to the less pioneering firms and makes one part of the production uniform and dependent on the market norms. In sum, French producers are likely to conform their movies to the demand from the television channels and to clone American movies.

### C. Gaumont and EuropaCorp Cases

The publication of detailed financial data by Gaumont and EuropaCorp made possible the calculation of their effective rate of assistance (ERA). Table 5 confirms the capture of the cinematographic policy by a few firms that are completely embedded in international competition and markets. In 2002, the direct and indirect aids represent 95% of the value added produced by EuropaCorp, and 90% of that produced by Gaumont. In other words, nearly half of what they produce derives from the public regulation.

The films made by Gaumont and Europacorp receive practically no selective subsidy (Advance on Recipts, Eurimages, regional aids…). That symbolizes how low their aesthetic intents are. In this regard, EuropaCorp, in a consistent and unambiguous way, states its position among the “world cinematographic entertainment market”, and recognizes that its objective consists in “*optimising, on the basis of particularly planned films, its profitability regarding the investments, while reducing the commercial risks*”[5].

The point is not to criticise the existence of a market-oriented French cinema: it obeys a legitimate and crucial logic. However, more than fifteen years after the Lang plan, which focused the policy on financially ambitious films, those films and those firms could now subsist on their own on the market. One of the most striking examples is EuropaCorp that is conscious of its commercial capabilities and claims that its strategy “*does not rest on governmental subsidies*”. But its movies, like those produced

[5] EuropaCorp (2002).

by Gaumont, still capture a substantial part of the support to French cinema. How can it be explained?

Firstly, the Automatic Support which rewards success favours the big budget films produced by Gaumont and EuropaCorp: they benefit respectively from 9.1M€ and 10.1M€ of automatic support in 2002. Besides, those data only consider the automatic support for production. But Gaumont and EuropaCorp are vertically integrated studios: as exhibitors, distributors or video editors, they perceive many more automatic supports, which they are likely to invest in their production activities.

Secondly, the broadcasting quotas for French films allow them to benefit from a manna through the regular purchases of broadcasting rights by the main TV channels (13.77M€ for Gaumont and 19.14M€ for EuropaCorp in 2002): "*the obligation for French TV channels to buy and broadcast French-speaking European contents favours a strong demand for the products of the group*". The standardization of the movies produced by those two firms may explain why the television channels address them in priority. And the importance of the television channels in film financing in France explains in return why those firms do not assume the innovative work of the sector but delegate it to the independent structures of the margin.

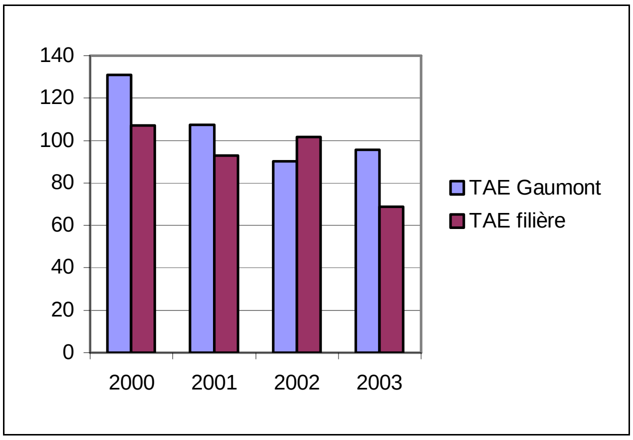
**Table 5**
**ERAs of Gaumont and EuropaCorp in 2002**

| | EuropaCorp 2002 | Gaumont 2002 |
|---|---|---|
| **Assisted Value of outputs (M€)** | 104,837 | 80,62 |
| Tarifs | 0 | 0 |
| Support for outputs : | 30,876 | 23,31 |
| _ Including : Subsidy equivalent of the broadcasting quotas (rights purchases) | 9,2 | 10,9 |
| _ Including : Subsidy equivalent of the broadcasting quotas (rights pre purchases) | 9,936 | 2,87 |
| _ Including : Subsidy equivalent of the production quotas (co productions) | 1,2 | 0,42 |
| _ Including : Automatic support for production | 10,1 | 9,12 |
| _ Including : Advance on receipts (before and after production) | 0 | 0 |
| _ Including : Other selective aids for production es sélectives à la production : | 0,04 | 0 |
| _ Including : Regional aids | 0 | 0 |
| _ Including : European aids | 0,4 | 0 |
| Gross subsidy equivalent to output | 30,88 | 23,31 |
| Unassisted Value of Outputs | 73,96 | 57,31 |
| **Nominal rate of assistance on outputs** | 41,75 | 40,67 |
| Inputs | 45,08 | 34,67 |
| Tariffs | 2,25 | 1,73 |
| Tax equivalent on materials | 2,25 | 1,73 |
| Unassisted Value of Inputs | 42,83 | 32,93 |
| **Nominal rate of assistance on intermediate inputs** | 5,26 | 5,26 |
| Special unemployment regime for the employees in the artistic sector | 1,13 | 0,41 |
| Tax shelter (SOFICA) | 0 | 0 |
| Subsidy to value adding factors | 1,13 | 0,41 |
| Assisted value added | 60,89 | 46,36 |
| Unassisted value added | 31,14 | 24,38 |
| Net subsidy equivalent | 29,75 | 21,99 |
| **Effective rate of assistance** | 95,56 | 90,20 |

