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INTRODUCTION

Insofar as organisations representing professionals in the film, video and broadcast industries have

- (a) substantial knowledge and experience of the industry, and
- (b) a right to participate in the determination of the industry's future, the organisations who have participated in this report have done so with the intention of contributing to the best possible framework for the future funding and administration of the industry.

This report represents the consensus view of all the major representative bodies in the film industry, which are listed in Addendum 1.

The report is intended to establish the broad principles of the issues raised, and does not attempt to tackle any detail. We freely acknowledge that the matters raised have not been adequately researched and our conclusions and recommendations cannot be definitive. This is one of the reasons for our recommendation that a research body should be established to further investigate the proposals in this document.

Because of the role that video productions can play in strengthening the audiovisual communications network in South Africa, the term "film" used throughout the document is meant as a generic term for both film and video.

In view of the process of negotiation currently taking place in South Africa, the Film and Broadcast Forum believes it would be to the detriment of the film industry if any single party to negotiations attempts to unilaterally restructure the system of public aid to this industry.

We therefore submit the Consensus Report to all the participants in Codesa/The Interim Government and urge them to give serious attention to the establishment of structures necessary to address the issue.

Communication is one of the cornerstones of democracy. South Africa's mass communications infrastructure is underdeveloped and unable to meet the demands placed upon it by changing conditions.

Film and video can make an important contribution to the process of democratisation and development that needs to take place, but it can only do so if the current structures of state regulation and support are changed to reflect new priorities.

SUMMARY

- The participating industry bodies are united in the belief that the administration of, and state support for the feature film industry needs to be re-established on an entirely new basis. The unsatisfactory state of the industry clearly indicates a lack of direction.
- We recommend that State aid to the film industry should be administered by a new statutory body, referred to as the South African Film Foundation.
- We recommend that a Research Team should be established to thoroughly research all aspects of the proposed statutory body, and to make definitive recommendations on its establishment, staffing, functions, etc, in consultation with a variety of interest groups.
- We argue that films are an important part of the cultural domain of any country, but particularly important in South Africa, where social change depends on the quality of communication in the society. Thus a plan for the continued existence and improvement of film productions is in the interest of the South African people. This argument is supported by international examples, as most countries support their film industries in various ways.
- We suggest that certain other matters relating to the film industry could fall under the SAFF, to facilitate a continuity of logic in decision-making and to establish a central identity for the industry.
- Our proposals in regard to financing are subject to the findings of the proposed Research Team. The South African Film and Television Institute and the Film and Allied Workers Organisation have agreed to initially differ on the guidelines for funding and two separate proposals are submitted in this regard. We are confident that the research team will make the recommendations required for the finalization of a financial structure.
- We discuss the influence that the distribution, exhibition and broadcasting industries have on local film makers.

MAIN RECOMMENDATIONS

1. ESTABLISHMENT OF A STATUTORY BODY

We believe the best solution for the successful funding of the feature film industry is through a statutory body. The aims and objectives of this body would be to:

- promote the development of an indigenous, national South African film industry, free of racism and sexism
- set up financial mechanisms involving both the state and the private sector to support this objective
- put the funding and administrative procedures of the film industry on a sound, consistent and equitable footing
- put the funding and administrative procedures in the hands of suitably qualified personnel
- make the industry responsible for liaising with the statutory body to utilise the funding in the best possible way
- serve as the basis for the overall rejuvenation of the industry
- adopt affirmative action policies to redress the imbalances of the past
- support film training
- support wider distribution and exhibition of local product, films and videos, particularly in areas who currently have the least access to audiovisual communication
- fund ongoing research into audiovisual matters and to make the information available as widely as possible
- maintain relations with foreign film industries
- fund film and video archives

The proposed statutory body is referred to as the "South African Film Foundation" (SAFF) in this document. It is merely a working name and could be changed in time. We recommend that the statutory body, be implemented as soon as possible, as a priority by Codesa/Interim Government.

2. ESTABLISHMENT OF THE SAFF

For the SAFF to be successfully launched, a good deal of research would be needed. We are thus recommending that a sum of money sufficient to fund a directorate for the SAFF and a supporting research team, should be made available with immediate effect.

ESTABLISHMENT OF THE BOARD OF DIRECTORS

The board of directors should be appointed by the appropriate section of Codesa/the Interim government, from invited nominations of suitably qualified candidates. The directors appointed to the board should be representative of, or skilled in one or more of the following areas: Law, Finance, Industry (appointments should be made with specific regard to the knowledge required viz a viz the film industry), Education, the Community, Culture, and an academic. A full time executive director should report to, and be included on, the board. We would suggest that the chairman of the board is a permanent appointment, either for a specific tenure or reviewable on a regular basis, and that other members could be rotated.

No candidate with a material vested interest in the industry, could be appointed to the board of SAFF, unless they were prepared to divest themselves of this interest. Cognizance should be taken of the fact that we are dealing with an industry with a cultural overlay.

There are further comments relating to the structure and functions of the staff of the SAFF on page 12 of this document.

Research Team - Establishment

We believe the Research Team should be established as a priority by the board of directors of SAFF, as part of this statutory body, to which it will be responsible. This will give proper control to funding, and continuity to the research which will become an ongoing function of the Statutory Body.

