

# **The French Audiovisual Policy: An evaluation**

**Patrick Messerlin**

## **Executive summary**

The two last years have witnessed a hot debate in France on whether the current French audiovisual policy has had a positive or a negative impact on the attractiveness (*rayonnement*) of French culture. Insiders from the cinema industry have strongly challenged the official view that the French policy has been successful. The vested interests have reacted by arguing that the “cultural” industries are very big—meaning “too big to fail”, hence implying that the current policy cannot be changed. This debate remains largely unknown outside France.

The paper examines these various claims. First, it shows that the alleged “bigness” of the French cultural sector is based on dubious or wrong methodologies: a too wide coverage of too heterogeneous sectors, the use of wrong and misleading indicators. A fair estimate shows that, once corrected, the alleged size of Euro 75 billions boils down to Euro 10 billion, at most. Second, the paper addresses the question of the efficiency of the French policy—the basic question raised by the insiders. Based on recent and official figures, it shows that, in 2011, the subsidy rates are 30 and 100 percent in cinema and TV-channels, respectively. Moreover, subsidies (in constant euros) have increased by 30-40 to more than 70 percent since 2000 whereas the attractiveness of the French culture has been stagnant (cinema) or declining (TV-channels). In short, the paper provides an unambiguous support to the insiders’ criticisms.

The paper does not suggest reforms—this difficult task is left for a forthcoming paper. But, it provides a few markers to keep in mind. First, such a massive failure should have been expected (indeed it was) for good reasons based on human nature and economics. Second, it should make French policy-makers humble—that is, eager to look at lessons to be drawn from success elsewhere in the world, Korea being by far the best case. Third, the host of tight regulations linking French TV and cinema should be progressively but resolutely relaxed—if not, French TV-channels may collapse.

Last but not least, instead of being feared, the internet-based technology should be seen as a golden opportunity to rebound. For instance, a firm like Netflix should be seen as a “bridge”: on the one hand, a challenging importer of foreign series and movies into France; on the other hand, one of the very few efficient potential exporters of French movies and TV-works to the rest of the world that will allow creative and energetic French film-makers to shift as quickly as possible their funding sources away from drying up public subsidies and from under siege French TV-channels towards a booming and much more diverse world demand.

# The French Audiovisual Policy: An evaluation

Patrick Messerlin <sup>1</sup>

## Introduction

Two years ago, the French newspaper *Le Monde* published an op-ed on the French cinema policy entitled “*Les acteurs français sont trop payés*” (French actors are too much paid) [*Le Monde* December 28, 2012]. Written by Vincent Maraval, a well-established French movie producer, the op-ed was vitriolic, stressing that all the trumpeted “important” French movies released in 2012 turned to be flops, and that French actors are rich only because they benefit from public subsidies and a “*système qui protège l’exception culturelle*” (a system which protects the cultural exception). This volcanic explosion was the ultimate burst of frustration against the French cinema policy which begun to boil among the “rookies” of the French cinema as soon as the mid-1990s [Cocq and Lévy Hartmann 2007].

The French vested interests were quick to react. Their defense line was that the “cultural and creative industries” are very big—bigger than telecoms, chemicals or car [EY Report 2013: 10]. In other words, they are “too big to fail”, meaning that the French audiovisual policy is “untouchable”. The launch of Transatlantic Trade and Investment Partnership negotiations by the US and the EU offered on a silver plate an occasion to hammer the message at the EU level. So far, the tactic has been successful: everybody in Europe is repeating the—flawed, as shown below—figures of the size of the French cultural sector while the raging debate in France remained largely unnoticed in the EU. This tactic comes at a price though: it leaves no room to considerations for “culture” since it focuses entirely on money. The vested interests do not seem to care.

But, the volcanic tremor was too big to be stopped in Paris. It triggered a flurry of Maraval-type op-eds and of official reports: no less than 9 reports totalizing more than 2150 pages have been published since 2013 (see Annex 1). These reports have been commissioned by

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very different decision-makers, and written by a wide array of authors—from individuals to consultancy firms (BIPE, EY) to the French most respected public assessment bodies (Cour des Comptes, Inspection Générale des Finances, Inspection Générale des Affaires Culturelles). The role of these public bodies has been essential for reigniting the debate by providing fresh, detailed and robust data and information which has been well covered by the French press.

Since June 2014, a series of new and much stronger tremors are shaking up the French audiovisual landscape—in this paper, audiovisual covers both cinema and TV sectors. June 2014 witnessed the successful bids of BeIN Sports in broadcasting soccer events, confirming the sapping of the dominant position of Canal +, the cash-cow of the French film industry. July and August 2014 have been dominated by an unusually long and hot debate on how to put back under control the costly regime of “*intermittents du spectacle*” (non-permanent jobs in the cultural sector) with many strikes by the intermittents damaging a host of summer festivals in France. This Fall is witnessing a new challenge for Canal + with the entry of Netflix in the French video-on-demand market, and it will also most probably see BeIN Sports trying to enter the rugby broadcasting market (the second most important team sport after soccer in France).

The almost simultaneity of insiders’ recognition of the failure of the current French audiovisual policy and of external pressures is not an accident. They are both driven by the internet-based technology. Internet is probably sapping beyond repair the cozy “*chateau-fort*” of the French cinema policy built in the early 1980s. But, it is also offering huge opportunities to today dynamic French movie producers eager to enter foreign markets which would have been completely out of reach under the movie-theater based old technology.<sup>2</sup> In fact, internet is much more friendly to a distinctive “French touch” in the world cinema than the old technology of the 1990s-2000s. It is likely to trigger a remake of what happened in the pop-music sector with Daft Punk and a few others—in sharp contrast with the French shameful defeats in the old technology Eurovision contests. In short, internet offers unique opportunities for an “energetic” culture eager to be heard and watched—and there is no better illustration of this proposition than what has been going on in Korea during the last 15 years or so [Parc 2014].

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<sup>2</sup> It is not a coincidence that in May 2014, Vincent Maraval has distributed its last movie simultaneously in theaters and video-in-demand in the US market. As French regulations prohibit such a strategy, the film was distributed in France only on VOD (so-called “UltraVOD”) with success (100.000 views in one week).

This paper focuses on a clinical assessment of the current French subsidy policy in audiovisuals (it leaves aside the many issues raised by too many and too tight regulations, like the regulated sequencing of the films release in theaters, videos, etc.) whereas a forthcoming paper will examine various options in terms of reforms. Section 1 shows that the “economic bigness” argument marshaled by the vested interests since early 2013 has little economic sense, and no sense at all in terms of culture. This is crucial because these figures are repeated *ad nauseam* by policy-makers—including by former French Minister of Culture A. Filippetti, despite the fact that her own statistical office has produced much more modest and accurate estimates. Sections 2 (for cinema) and 3 (for TV-channels) provide robust evidence of skyrocketing subsidies and stagnant or declining “attractiveness” (*rayonnement*) of French audiovisual production since 2000. In other words, the current French audiovisual policy has been clearly unable to promote French culture since the dawn of the 21<sup>st</sup> century.

### **Section 1. The defense tactic of the vested interests: deeply flawed**

The Maraval’s op-ed and its followers were entirely focusing on the inefficiency of the French cinema policy, its absence of positive results and the many undesirable distortions it is generating—the rents it is creating, their capture by a few participants, especially some actors.

#### An exclusive focus on the aggregate size

The vested interests did not address the criticisms raised by the op-eds. Rather, the reports they commissioned to two consulting firms (BIPE and EY) aimed at estimating the size of the so-called “creative and/or cultural” industries in the French economy. The size estimates given by the two reports differ hugely. They range from Euro 9,6 billion (BIPE low estimate for cinema, TV-channels and image & sound) to Euro 66.1 billion (BIPE high estimate) to Euro 74,6 billion (EY). Such a wide range of 1 to almost 8 strongly suggests that these reports are not comparable and/or that they have some serious methodological flaws.

Table 1 reveals a first source of problems: the vastly different choices in terms of the coverage of the “creative and cultural” industries by the BIPE and EY reports.<sup>3</sup> For a more

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<sup>3</sup> The BIPE report was commissioned by the CNC, hence focuses on the perimeter of CNC intervention. The EY report was commissioned by SACEM (the collective rights management monopoly for music in France) which

complete view, Table 1 also provides the estimates of the report jointly produced by the Inspections Générales des Finances et de la Culture and of the study done by the Statistical Office of the Ministry of Culture [Janeau 2013].