*Sources : Gaumont and EuropaCorp, Calculations by the authors.*

The yearly publication of Gaumont financial data allows to establish a comparison between the ERA of the whole cinematographic production and the Gaumont ERA for the period 2000-2003.

**Figure 1**
**Comparison between the ERA of Gaumont and the ERA of the whole production sector 2000-2003.**




*Calculations by the authors*

The Gaumont ERA is slightly inferior to the global ERA in 2002 (90.2%), but it rises above the sectorial ERA in 2000, 2001 and 2003. Graph 1 reveals to what extent the cinematographic policy does not discriminate between the firms it supports, although this policy is still often described as the spearhead of quality concern and cultural diversity. This is a pity, all the more since the current instruments reinforce market biases and compromise the action of the instruments focused on cultural objectives. Indeed, the ability of the French system to promote a quality cinema has progressively lessened for the last twenty years.

## V- The Cultural Objectives of the French Cinematographic Policy? « Black Box »

The evaluation of a cultural policy from a qualitative point of view turns out to be especially delicate because of the difficulty to define quality. Two conceptions of quality coexist. The first one is linked to the reception and the success of the film: it is an a posteriori analysis. The second one is defined a priori. Then, appreciating quality involves "a certain number of criteria that consumers are wished to consume" (Benzoni, 2001) and appraising quality rests on subjective perceptions. In this case, it becomes very difficult to measure or estimate quality.

Messerlin (1995) proposes to evaluate the quality of French films according to an international statement of awards. Under such circumstances, a good indicator would be the ability of the French cinema to be awarded prizes in the main international festivals (Venice, Cannes and Berlin).

By the way, the French films are here considered to be the films being part of the French delegations, and not all the films accredited by the CNC that compete during those festivals. For instance, thirteen films accredited and supported by the CNC competed during the Cannes festival in 2006, but four of them were not part of the so-called French selection. This phenomenon underlines one great success of the French policy: its selective instruments ensure the survival of many foreign well-recognized authors. As far as the quality of the films made by French directors is concerned, the conclusions are less enthusiastic.

Since 1987, the share of French films awarded prizes has regularly diminished (-9.1 points). The tendency, which also concerns the whole European cinema, underlines the renewing of international competition and the evolution of international quality standards, mainly benefiting to American and Asian films.

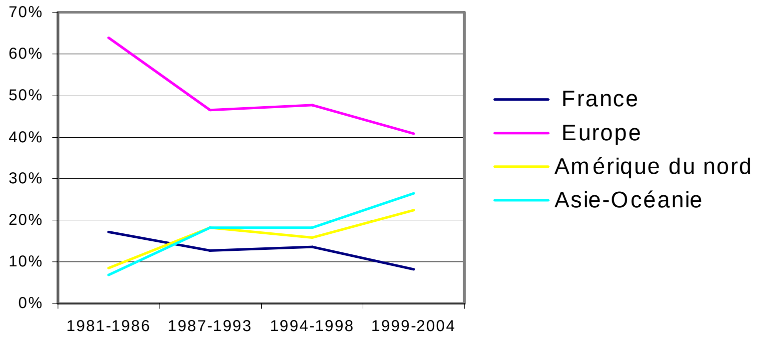
**Table 6**
**Share of the international festival prizes received by French films (1981-2004)**

| Share of the international festival awards received by French films (%)[6] | 1981-1986 | 1987-1993 | 1994-1998 | 1999-2004 |
|---|---|---|---|---|
| Berlin | 6,3 | 5,3 | 10,0 | 7,7 |
| Cannes | 18,5 | 13,3 | 19,0 | 11,5 |
| Venice | 26,7 | 18,2 | 7,7 | 0,0 |
| Total | 17,2 | 12,7 | 13,6 | 8,1 |

*Calculations by the authors*

From 1999 to 2004, 26.5% of the American movies nominated in those three major festivals were awarded prizes (+ 14 points compared to 1981-1986). Similarly, the quality of Asian cinema has been constantly progressing for the last twenty years (+19.6 points between 1981-1986 and 1999-2004). Finally, the quality of French cinema has diminished since 1994 compared to the British one.