**Table 1. “Creative and cultural” industries: Which estimate is the good one?**

|                          | BIPE [a]    |             | EY          | IG          | MC          |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
|                          | minimal     | maximal     | [b]         | [c]         | [d]         |
| <b>Cinema</b>            | <b>3.8</b>  | <b>7.5</b>  | <b>4.4</b>  | <b>3.6</b>  | } 9.7       |
| <b>TV-channels</b>       | <b>3.2</b>  | <b>6.3</b>  | <b>14.9</b> | <b>5.1</b>  |             |
| <b>Image &amp; sound</b> | <b>2.3</b>  | <b>4.3</b>  | <b>15.0</b> | <b>3.4</b>  |             |
| <b>Living spectacle</b>  | --          | --          | <b>8.6</b>  | <b>8.8</b>  | <b>7.4</b>  |
| <b>Visual arts</b>       | --          | --          | <b>19.8</b> | <b>5.7</b>  | <b>2.4</b>  |
| <b>Architecture</b>      | --          | --          | --          | <b>4.4</b>  | <b>3.9</b>  |
| <b>Heritage</b>          | --          | --          | --          | <b>8.1</b>  | <b>4.4</b>  |
| <b>Books</b>             | --          | --          | <b>5.6</b>  | <b>5.5</b>  | } 5.8       |
| <b>Press</b>             | --          | --          | <b>10.7</b> | <b>5.7</b>  |             |
| <b>Access to culture</b> | --          | --          | --          | <b>2.3</b>  | <b>1.7</b>  |
| <b>Advertising</b>       | --          | --          | --          | <b>5.1</b>  | <b>4.7</b>  |
| <b>Telecoms</b>          | <b>25.8</b> | <b>48.0</b> | --          | --          | --          |
| <b>Total</b>             | <b>35.1</b> | <b>66.1</b> | <b>74.6</b> | <b>57.8</b> | <b>40.0</b> |

Notes: The figures are the estimated value added (in billions of Euros) of the sectors considered as “cultural” by the various reports. [a] BIPE minimal figures are based on value added. BIPE Maximal figures are derived from a methodology explained in detail in Annex 3 and are not comparable to value added figures. [b] the EY estimates are based on production data (not value added) hence are not comparable to the BIPE minimal, IG and MC estimates. The total is smaller than the sum of the various sectors in an effort to take into account double counting. [c] Inspections Générales des Finances et de la Culture (IG) estimates are in value added terms. [d] Ministry of Culture (MC, Janeau’s study) estimates are in value added terms.

Sources: Reports by BIPE, EY and IG. Janeau 2013.

Interestingly, only three sectors (cinema, TV-channels and image & sound) are present in the four reports—giving a first hint of the driving forces among the vested interests. The BIPE and EY reports do not explain the reasons for adding the other sectors, for aggregating all these sectors and for focusing on the aggregate amount. By contrast, the report of Inspections Générales des Finances et de la Culture (hereafter, IG) and the study by the Ministry of Culture (hereafter MC) are clear: their main aim was not to measure the aggregate size *per se* of the cultural industries, but rather to provide a comprehensive “map” of all these sectors. Indeed, these two last documents stress the many differences among all the sectors, casting by the same token strong doubts on the notion of the “aggregate” figure.

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tried to build the largest coalition possible, hence stretching the definition of the “cultural” sectors to the highest extent possible.

Are there economic reasons justifying a focus on an aggregate size?

Why then such a focus on size in a country where cultural icons and tycoons have claimed for decades that culture has nothing to do with money and business, and have harshly condemned Hollywood's love affair with "bigness"?

Indeed, no decent economist would have even dared to associate so exclusively and tightly "culture" with economic size. This point is so important that it deserves to be justified from both a production and consumption perspective.

From a production perspective, the economic notion of size refers mainly to the existence of "scale economies"—the fact that producing a larger quantity of a well-defined product allows to decrease the average cost of this very precise product. Are scale economies present in the aggregate set of sectors listed in Table 1 which produces zillions of very different goods and services? Certainly not. Then, are scale economies present in each individual sector? Yes, still for some sectors, such as press or book printing, although the "tyranny of scale" has notably declined with printing modern technologies. But, scale economies are increasingly insignificant in sectors such as movies or music. In these activities, size matters only when physical supports (such as DVDs) are still used, but the importance of these physical products has dramatically declined with the massive rise of internet-based opportunities generating production costs so low that size (scale) does not matter much anymore, if at all.

The decline of the tyranny of scale is best illustrated in music. Internet has been critical in the world success of the Korean pop music ("K-pop") which started from scratch in terms of reputation in the mid-1990s (the fantastic skills of the Korean rock musicians of the 1960s to 1980s were ignored by the rest of the world, despite the fact that some of these musicians received prestigious awards, such as the Fender Tribute for Shin Joong-hyeon). The same fate has happened to the French group Daft Punk: rejected by the French cultural pundits, and highly discriminated against by the French music regulations (see Annex 2) they reached world fame thanks to YouTube, Dailymotion, Naver, etc.

From a demand point of view, aggregating different economic activities in one basket could have some economic meaning if there were strong enough economic linkages among these various activities. The BIPE and EY reports make no effort to document such economic

linkages in order to show their relevance and robustness. This is a serious flaw because the existence of such linkages is far to be obvious, to say the least. For instance, if the price of the theaters admissions is going up, do French consumers shift to music DVDs, books or museums? Or, rather, do they buy more cloth, do more gardening or travel more?

### Methodological flaws beyond repair

The difference in terms of coverage is far to be the most serious problem of the BIPE and EY reports. Table 1 shows wide differences among the various estimates for each individual sector. This is because the “race to bigness” has relied on deeply flawed methodologies, as best illustrated by the EY report (the BIPE report is examined in Annex 3).

### Adding non-permanent and permanent jobs

The most blatant case of flawed methodology are the EY estimates of employment. The EY report adds without flinching the many “non-permanent” jobs (artists, technicians, etc.) to the permanent ones. For instance, it adds the 112,926 non-permanent jobs (some of them lasting one day) to the 22,041 permanent jobs in the TV-channels sector. And, it provides no guarantee that such non-permanent jobs are not counted two—or more—times in cinema, TV-channels, living spectacle or visual arts.

### Using production data instead of value added data

Less blatant but as serious is the flaw for choosing the indicator measuring economic size. Economists consider “value added”—not production—as the right indicator for measuring the size of a sector. Value added is defined as the value of the products or services sold in the market by a sector minus the inputs (goods and services) that this sector needs to use in order to produce its own goods or services. For instance, the production of the cinema sector includes inputs such as the textile used for making the clothes of the actors, the travel expenses for shooting films in various places, etc. The value added of the cinema sector correctly excludes these goods and services which have been produced by other sectors, such as the textile industry or air services.

The EY report concentrates its attention on production, not on value added. Of course, this choice leads to huge overestimates. A rough sense of these overestimates is given by the fact that value added is—on average—roughly 45 percent of production in the sectors examined by the EY report (this ratio is based on the existing figures on production and value added provided by the French statistical office (INSEE) for these sectors). In other words, the true size of the aggregated sectors covered by the EY report should be cut from the production-based Euros 74,6 billion to roughly Euros 33 billion on a value added basis.

The same “shrinking” treatment should be done for individual sectors. In particular, the value added of the cinema and TV-channels sectors is estimated to Euros 7 (BIPE minimal) to 9.7 billion (MC). In other words, the “race to aggregate bigness” has allowed to show up Euros 74,6 billion whereas the true weight of these two core sectors is 10 billions at most—in other words, an “inflating” factor of 1 to 7.5.

### *Distorted comparisons*

Widening the coverage of the “cultural industries” is a powerful source of overestimates. But, it also deprives of any meaning the catchy comparisons made by the EY and BIPE reports when they claim that, for instance, the aggregated cultural sectors are bigger than the car or chemical sector. These comparisons have been repeated *ad nauseam* by the vested interests during the two last years. But, they make no sense because most of the sectors listed in Table 1 include production and distribution (for instance, movies and theaters). Comparing cultural sectors with a heavy distribution component to the mere car or chemical production excluding their distribution component is distortive and unfair.

Last but not least, the vested interests have not hesitated to express the inflated results of the BIPE and EY reports in terms of share of French GDP. For instance, CNC replied to the latest critical report from Cour des Comptes by claiming that the audiovisual sector represents almost 1 percent of the French GDP [CNC 2 April 2014]. This claim makes no sense because it compares the production of the audiovisual sector to the GDP which is (by construction) the sum of the value added—not of the production—produced by all the French sectors (see Annex 3).



## The motive driving the race to bigness: the hunt after subsidies

If focusing on the aggregated size of loosely related sectors has little economic meaning, then it should have a political meaning. Indeed, size is a very attractive feature for lobbies because it impresses policy-makers. The bigger the aggregated figure is, the more attention political masters will give to the joined vested interests. This observation is well illustrated by former French Culture Minister A. Filippetti who preferred to quote the reports commissioned by the vested interests rather than the study made by the Statistical Unit of her own Ministry. And of course, “too big to fail” boils down to the recommendation that the current policy simply cannot be changed—a conclusion that makes the French audiovisual vested interests’ mindset surprisingly close to Wall Street’s.

However, any heteroclite coalition has limits. The only common goal of all the sectors listed in Table 1 is to attract the attention of the decision-makers for getting subsidies. But, as soon as this goal is achieved, the vested interests participating to the coalition enter in conflict with each other for grabbing the decision-makers’ attention, meaning of course subsidies. Movie directors compete with song editors, song editors with game publishers, game publishers with architects involved in Heritage, etc.

Who are then the ultimate winners of such a game? Table 2 ranks the various sectors according to their decreasing subsidy rate (subsidies as a percentage of value added). It provides three striking observations:

- The TV-channels and cinema sectors contribute to only 15 percent to the aggregate size of the coalition, but receive almost 60 percent of the subsidies—four times their economic size.
- The other Top-6 sectors contribute to only 43 percent to the aggregate size of the coalition, but receive less than 38 percent of the subsidies—barely 0.9 times their economic size.
- The Bottom-5 sectors almost double the size of the coalition—hence increase vastly its political leverage—while they get almost nothing in terms of public subsidies—a ridiculously tiny 0,06 times their economic size. They are mere “auxiliaries” in the lobbying game of the cinema and TV sectors.

## “Culture”: forgotten

Where is the “culture” dimension in this race to bigness? The two reports commissioned by the vested interests are very quiet on this aspect. This silence is made even worse by their few, sometimes pathetic, references to international success. For instance, the EY report enlists Daft Punk as a success of the French music policy. Daft Punk is a world success, but this is certainly not because of the French music policy. As said above, from the outset, Daft Punk has been repeatedly ostracized by the French regulations on “French” music and ignored by the French audiovisual vested interests.<sup>4</sup> Indeed, the Daft Punk success is probably one of the best illustrations of the failure and perverse effects of the French audiovisual policy.

**Table 2. The race to bigness: a frantic hunt after subsidies**

|                            | Value<br>added<br>Meuros | Subsidies        |               |
|----------------------------|--------------------------|------------------|---------------|
|                            |                          | amount<br>Meuros | rate [a]<br>% |
| <b>Top 6 sectors</b>       |                          |                  |               |
| TV-channels                | 5128                     | 5006             | 97.6          |
| Access to culture          | 2344                     | 836              | 35.7          |
| Heritage                   | 8070                     | 1086             | 13.5          |
| Cinema                     | 3649                     | 476              | 13.0          |
| Press                      | 5710                     | 726              | 12.7          |
| Living spectacle           | 8848                     | 830              | 9.4           |
| <b>Bottom 5 sectors</b>    |                          |                  |               |
| Visual arts                | 5724                     | 112              | 2.0           |
| Image & sound              | 3415                     | 38               | 1.1           |
| Books                      | 5511                     | 44               | 0.8           |
| Architecture               | 4368                     | 26               | 0.6           |
| Advertising                | 5068                     | 0                | 0.0           |
| <b>Cinema &amp; TV</b>     | <b>8777</b>              | <b>5482</b>      | <b>62.5</b>   |
| share in %                 | 15.2                     | 59.7             | --            |
| <b>Other Top 6 sectors</b> | <b>24972</b>             | <b>3478</b>      | <b>13.9</b>   |
| share in %                 | 43.2                     | 37.9             | --            |

Source: IG report [2013]. [a] subsidies in percentage of the value added.

<sup>4</sup> This long lasting conflict explains why, in January 2014, Daft Punk members declined an invitation to the “Victoires”—the French equivalent of the Grammy Awards—while receiving the Grammy Awards.

## Section 2. Assessing the French audiovisual policy since 2000: cinema

Has the French cinema policy delivered on its claimed goal—namely, to increase the attractiveness of the French cinema? This section focuses on the French market because of the lack of robust data for the rest of the world: for instance, an increase of the number of admissions for watching French movies in foreign theaters is meaningless since it does not take into account whether this increase is larger—or not—than the increase of the total admissions in foreign theaters. What follows aims at providing a robust, fact-based assessment over the years 2000-2013 in three steps:

- estimating the size of the “truly” French cinema sector,
- calculating the subsidy rate of the truly French cinema sector,
- getting an indicator of the attractiveness of the French cinema in France.

Finally, comparing the evolution of the subsidy rate and the attractiveness indicator over the years 2000-2013 provides a sense of whether the French cinema policy has succeeded or failed to improve the attractiveness of the French films in France.

### The size of the “truly” French cinema sector

Section 1 measures the value added of the French cinema made in the French territory. This approach has a serious limit: it ignores the discrimination between French and non-French operators imposed by the French cinema policy, hence over-estimates the size of the “truly” French film industry by including two components generated by foreign operators:

- some movies made in France are financed by foreign funds, hire foreign actors, etc. A crude indicator of this aspect is the share of investments from French origin in all the investments in movies “made in France”.<sup>5</sup> This share is roughly 76 percent over the last decade [CNC *Bilan* 2012]. As a result, column [2] of Table 3 estimates the truly French value added in production and post-production activities (rows A and B) as 0,76 times the value added of these activities made in France (reported in column [1] same rows).
- the value added of film distribution and exhibition in France includes the value added generated by distributing and exhibiting foreign movies in France. The admission share for French movies in theaters is roughly 38 percent for the years 2000-2013.

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<sup>5</sup> This is an approximation because the massive French subsidies combined with the many bilateral coproduction agreements induce French investment in non-French films.

Column [2] of Table 3 estimates the truly French value added in these activities (rows C and D) as only 0,38 times the value added of these activities made in France.

These adjustments suggest Euro 1,7 billion (column [2] row E) as the most accurate estimate of the value added of the “truly” French cinema sector for a value added of 2.7 billion of cinema activities “made in France” (column [1] row E). This estimate leads to two interesting observations.

- The French discriminatory subsidy regime excludes roughly 37 percent (Euro 1 billion out of Euro 2.7 billion) of all the cinema activities made in France—a very sizable proportion.
- In 2011, the size of the Korean cinema industry is estimated to euros 1,1 billion, roughly two-third of the “truly” French cinema sector, a remarkable achievement taking into account its difficult past and its low, very recent and transitory (to be dismantled in december 2014) level of subsidies [Parc 2014].

**Table 3. The subsidy rate of the “truly” French cinema sector, 2011**

| Activities in the cinema sector [a]                | Value added | "Truly" French value added | Subsidized value added |
|--|-------------|----------------------------|------------------------|
|  | M.euros [1] | M.euros [2]                | M.euros [3]            |
| <b>A. Production of movies for cinema</b>          | <b>1273</b> | <b>967</b>                 | <b>1273</b>            |
| <b>B. Post-production [b]</b>                      | <b>499</b>  | <b>380</b>                 | <b>499</b>             |
| <b>C. Distribution of movies for cinema</b>        | <b>526</b>  | <b>200</b>                 | <b>200</b>             |
| <b>D. Projection of movies for cinema</b>          | <b>444</b>  | <b>169</b>                 | <b>169</b>             |
| <b>E. Total value added</b>                        | <b>2742</b> | <b>1715</b>                | <b>2141</b>            |
| <b>F. Government-related subsidies [c]</b>         |             |                            | <b>476</b>             |
| <b>G. Labor subsidies ("intermittents") [d]</b>    |             |                            | <b>200</b>             |
| <b>H. Total subsidies</b>                          |             |                            | <b>676</b>             |
| <b>I. Subsidy rate (in percent of value added)</b> |             |                            | <b>31.6</b>            |

Notes: [a] The codes of these French activities (in nomenclature NAF rev.2 2008 with 732 basic activities) are 5911C, 5912Z, 5913A and 5914Z, respectively. [b] post-production for movies and TV-programmes: this activity is split evenly between the cinema and the TV sectors since the productions for these two sectors have very similar magnitude. [c] only State-related expenses. [d] subsidy component of the specific unemployment regime of the “intermittents” (see text and Annex 4).