**Figure 2**
**Award-winning films in international festival by continents**




*Calculations by the authors*

In brief, the ex-post quality (revealed by the market) of French films clearly appears: the domestic market share is largely superior in France to the ones observed in other European countries. But the result is less obvious considering the ex-ante quality. This illustrates perfectly the choices and concrete orientations promoted by the French policymakers for twenty years.

## Conclusion

Because it mainly benefits to the most powerful firms, the French cinematographic policy amplifies market failures (concentration, standardisation of the production, replication of American blockbusters) instead of correcting them. Thus, aids provoke an over optimal supply of domestic big budget movies, whose profitability lowers (Cocq, Dantec, Lévy-Hartmann, 2006). Moreover, they dry out the financial resources and distribution vectors that are available for the rest of the domestic production. Such a situation jeopardizes the efficiency of the instruments which aim at renewing talents or promoting quality movies. Those results underline how crucial the reform of the French cinematographic policy is nowadays.

According to our analysis, the reform should pursue two objectives:

The first objective should try to restrain adverse effects which are created by the market and extended by the automatic support. In other words, amounts managed by the support account should be

[6] We consider: the four main prizes in Cannes ("Palme d'or", "Grand prix du jury", "prix du jury" and "prix de la mise en scène"), the two main prizes in Berlin and the two or three main prizes in Venice (because the prize of the jury is not granted every year).

focused on selective instruments instead of automatic ones. Two measures could efficiently satisfy this objective:

- Fixing a limit to the drawing rights generated by the automatic support, as is the automatic support for distribution managed by the European Commission (through the MEDIA Program). The amounts saved thanks to the maximum value imposed on the automatic support could be attributed to selective aids.

- Suppressing the access to the automatic support for the broadcasters' production subsidiaries. The drawing rights they perceive are not coherent (broadcasters are at the same time taxed and subsidised) and harm independent producers.

The second objective should aim at making selective aids more efficient regarding their cultural intents. For instance, two traditional biases characterise the allocation of the advance on receipts (the main selective aid for producers): a kind of standardisation of quality expectations on the first hand and far too much pressure on first movies and not anymore on following works on the other hand. To sustain this objective, four paths of reform exist:

- Simplifying the mishmash of selective aids.

- Reinforcing the support for young directors. That means sustaining them during two or three movies and not only for the first one. A commission for the allocation of advances on receipts dedicated to first, second and third movies should be created.

- Introducing competition among the allocation of this selective mechanism: the aids should not be attributed by one unique commission but by a few ones, and they should last for more than one year. Every year the amounts allocated to each commission should be modulated according to the relevance of their past choices (critics, audience, diversity of the chosen works…).

- Abandoning the media chronology, at least for first movies. The exhibition conditions do not correspond to the needs of first movies. Broadcasting first films could solve an information problem and happen prior to exhibitions in theatres, DVD editions or VoD availability. Such experiments have been initiated by Arte, like in the case of the program “tous les garcons et les filles” for instance. This new chronology could for instance be facilitated through an obligation for public television channels to broadcast first films in exclusivity.