Sources: INSEE, Esane database. IG report for State-related subsidies.

## The subsidy rate of the French cinema sector in 2011

The IG report provides the most exhaustive and robust available estimates of all the subsidies or equivalents granted by the French Government to the cinema sector for the year 2011: subsidies strictly speaking, fiscal rebates and compensations of all kinds, etc. Table 3 (row F) reports the total amount which is close to half a billion of Euros. It also estimates the amount of the subsidies generated by the special unemployment regime for part-time workers (known as “*intermittents*”) in the audiovisual sector as equal to Euro 200 million (see Annex 4 for the detail).

The total subsidies granted to the French cinema amount then to almost Euros 0,7 billion. The subsidy rate is the share of the subsidies in the subsidized value added:

- The subsidized value added in the production of movies and post-production (rows A and B) is defined as the value added “made in France” (not the “truly” French value added). This seems a reasonably conservative assumption because some foreign investors may invest in French movies in order to benefit from French subsidies—hence “re-enter” into the subsidized perimeter.
- By contrast, the subsidized value added in the movies distribution and exhibition activities are limited to the “French” value added because foreign movies exhibited in French theaters are subjected to the theater seat tax which funds the subsidies granted to the French cinema—clearly a discriminatory treatment.

Table 3 (row I) shows that the subsidy rate (production and labor subsidies) in the French cinema sector is roughly one third of the value added of this sector. Note that this estimate is an underestimate since it relies on conservative to very conservative assumptions.

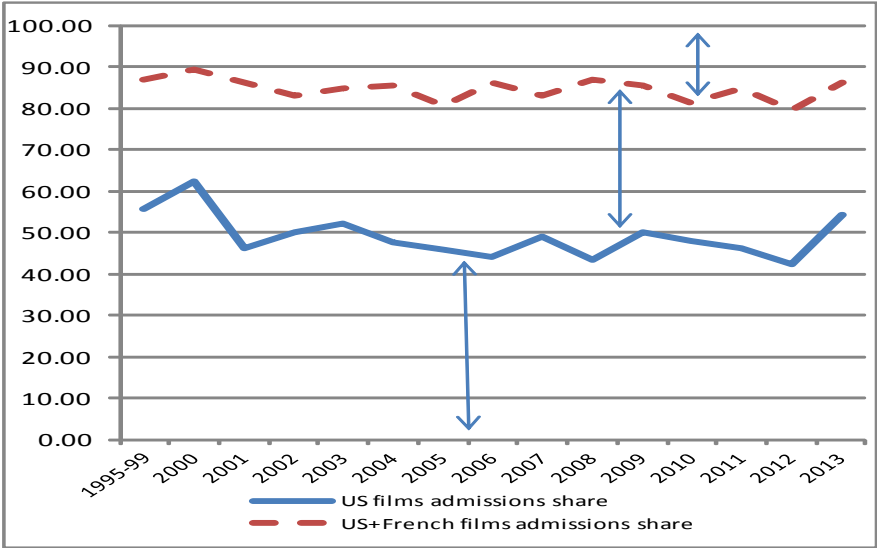
## An increasing rift: stagnant attractiveness of the French cinema vs. skyrocketing subsidies

It is now possible to assess the impact of the current subsidy policy on the attractiveness of French cinema in France since 2000. In order to eliminate biases which could be generated by picking a good or a bad year as a reference point, the average of the years 1995-1999 has been used in order to get a relatively stable reference for the various calculations.

A simple indicator of attractiveness is the number of admissions in French theaters [CNC Annual *Bilans*]. Graph 1 presents the breakdown of the total number of admissions among the three major types of movies in France. It provides three remarkable observations:

- The lower curve illustrates the share of the admissions for US movies in French theaters. The steady decrease of this curve illustrates the erosion of the US movie attractiveness in the French market.
- The upper curve illustrates the aggregated shares of the admissions for US and French movies, meaning that the distance between the lower and upper curves illustrates the admission share of the French movies in the French market. The fact that this upper curve differs very little from the lower curve (US share) illustrates the stagnation of the French movies attractiveness over the whole period. In fact, the share of admissions for French movies in 2013 is the second lowest (33.8 percent) after the share of the year 2000.
- The distance between the upper curve and 100 percent illustrates the share of the admissions for non-US/non-French movies in French theaters. This distance has steadily increased, meaning that the share of the non-US/non-French movies is the only one with a clear rising trend in the French cinema market.

**Graph 1. The French movies attractiveness: no progress in France**

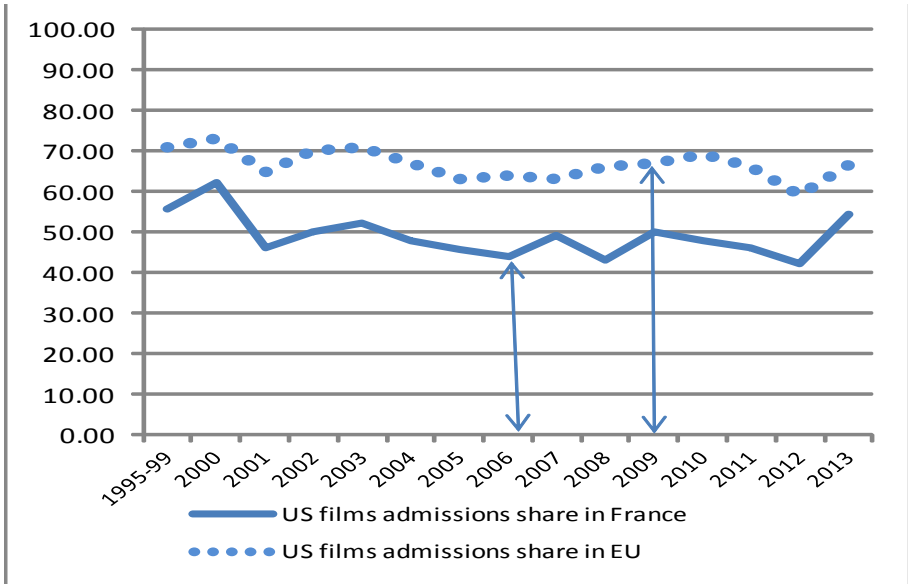


Unit : Share (in percent) of total admissions in France. Sources: Centre National de la Cinématographie, Bilan (annual) .

Graph 1 raises an question that needs to be addressed. Is the erosion of the US movies also observed in the other EU markets, or is it specific to the French market? If it is specific, supporters of the French audiovisual policy could then argue that the French policy may have had an indirect impact—favoring “cultural diversity”, or in less coded words, reducing the share of the US movies in France.

Graph 2 shows that it is not the case. The erosion of the admission share of the US movies in France is very similar to the one observed in the other EU countries—mirroring a general erosion of the US movies attractiveness since 2000 all over the EU (it is a different story for US TV series). This is not so surprising: the French “benevolence” to cultural diversity does not go beyond nice words. Non-US/non-French movies and US movies alike are subjected to the same crucial French discriminatory treatment: both pay the seat tax without benefiting from French subsidies. The increasing market share of the non-US/non-French movies means that these films are increasingly contributing to the funding of the subsidies granted to French movies.

**Graph 2. The US movies attractiveness: similar erosion in the EU and France**



Unit : Share (in percent) of total admissions in France and EU. Source: Centre National de la Cinématographie, Bilan (annual).

Finally, Graph 3 allows to compare the evolution of the attractiveness of the French movies with the evolution of the subsidies granted to the French cinema since 2000. For making comparisons easier to see, Graph 3 shows indexes (100 being the years 1995-1999).

- The index of the French movies share in total admissions in French theaters trails close to 105 with five peaks between 2000 and 2013. These peaks correspond to the only five films (out of a total production of 1900 movies during all these years) with more than 10 millions admissions.<sup>6</sup> As it is important to take this feature into account for assessing the cinema policy, Graph 3 shows the index of the French movies share in total admissions excluding these five movies.
- Since the precise assessment of the French subsidies done by the IG report is available only for the year 2011, Graph 3 has to recourse to two possible alternative estimates of the subsidies granted to the French cinema for covering the years 2000-2012.
  - The lower estimate is the support to cinema (*soutien au cinéma et vidéo*) of the Fonds de soutien with, during the most recent years, half of the expenses related to “*dispositifs transversaux et cinéma numérique*” [Ministère de la Culture 2013],
  - The higher estimate is the total taxes to CNC (*principales taxes affectées au CNC*) [Cour des Comptes 2102 : 25]. This estimate is indispensable because it takes into account the tight financial links between the French cinema and television sectors.