## Annex 1. The calculation of the ERA, methodology and sources

| Données | | Source / Estimation Méthodology |
|---|---|---|
| Outputs value | | CNC Data for 1995-2000 ; authors estimations for 2000-04 (with CNC data) |
| Inputs value | | CNC Data for 1995-2000 ; authors estimations for 2000-04 (with CNC data) |
| Assistance to production | Subsidy equivalent of the broadcasting and production quotas | Calculations by the authors (methodology COCQ (2000)) with CNC data. |
| | Automatic support for production | Financial laws, (MINEFI) |
| | Advance on receipts (before and after production) | Financial laws, (MINEFI) |
| | Support for the project development of long feature movies | CNC yearly data |
| | Support for international co productions | CNC yearly data |
| | Support for multimedia artistic creation (DICREAM) | CNC yearly data |
| | Support for the experimental production | CNC yearly data |
| | Tax rebate | Senate |
| | Support for movies in a foreign language | CNC yearly data |
| | Regional support from the CNC | CNC yearly data. Only the investments in favour of the production and the development of movies are taken into account. |
| | Support from the regions | CNC yearly data and calculations by the authors. Only the aids toward production, creation and facilitation of shootings are taken into account (not the aids for distribution or education). |
| | Eurimages | Council of Europe and calculations by the authors (only the co-production part is taken into account) |
| | Media program | European Commission and calculations by the authors (only the development part is taken into account). |
| Assistance to inputs | Tariff | 5% rate |
| Assistance to value added factors | Special unemployment regime for the employees in the production sector | Calculations by the authors according to the methodology from Cour des Comptes (2002). CNC and INSEE data. |
| | Tax shelter (SOFICA) | Financial laws |
| | Support for the use of new technologies in the production of movies | CNC yearly data |
| | Special unemployment regime for the employees in the technical industries | Calculations by the authors according to the methodology from Cour des Comptes (2002). CNC and INSEE data. |
| | Support for the investments of the technical industries | CNC yearly data |
| | RIAM project | CNC yearly data |
| | Support for research and development | CNC yearly data |
| | Support for script writing and re-writing | CNC yearly data |
| | Prize for the best first scenario | CNC yearly data |