Though different, these two estimates provide the same key result: the level of subsidies has skyrocketed during the period—by 40 to more than 70 percent—reflecting above all the increase in the revenues from the tax on the TV-services distribution.<sup>7</sup>

Graph 3 gives thus a clear answer to the question raised by Maraval and ducked by the vested interests: since 2000, there has been an increasingly wide divergence between a stagnant attractiveness of the French movies and skyrocketing subsidies (whatever their definition is). In short, there is little doubt that the French cinema policy has failed to have a positive impact of the attractiveness of French movies since the dawn of the 21<sup>st</sup> century.

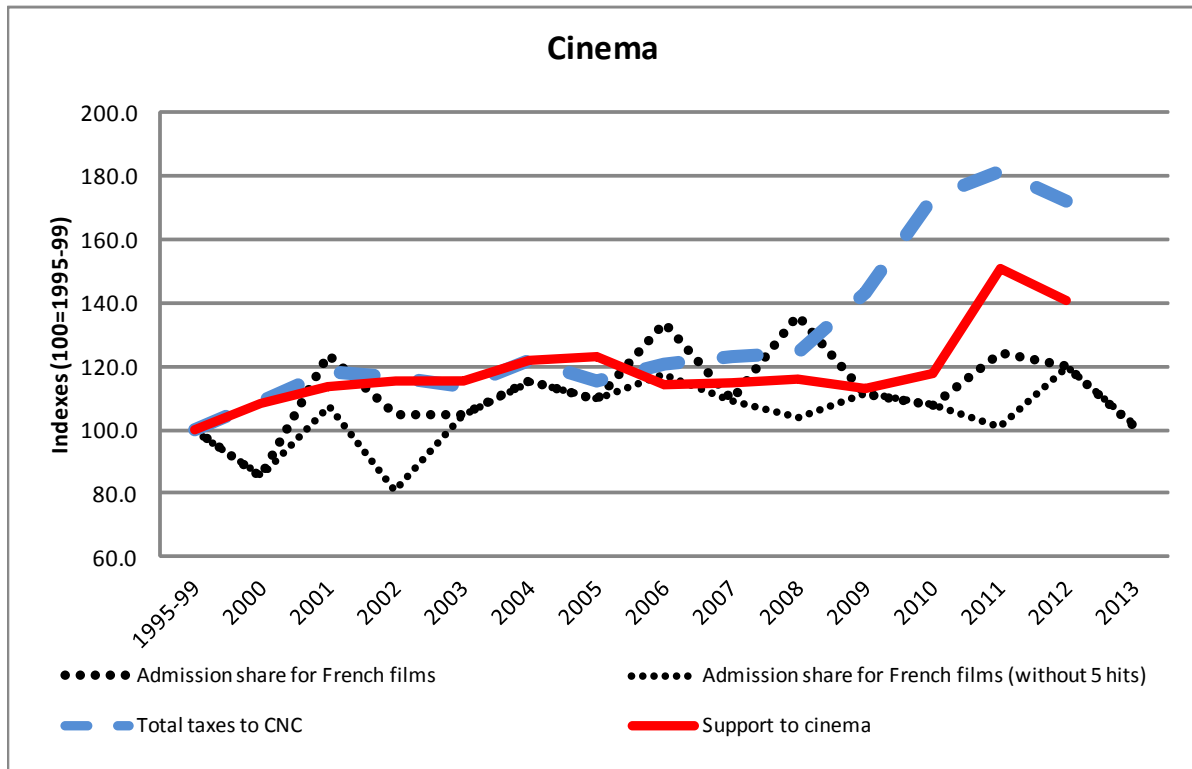
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<sup>6</sup> These five films are: *Taxi 2*: 10.24 million admissions in 2001, *Astérix et Obélix: Mission Cléopâtre* 14,56 million admissions in 2002., *Les Bronzés 3*: 10.22 million admissions in 2006, *Bienvenue chez les Ch'tis*: 20.36 millions admissions in 2009, and *Intouchables* 16.58 millions of admissions in 2011. Only one of these five films (*Intouchables*) has received wide praises in the rest of the world.

<sup>7</sup> One may wonder why there are so massive differences between these two estimates. A reason is that the tax revenues (on theater seats and on TV services) have been much higher than forecast. Or the CNC may have systematically minimized its forecasts in order to accumulate reserves and/or to escape cuts in public funds. The transparency of the whole system of allocated taxes (*taxes affectées*) is very low—a point stressed repeatedly by Cour des Comptes.



**Graph 3. An increasing rift in cinema: Stagnant attractiveness, skyrocketing subsidies**



Units: Indexes (1995-1999=100). Sources: Centre National de la Cinématographie (Annual *Bilan*). Ministère de la Culture. Cour des Comptes [2012]. Author's computations.

Why such a difference with the official statements?

This conclusion is on a collision course with the French official statements according to which the French cinema policy is successful because it has allowed to increase the number of French movies produced. Clearly, the number of movies produced is not an indicator of success which makes sense. It is easy to see how weak this indicator can be: it would hold even if the French movies attract no watcher at all.<sup>8</sup>

**Section 3. Assessing the French audiovisual policy since 2000: TV-channels**

As for cinema, assessing the impact of the French public policy on TV-channels requires three steps: estimating the size of the “truly” French TV-channels sector, the subsidy rate to French TV-channels, and the French TV attractiveness in France (as for cinema and for the same reasons, this section focuses only on the domestic TV sector). Comparing the subsidy rate and

<sup>8</sup> In fact, it is well known that a notable share of the French movies produced is never exhibited in theaters [Cour des Comptes 2012]. In short, the increase in the number of films produced is to an unknown extent “virtual”.

the attractiveness indicator provides then a sense of whether the French audiovisual policy has succeeded or failed to improve the attractiveness of the French TV-works since 2000.

### The size of the “truly” French TV sector

As for the cinema sector, data used in section 1 assume that the value added made by TV-channels on the French territory is only due to French operators, hence ignore the scope of discrimination against foreign operators in France. Two adjustments illustrated in Table 4 are needed:

- The production of movies and programmes (row A) should make a distinction between those “made in France” and those made by “truly” French operators. The share of French investments in TV works is high (95 percent). Hence, column [2] estimates the value added of the truly French production of movies and TV works (row A) as 0,95 times the value added of these activities “made in France” reported in column [1]
- “General” and “thematic” broadcasters (rows B and C) cover two very different types of activities: (i) broadcasting movies and TV works, (ii) broadcasting news, sport events, talk shows, shows, etc. Concerning the first type of activities, the French spend on average 31 percent of their TV time to watch movies and TV works [CNC *Bilan* 2012: 33]. As 39 percent of these movies and TV works broadcast in 2011 qualify as French (for simplicity sake, the fact that this percentage has benefited to some extent from foreign investors is ignored), the truly French content of broadcast movies and TV-works represents roughly 12 percent (31 percent times 0.39) of the first type of broadcasting activities. Turning to the second type of broadcasting activities, the absence of detailed information imposes to take the most conservative working hypothesis. What follows assumes that these activities are 100 percent truly French.

These adjustments suggest Euro 5,3 billion (column [2] row D) as the most accurate estimate of the value added of the “truly” French TV sector for a value added of 6.1 billions of TV activities “made in France” (column [1] row D). In other words, the scope of the French discriminatory subsidy regime is significant: it concerns 13 percent (Euro 0.8 billion out of Euro 6.1 billion) of all the TV activities made in France.

**Table 4. Value added and subsidy rate of the French TV sector, 2011**

| Activities in the TV sector [a]                          | Value added                        | "Truly" French                | Subsidized value added         |                                   |
|--|------------------------------------|-------------------------------|--------------------------------|-----------------------------------|
|  | "made in France"<br>M.euros<br>[1] | value added<br>M.euros<br>[2] | whole sector<br>M.euros<br>[3] | "aided produc."<br>M.euros<br>[4] |
| <b>A. Prod. of movies/works for TV</b>                   | <b>2460</b>                        | <b>2337</b>                   | <b>2460</b>                    | --                                |
| <b>B. General TV-channels</b>                            | <b>3214</b>                        | <b>2604</b>                   | <b>2604</b>                    | --                                |
| <b>C. Thematic TV-channels</b>                           | <b>410</b>                         | <b>332</b>                    | <b>332</b>                     | --                                |
| <b>D. Total value added</b>                              | <b>6085</b>                        | <b>5273</b>                   | <b>5396</b>                    | <b>1302.3</b>                     |
| <b>E. Government-related subsidies [b]</b>               |                                    |                               | <b>5006</b>                    | <b>1112</b>                       |
| <b>F. Labor subsidies ("<i>intermittents</i>") [c]</b>   |                                    |                               | <b>200</b>                     | <b>200</b>                        |
| <b>G. Total subsidies</b>                                |                                    |                               | <b>5206</b>                    | <b>1312</b>                       |
| <b>H. Subsidy rate (in percent of total value added)</b> |                                    |                               | <b>96.5</b>                    | <b>100.7</b>                      |

Notes: [a] The codes of these French activities (in nomenclature NAF rev.2 2008 with 732 basic activities) are 5911A, 6020A and 6020B, respectively. [b] only State-related expenses. [c] subsidy component of the specific unemployment regime of the “intermittents” (see text and Annex 4).

Sources: INSEE, Esane database. IG report for State-related and labor subsidies.

#### The subsidy rate of French TV-channels

The IG report provides the most exhaustive available estimates of all the subsidies and equivalents granted by the French Government to the TV sector for the year 2011: subsidies strictly speaking, including operating subsidies to the state-owned TV-channels, fiscal rebates and compensations of all kinds. Table 4 (row E) reports the total amount of all these subsidies—roughly Euros 5 billion. As in the cinema case, one should add to this amount the second half of the labor subsidies provided by the special insurance regime of the “*intermittents du spectacle*” (that is, Euros 200 million, see above the cinema section, and below Annex 4).

The total subsidies granted to French TV amount then to Euros 5,2 billion. For calculating the subsidy rate, there is a need to define the “subsidized” value added.

- For the production of movies and TV-works, the subsidized value added is the value added “made in France”—not the “French” value added—for the same reason than in the cinema sector: foreign investors probably invest to some extent in French TV works in order to benefit from French subsidies, hence “re-enter” in the subsidized perimeter

- For the edition of general and thematic TV-channels, it is best to stick to the most conservative working hypothesis—the subsidized value added is the “truly” French value added. This is because public ownership and cross-interests among TV-channels generated by tight regulations makes extremely hard to disentangle activities that are not directly subsidized from those which are. This very conservative assumption implies that the subsidy rate provided below is underestimated.

As a result, the total subsidy rate (production and labor subsidies) in the French TV sector is 97 percent of the subsidized value added.

#### An alternative estimate of the subsidy rate

This is such a huge subsidy rate that it requires to be confirmed by an alternative calculation. The TV sector is characterized by an important state-owned group of TV channels which has no more access to private funds (advertising). The alternative approach tries to put aside this feature by proceeding in two steps shown in column [4] of Table 4:

- The CNC provides annual estimates of the “aided production of TV works”. In 2011, it amounts to roughly Euro 1,5 billions [CNC Bilan 2011: 88]. As this estimate is based on expenses, it is similar to data expressed in terms of production, not value added. Its value added equivalent can be calculated by using the value added share in the activity of production of works for TV which amounts to 90 percent [INSEE Esane database]. Column [4] row D reports thus a subsidized value added of roughly Euros 1,3 billion (Euros 1,5 billion times 0,9) for the “aided production of TV works”.
- Turning to the subsidies granted to the “aided production”, the most conservative way to estimate them is to subtract the expenses (Euros 3,9 billions) closely related to the state-ownership of TV channels from the whole subsidy package (Euros 5 billions). The subsidies allocated to the “aided production” amount then to roughly Euros 1,1 billion to which labor (*intermittents*) subsidies must be added.

The alternative subsidy rate based on the “aided production of TV works” approach is slightly higher than 100 percent (column [4] row H). It thus confirms the previous estimate.

### A “global” subsidy rate for cinema and television?

As already stressed, the French sectors of cinema and television are so tightly linked by their financial regulations that it makes some sense to calculate a “global” subsidy rate for the two sectors altogether. A first calculation would be based on the entire TV sector: the subsidy rate would amount to 78 percent ( $[676+5206]$  divided by  $[2141+5396]$ ). A second calculation would rely only on the “aided production of TV-works”: the subsidy rate would then amount to 58 percent ( $[676+1312]$  divided by  $[2141+1302]$ ).

### Declining French TV attractiveness vs. skyrocketing subsidies

As for the cinema sector, the key question is whether subsidies have improved—or not—the attractiveness of French culture in the TV sector.

It is impossible to give an answer for the TV sector that would be as precise as in the one in the cinema sector. This is because, since the early 2000s, the TV sector has been completely transformed by internet-driven technical progress and regulatory changes. Today, the abundance of foreign and thematic TV channels in broadband is such that every French can watch TV in France without ever watching a French movie, a French TV-work or even a French TV-channel. Second, an increasing number of TV watchers (especially young ones) make their “own” TV channel based on compilations from Youtube and its equivalents which include (or not) French movies in a proportion impossible to measure. In these conditions, an exact measure of the share of the French audiovisual works watched by the French (the equivalent of admissions for French movies in theaters) is out of reach.

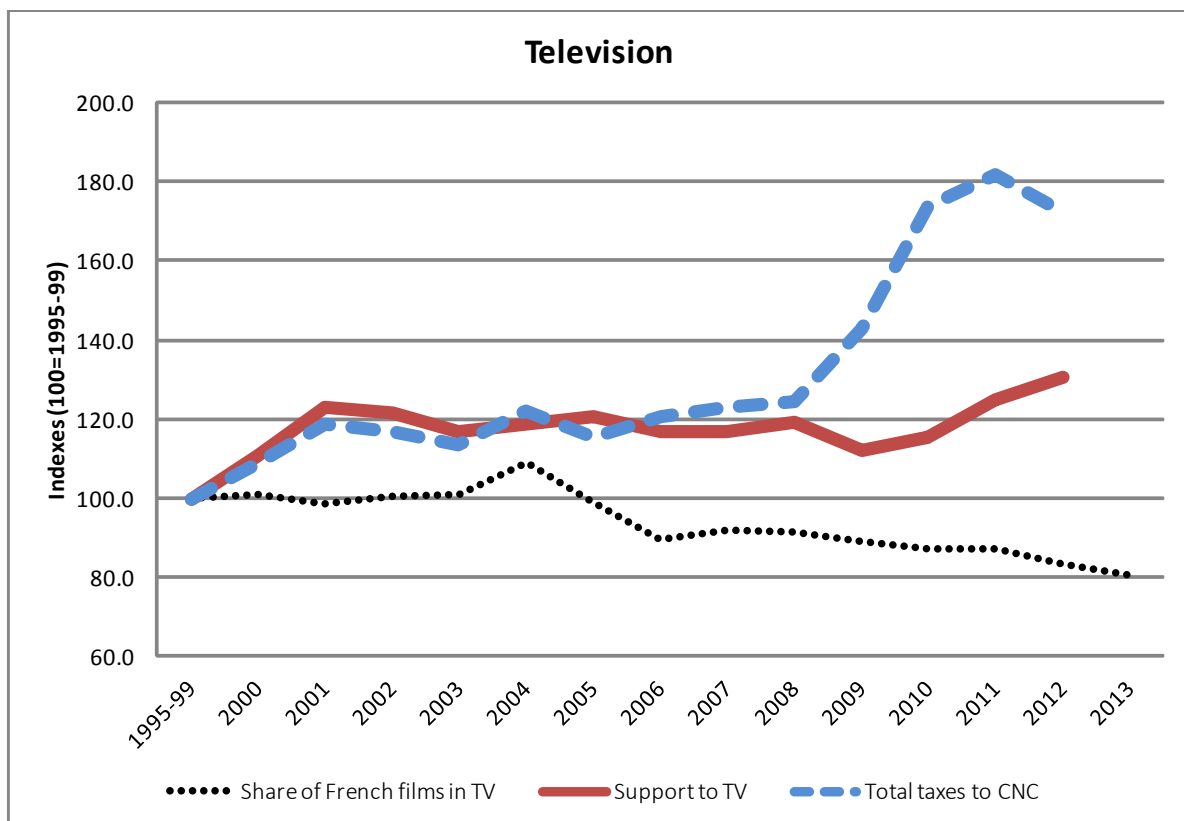
The only option left is to use the share of French movies broadcast by French TV-channels [CNC Annual *Bilans*]. The above-mentioned profound changes in the French TV sectors strongly suggest that this indicator is clearly an over-estimate, and probably increasingly so over the years. That said, this biased indicator leaves a message clear enough for the purpose of this paper: there is a clear declining trend of French TV attractiveness.