| Annex 2 : Detailed calculations of ERAs of the French cinematographic production 1994-2004 (M€) | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Outputs** | | | | | | | | | | | |
| AP | Assisted value of outputs | 681,00 | 785,00 | 876,00 | 861,00 | 924,00 | 963,24 | 1103,64 | 1054,78 | 1333,31 | 1260,47 |
| **Assistance to outputs** | | | | | | | | | | | |
| | tariff | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| | Support for outputs : | 216,88 | 228,02 | 250,78 | 271,09 | 275,66 | 283,30 | 304,54 | 300,54 | 305,83 | 348,97 |
| | _ Including : Equivalents subventions des quotas de diffusion et de production | 118,86 | 133,98 | 147,93 | 165,09 | 164,19 | 170,76 | 182,69 | 173,72 | 171,87 | 193,61 |
| | _ Including : Automatic support for production | 57,49 | 55,36 | 58,57 | 60,51 | 62,63 | 66,11 | 69,22 | 72,49 | 72,30 | 74,30 |
| | _ Including : Advance on receipts (before and after production) | 17,53 | 17,53 | 22,11 | 22,11 | 22,11 | 22,11 | 22,11 | 22,11 | 24,11 | 26,18 |
| | _ Including : Other selective aids for production | 5,88 | 4,13 | 2,07 | 4,66 | 5,97 | 6,42 | 9,75 | 10,94 | 9,02 | 9,25 |
| | ___ Including : Support for the project development of long feature movies | 0,69 | 1,10 | 0,73 | 1,13 | 1,27 | 1,52 | 1,80 | 2,20 | 2,20 | 2,70 |
| | ___ Including : Support for multimedia artistic creation (DICREAM) | | | | | | | 1,24 | 1,29 | 1,20 | 1,30 |
| | ___ Including : Support for the experimental production | 0,69 | 0,88 | 1,34 | 1,20 | 1,51 | 0,82 | 1,20 | 1,00 | 0,90 | 1,01 |
| | ___ Including : Support for movies in a foreign language | | | | | | 0,91 | 1,34 | 1,10 | 0,87 | 0,67 |
| | ___ Including : Support for international co productions | 4,50 | 2,15 | | 2,33 | 3,19 | 3,17 | 4,17 | 5,36 | 3,85 | 3,57 |
| | _ Including : Regional support from the CNC | 0,66 | 0,58 | 1,41 | 1,45 | 3,24 | 2,20 | 2,28 | 3,10 | 4,10 | 6,25 |
| | _ Including : Support from the regions | 0,95 | 0,95 | 0,95 | 0,95 | 3,24 | 2,20 | 2,28 | 7,22 | 9,94 | 24,76 |
| | _ Including : European supports : | 15,51 | 15,49 | 17,74 | 16,32 | 14,28 | 13,50 | 16,21 | 10,96 | 14,49 | 14,62 |
| | ___ Including : Eurimages (assistance for co productions) | 15,51 | 11,69 | 13,94 | 12,52 | 10,48 | 9,70 | 12,71 | 7,46 | 10,99 | 11,12 |
| | ___ Including : Media program (project development) | | 3,80 | 3,80 | 3,80 | 3,80 | 3,80 | 3,50 | 3,50 | 3,50 | 3,50 |
| GSE | Gross subsidy equivalent to output | 216,88 | 228,02 | 250,78 | 271,09 | 275,66 | 283,30 | 304,54 | 300,54 | 305,83 | 348,97 |
| UP = AP - GSE | Unassisted Value of Outputs | 464,12 | 556,98 | 625,22 | 589,91 | 648,34 | 679,95 | 799,10 | 754,24 | 1027,48 | 911,50 |
| NRA= GSE/UP*100 | **Nominal rate of assistance on outputs** | 46,73 | 40,94 | 40,11 | 45,95 | 42,52 | 41,66 | 38,11 | 39,85 | 29,76 | 38,28 |
| **Assistance to inputs** | | | | | | | | | | | |
| AM | Inputs | 292,83 | 337,55 | 376,68 | 370,23 | 397,32 | 414,20 | 474,57 | 453,56 | 573,32 | 542,00 |
| | Tariffs | 14,64 | 16,88 | 18,83 | 18,51 | 19,87 | 20,71 | 23,73 | 22,68 | 28,67 | 27,10 |
| TEM | Tax equivalent on materials | 14,64 | 16,88 | 18,83 | 18,51 | 19,87 | 20,71 | 23,73 | 22,68 | 28,67 | 27,10 |
| UM= AM - TEM | Unassisted Value of Inputs | 278,19 | 320,67 | 357,85 | 351,72 | 377,45 | 393,49 | 450,84 | 430,88 | 544,66 | 514,90 |
| NRM= TEM/UM*100 | **Nominal rate of assistance on intermediate inputs** | 5,26 | 5,26 | 5,26 | 5,26 | 5,26 | 5,26 | 5,26 | 5,26 | 5,26 | 5,26 |
| **Assistance to value added factors** | | | | | | | | | | | |
| | Special unemployment regime for the employees in the production sector | 7,41 | 8,95 | 11,16 | 10,27 | 9,52 | 13,62 | 15,10 | 16,36 | 18,98 | 19,41 |
| | Special unemployment regime for the employees in the technical industries | 1,82 | 2,20 | 2,80 | 3,04 | 2,84 | 2,89 | 3,92 | 3,72 | 3,70 | 4,78 |
| | Tax shelter (SOFICA) | 14,61 | 14,61 | 14,61 | 16,92 | 16,92 | 18,29 | 19,82 | 20,50 | 23,00 | 21,00 |
| | Tax credit | | | | | | | | | | 25,00 |
| | RIAM project | | | | | | | | 5,20 | 3,50 | 3,10 |
| | Support for research and development | | 1,00 | 1,21 | 1,23 | 2,71 | 5,69 | | | | |
| | Support for the use of new technologies in the production of movies | | | | | | 0,82 | 0,98 | 0,60 | 0,69 | 0,49 |
| | Support for the investments of the technical industries | | 1,32 | 2,33 | 1,80 | 3,28 | 2,87 | 2,57 | 3,70 | 4,90 | 5,40 |
| | Support for script writing and re-writing | | | | 1,07 | 1,07 | 0,46 | 0,61 | 0,50 | 0,50 | 0,50 |
| | Prize for the best first scenario | | | | | | | | 0,10 | 0,06 | 0,06 |
| SVA | Subsidy to value adding factors | 23,84 | 28,08 | 32,11 | 34,33 | 36,34 | 44,64 | 43,00 | 50,68 | 55,33 | 79,74 |
| AVA= AP-AM+SVA | Assisted value added | 412,01 | 475,53 | 531,43 | 525,10 | 563,02 | 593,69 | 672,08 | 651,91 | 815,32 | 798,21 |
| UVA=UP-UM | Unassisted value added | 185,94 | 236,30 | 267,37 | 238,19 | 270,89 | 286,46 | 348,27 | 323,37 | 482,83 | 396,60 |
| NSE=GSE-TEM+SVA | Net subsidy equivalent | 226,07 | 239,23 | 264,06 | 286,91 | 292,13 | 307,23 | 323,82 | 328,54 | 332,49 | 401,61 |
| ERA=NSE/UVA*100 | **Effective rate of assistance** | 121,59 | 101,24 | 98,76 | 120,45 | 107,84 | 107,25 | 92,98 | 101,60 | 68,86 | 101,26 |

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