Finally, Graph 4 allows to compare the evolution of French TV attractiveness with the evolution of the subsidies granted to the French TV sector since 2000. As Graph 3, Graph 4 relies on indexes (100 being the years 1995-1999).

- The index of the French movies exhibited by French TV-channels decreases to slightly above 80 (the decline would be stronger if TV-series were included).
- Since the precise assessment of the French subsidies done by the IG report is available only for the year 2011, Graph 4 has to recourse to the same approach than Graph 3—that is, to look at two possible alternative estimates of the subsidies granted to the French TV for covering the years 2000-2012.
  - The lower estimate is the support to TV (*soutien à l'audiovisuel*) of the Fonds de soutien [Ministère de la Culture 2013],
  - The higher estimate is the total taxes to CNC (*principales taxes affectées au CNC*) [Cour des Comptes 2012 : 25].

Though different, these two estimates provide the same key result: the level of subsidies has skyrocketed during the period—by 30 to more than 70 percent.

**Graph 4. An even wider rift in TV: Declining attractiveness, skyrocketing subsidies**



Unit: Indexes (1995-1999=100). Sources: Centre National de la Cinématographie (Annual *Bilan*). Ministère de la Culture. Cour des Comptes [2012]. Author's computations.

Graph 4 shows the increasingly wide divergence between declining French TV attractiveness and skyrocketing subsidies (whatever their definition is). In a short, there is little doubt that

the French audiovisual policy has failed to have a positive impact of the attractiveness of French TV-channels since the dawn of the 21<sup>st</sup> century.

### **Concluding remarks**

This paper presents ample evidence that the current French audiovisual policy does not work for the good of the French culture: while subsidies have massively increased—by 30 to 40 to more than 70 percent—since 2000, the attractiveness of French culture has been stagnant (cinema) or declining (TV) in France itself. This conclusion provides a robust backup to the strong criticisms that run deep among many insiders of the French audiovisual sector, as revealed in Maraval’s and his followers’ op-eds. It also raises a few questions about the future.

#### Is such a failure a surprise? No

Such a massive failure should have been expected—indeed it was [Messerlin and Cocq 2004]. This is simply because the main instrument used—subsidies—has two major flaws which are particularly devastating in the audiovisual sector. The first one is related to human nature, and it has been repeatedly mentioned in the French debate during the two last years: abundant subsidies are too easy to misuse and too conducive to rent-snapping coalitions, making them too hard to monitor effectively.

The second flaw is economic and, although even more harmful than the first one, it is rarely recognized. Abundant subsidies generate powerful incentives to spend lavishly, in other words, to increase costs. This is not specific to French audiovisuals. For instance, the cost-inflating feature of subsidies is well known in the EU or US farm policies. There is a striking parallel to be made from an economic point of view between the audiovisual and agricultural sectors. Both rely on a key “natural resource” which is difficult to expand quickly—actors in audiovisual, land in agriculture. Land has capitalized most farm subsidies, and actors do the same in audiovisual. Indeed, over the last decade, the reported costs of the leading actors have increased by 27 percent (in constant euros), much more than those of the supporting actors (10 percent) and of the total work force (18 percent) [CNC Annual *Bilans*].

In these conditions, it is no surprise that such a policy could not work for the good of the French culture—as mirrored by the refreshing fate of a recent documentary (see Box 1).

**Box 1. On the road to school (2013)**

The documentary “*Sur le chemin de l’école*” (On the road to school) is a digest of the failures of the French policy. It tells the story of very poor kids struggling to go to school in four least developed countries—a theme which seems a perfect fit for public support. But, its request for prior funding was rejected by French public TV (France 2) and the film did not receive a penny from the CNC (no aid to development, no “*avances sur recettes*”, not even aid after the shooting,...) [La Croix April 25, 2014, page 18]. The main financial and logistical support has been provided by ... Walt Disney France.

The film is also a digest of a success in the absence of French public support. It has attracted 1,3 million admissions in French theaters, and 0,3 million admissions outside France. The film has been the most profitable movie of the year 2013 (on the basis of admissions alone), not least because of a careful control of its costs (no subsidies...) and clearly without any harm to its attractiveness.

Most of the existing recommendations for improving the current audiovisual policy ignore the two above flaws, in particular the second one. For instance, Maraval’s suggestion to “cap” actors’ fees ignores both: it would not be hard for imaginative minds to circumvent such caps, keeping by the same token intact the intrinsic cost-inflating feature of subsidies.

These two remarks converge to provide a first important conclusion: subsidies are part of the problem, not of the solution. As a result, it makes no sense to increase taxes in order to provide more subsidies. For instance, in such a context, there is no case for a tax on private copies, all the more because such a tax is “regressive”—it is raised on incomes lower than the ones enjoyed by the main beneficiaries of the tax (successful artists and film producers), hence hard to legitimate politically.

What to do? Three markers

The need for deep reforms is obvious, and the process has started [Cour de Comptes 2014]. Suggesting such reforms goes beyond this paper which focuses on the evaluation of the current situation. It requires to examine carefully the various options and instruments which will contribute to a progressive implementation of the deep and inescapable changes in order to allow the various participants to prepare themselves to the future challenges. That said, any reform should take into account three markers.



First, the massive failure of the French policy should induce to study the success stories among developed countries having the same size in terms of economy and language than France and sharing a similar pride for their culture. Korea is by far the best and most instructive case. Despite tremendous handicaps—a 40-years occupation, a devastating Civil War, a level of development comparable to sub-Saharan African countries in the early 1970s, severe and permanent threats at its borders, a few mistakes in its film policy until the 1990s—the size of Korea’s film industry is now not far from France’s, has an average admission share of domestic movies of 54 percent since the early 2000s, with annual peaks up to 60-65 percent.<sup>9</sup> Most interestingly, this success has been achieved with low (and only very recent) subsidies and in the context of a much advanced internet-based economy [Parc 2014]. The Korean case means that there are plenty of opportunities in a modern world without abundant subsidies.

Second, the current policy is based on a set of tight and rigid legal obligations between the cinema and the TV-sector—such as the mandatory funding of French films by TV-channels or the sequencing of the release of the movies in theaters, DVDs, VOD, etc. These regulations have created a “cascade of feudal monopolies” which is harming the prosperity of the whole sectors. The best illustration is Canal +. Its business model was defined in the early 1980s on two principles: Canal + was granted a dominant position (almost a monopoly at the beginning) for broadcasting sport events and non-French movies, and, in exchange for such privileges, it has to fund French films. These principles have made Canal + the “cash-cow” of the French cinema. Since the mid 1990s, Canal + dominant position has been eroded, and its role in the French cinema declining. But the pace of this erosion has almost doubled between 2008 and 2013, compared to the period 1994-2008: the share of films supported by Canal + in the total number of French films (*films agréés*) has declined at an annual rate of 3.1 percent in 2008-2013, compared to an annual rate of 1.7 percent in 1994-2008 [CNC 2013 *Bilan*]. Recently, pressures on Canal + dominance have substantially increased: subscribers to BeIN Sports are now estimated to more than 2 millions (compared to about 5 millions for Canal +) [L’Equipe 12 September 2014] and Netflix will inject strong competition in a VOD market well protected so far. Of course, the other French TV-channels are subjected to similar pressures. The days of the mandatory obligations of TV-channels and of the host of tight regulations are counted—or the French TV-channels will face a dark future.

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<sup>9</sup> Once again, pop music shows the way. It is remarkable that LVMH has decided to invest 80 millions of euros in one of the three leading but small firms of K-pop (YG).

Last but not least, it is vital for those interested in the French culture to realize that the internet-based technology is much more friendly to the French culture and entertainment than the old technology. The current French policy has been built to face the challenge of the 1970s-1980s technologies that required costly equipment to shoot films and even costlier equipment (theaters) to exhibit them. These technologies have given an huge scale advantage to the US film industry. The internet-based technology frees largely the French film industry from these constraints by decreasing substantially the costs of production (up to ten times [Elliot Grove quoted by Rankin 2014]) and distribution. Indeed, the Korean case is also interesting to the extent that it shows the internet capacity to project to the world the “soft power” of the culture of a country—the French dream of *rayonnement*.

The internet-based technology offers a golden—unexpected—opportunity to smooth the retreat away from subsidies. The French audiovisual vested interests claim that the entry of Netflix in the French VOD market would bring chaos. In many respects, the Netflix entry is quite comparable to the situation created by the French internet provider Free Mobile when it got the fourth license in a relatively non-competitive mobile phone market and set its entry prices 15 to 50 percent cheaper than its competitors. At that time, Free Mobile’s competitors also claimed that it will be chaos. Since then, Free Mobile’s market share has reached 13 percent December 2013. But, all its main competitors are still alive and invest more than ever while operating at lower prices for the benefit of French consumers estimated to Euros 1,7 billion, while additional jobs have been estimated at 16,000-30,000 [Landier and Thesnard 2012]. Ironically, one of these competitors (Bouygues Telecom) will host Netflix on its network.

In this perspective, Netflix should be seen as a “bridge”: an importer of foreign series in France and an exporter of French series to the rest of the world. For some time, Netflix will do probably a much better work in terms of exporting French films than its French equivalents simply because it has a knowledge of the world markets that French operators will need time to build. In short, the creative and energetic part of the French film-makers should see Netflix as challenging, but also as providing as fast as possible this “bridge” they need so much for shifting their funding sources away from drying up public subsidies and from under siege French TV-channels towards a booming and much more diverse world demand.

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## Annex 1. The French debate

**Table A1-1. List of the reports on the French audiovisual policy**

| Date<br>(Y-M) | Length<br>(in pages) | Individual author<br>and/or Institution | Commissioning body                          |
|---------------|----------------------|---|---|
| 2012-08       | 151                  | Cour des Comptes                        | Cour des Comptes                            |
| 2013-01       | 63                   | BIPE (consultancy firm)                 | Centre National de la Cinématographie       |
| 2013-03       | 11                   | Y. Jauneau                              | Ministry of Culture                         |
| 2013-04       | 326                  | MP J.P.Gille                            | National Assembly                           |
| 2013-05       | 739                  | P. Lescure                              | Presidency                                  |
| 2013-05       | 94                   | Senator J.P. Placade                    | Senate                                      |
| 2013-11       | 76                   | EY (consultancy firm)                   | “FranceCréative” (13 industry associations) |
| 2013-12       | 188                  | R. Bonnell                              | Centre National de la Cinématographie       |
| 2013-12       | 390                  | Inspections Générales                   | Ministries of Economy and Culture.          |
| 2014-04       | 273                  | Cour des Comptes                        | Cour des Comptes                            |

Note: Maraval’s op-ed was published December 28, 2012, that is, after the first Cour des Comptes report.

## Annex 2. The French music quotas

French music is subjected to regulations since 1996: 40 percent of all the songs aired on the radios should be “French”. However, vested interests have continuously argued that these regulations were both too vague (what is a French song?) and too loosely enforced. In 2011, a new memorandum of understanding has been signed between the radios and the main vested interests. This new text goes deep in the details as shown by its main provisions (Conseil Supérieur de l’Audiovisuel):

- At least 40 percent of the titles aired between 6:30 to 22:30 should be in French;
- Each title should be aired at least 2 minutes;
- Every title that has been produced since 1974 and that did not receive two “golden disks” can benefit from special provisions on “new talents”;
- Every title produced during the last 9 months (instead of 6) can benefit from special rights for “new productions”;
- There is no right for French artists singing in English.

These provisions have nothing to envy to good old finicky central-planning. But, this level of details reveals the basic flaw of French pop music: there is a lack of French songs good enough to face foreign songs. These detailed provisions were felt “necessray” because until 2011 French radios aired French songs during the night hours with few listeners and aired them only the few seconds necessary for filling the quotas. Similarly, fixing 1974 as a condition for being eligible for “new” talent provision is a (cruel) recognition of the poor

situation of the French pop music. The extension (from 6 to 9 months) of the period for being eligible to the new production provisions reflects the same scarcity of good enough songs.

The last provision (singing in English) deserves a special comment. Ironically, it eliminates all the French singers successful in the rest of the world—hence those who have been best placed to promote a “French touch”, such as Daft Punk.

**Annex 3. Methodological flaws in the BIPE report**

The BIPE report uses value added data. But, it also calculates the “total impact” of the CNC by using a methodology that does not make sense from an economic point of view. Total impact is defined as follows:

- Total impact = value added of the audiovisual sector
- Plus [1] the value of the goods and services (inputs) provided to the audiovisual sector
- Plus [2] the total of the expenses of the employees working in the audiovisual sector and in the input sectors.

The component [1] is the value of the inputs, meaning that the value added plus this component [1] is nothing else than the production—a much inflated indicator of what a sector truly produces, as explained in the main text. The component [2] does not make sense either because it is a double (at least) counting: as the value added of a sector includes (among other things) the wages paid to the employees working in the sector, taking into account again the expenses made possible by these wages is thus double (at least) counting.

**Table A3-1. Assessing overestimates based on wrong indicators, the BIPE report**

| Sectors                    | Impact (billion euros) |             |             |             | Over-estimate ratio |
|----------------------------|------------------------|-------------|-------------|-------------|---------------------|
|                            | "direct"               | "indirect"  | "induit"    | total       |                     |
|                            | a                      | b           | c           | d           |                     |
| Cinema                     | 3.8                    | 2.4         | 1.3         | 7.5         | 1.97                |
| Television                 | 3.2                    | 2.0         | 1.1         | 6.3         | 1.97                |
| Video                      | 0.9                    | 0.5         | 0.3         | 1.7         | 1.89                |
| Games                      | 1.4                    | 0.7         | 0.5         | 2.6         | 1.86                |
| <b>4 sectors</b>           | <b>9.3</b>             | <b>5.6</b>  | <b>3.2</b>  | <b>18.1</b> | <b>1.95</b>         |
| <b>4 sectors + telecom</b> | <b>35.1</b>            | <b>19.3</b> | <b>11.7</b> | <b>66.1</b> | <b>1.88</b>         |

Notes: a, b, c: estimated value added in billions of euros for the various impacts (defined in the text). Source: BIPE report for columns a to d. Author for the over-estimate ratio d/a.

Table A3-1 gives a sense of the huge overestimates resulting from adding component [1] (“indirect” impact, column b) and component [2] (“induit” impact, column c) to the value added (“direct” impact, column a). These overestimates (the ratio of the sum of the three impacts (column d) to the “direct” impact) are of the order of magnitude of two.

Calculating the “total impact” as a share (percentage) of the French GDP is a basic mistake [CNC 2014]. This is because GDP is, by definition, the sum of the value added made by the whole French economy. Such a calculation doubles the share of the four sectors listed in Table A3-1.

#### **Annex 4. Estimating the amount of subsidies related to the “*intermittents*”**

Part-time workers (known as “*intermittents du spectacle*”) in the audiovisual sector benefit from a special unemployment regime which has been at the center of hot social tensions during Summer 2014, triggering a cascade of strikes by the *intermittents* and endangering many festivals.<sup>10</sup>

The IG report does not provide an estimate of these subsidies. In addition to political caution, there is a reason for such a silence. The “*intermittent*” regime is funded under contractual arrangements between firms and workers, hence outside the perimeter of the French Government budget strictly speaking.

That said, the systemic deficit of this special regime clearly constitutes a labor subsidy to the French cinema. The best estimate of this subsidy is given by the costs that could be saved by implementing the regular unemployment regime to the *intermittents*. These costs have been estimated to Euros 1 billion by Cour des Comptes [2012] and to 320 million by the French Unemployment Agency (Unedic) [Gille 2013]. The Unedic estimate is a clear underestimate since it assumes unchanged choices of the *intermittents* in terms of work vs. unemployment—a strong hypothesis since the current unemployment regime induces the part-time workers to stay unemployed longer than under the normal regime.

It is beyond the scope of this paper to provide a refined estimate. That would require a detailed analysis of this very specific labor market. As a result, a very conservative estimate of Euros 400 million for the labor subsidy has been adopted. Table 3 (row G) allocates half of these costs to the cinema sector since *intermittents* can work in movies or in audiovisual works, and since the productions of these two activities are roughly of the same magnitude. Table 4 (row F) allocates the other half to the TV-channels sector.

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<sup>10</sup> In a nutshell, workers in the audiovisual sector need to work only 507 hours (compared to 610 hours for the workers in the rest of the economy) over a period of 10.5 months (compared to 4 months for the other workers) in order to get an unemployment insurance amounting to roughly 9000 euros (compared to 3800 euros for the other workers) [IG report pages 82-85]. The number of *intermittents* is estimated to slightly above 100,000 people.