We recommend that the research team should consult widely within the industry, with Government and other political players, with cultural, financial, educational and training institutions, international film, television, video and development experts, with broadcasters and with representatives of civil society. The research team should also consider overseas bodies more closely, for suitable models.

Finally, the Research Team should make recommendations to the board of directors on the establishment, structure, management, area of operation, personnel and procedures of the SAFF.

Research Team - Structure

We believe the Research Team should consist of a full time Research Leader and the necessary fulltime staff (we estimate Leader + 3 researchers and one secretary).

The Research Leader will be responsible to the director of the SAFF, assigning work to the researchers, keeping to deadlines, and budget administration.

The Research Leader and researchers will also undertake consultation with relevant political, commercial and cultural interests, and internationally with such sources as can be helpful.

CULTURAL AND DEVELOPMENTAL VALUE OF THE FILM INDUSTRY

Every culture views itself through its communication media, its arts literature and entertainment. This self-perception is vital to healthy and creative communities; sophisticated and versatile media are a hallmark of successful societies.

Furthermore, the successful transformation of society in South Africa is completely dependant on communication. We will, in a sense, be bringing down our own Berlin wall - the artificial communication barrier between people. We have much to do in rediscovering our own history, discovering our neighbours and compatriots, and developing a sense of the value of our society which has historically been suppressed.

At the same time, we will be communicating with the outside world to a much greater extent than in the past. South Africa's return to the international community as an Apartheid-free society will require many levels of communication.

Film uses the language of images; in a country with low literacy and a variety of spoken languages, this language is the most effective communicator of all. Films like Katrina, Mapantsula, Fiela se Kind and Taxi na Soweto have already shown a capability in tackling issues across cultural divides and providing a perspective from community to community in SA.

INTERNATIONAL NORMS

Most of the nations of the world acknowledge the importance of their film industries for the reason discussed above. Moreover, most countries have to deal with the domination of American films at the box office. (For a discussion of the reasons for this domination, see Addendum 2.) It has reached the point where American films now by and large define the artistic and entertainment conventions of popular film throughout the world. American films are the norm; everything else is deviant.

The consequences of this for non-American cultures have been severe, and many countries have taken steps to support their indigenous film makers..

Australia:

The Film Finance Corporation has for many years supported TV and film production, funding project development, production loans and prints and advertising grants to the extent of about Aus \$60 million annually.

France:

The Centre National de la Cinematographie (CNC) serves as a clear example of the success that is possible through a good statutory body. There are two clear measures of this success: Firstly, French film attendance in 1990 amounted to 120 million tickets sold, an average of 2,3 cinema visits by every man, woman and child - much higher than for any other country that was studied. Secondly, of these tickets, 37% were for French films, a figure that is about double other western countries. (See Addendum 3 for an in-depth study of the CNC system)

Burkina Faso:

State support to and administration of the film industry in Burkina Faso operate along the same lines as those of the CNC. It is currently one of the biggest film-producing countries in Africa (including South Africa) and it has clearly demonstrated the developmental and communication value of film, especially in its rural areas.

More research needs to be done about film structures elsewhere in the world, particularly in other developing countries.

Economically, the film industry has potential for import substitution in terms of American product. It also has the capacity to earn foreign exchange, and to create employment.

GUIDING PRINCIPLES OF THE SAFF

The SAFF will be an independent statutory body

The SAFF will be an independent statutory body, headed by a Board of Governors appointed from leaders in the society and in communications and the media. The SAFF will employ professional full-time staff with appropriate skills. Its composition will be such that it cannot be used to further the commercial interest of any one company or sector of the industry.

Funding procedures should apply to different branches of the industry and should encourage films of all types

Commercial viability must not be the sole criterion for the support of films. All types of films - entertainment, cultural, educational, art, international co-production, etc - must benefit. The underlying assumption here is that a diversity of film types makes the industry as a whole more healthy; an exchange of experience between various types of film-making enlarges them all. An industry which is focused exclusively on maximising profit would inevitably become shallow and artless. The current system of automatic aid to the film industry is on its own not sufficient to achieve the required diversity of films. Mechanisms for the unbiased allocation of selective aid (involving the selection of scripts and projects according to specific guidelines) should be put into place.

SAFF to liaise with local television industry

As film products routinely earn a significant portion of their income from TV licensing, the SAFF should be constituted with a view to converging its aims with that of the television industry. If an Independent Broadcasting Authority comes into existence, the SAFF would liaise with the IBA in matters of mutual interest.

OTHER AIMS

The promotion of visual literacy and the cultivation of local audiences for local productions.

Improved training facilities

Protection against foreign exploitation

Audit of box office receipts, or SAFF control of cinema ticket sales, to be determined by the Research Team.

SAFF'S FUNDING SCHEME - MECHANISMS

- SAFF financial support mechanisms should cover all stages of film production

Historically, subsidies have been granted on the basis of box office performance. The new mechanisms should take account of the need to support the industry at all levels. Funding should be available for production, distribution, exhibition, training, script and project development, co-productions, marketing etc, of film and video productions.

- No film may be totally funded by the SAFF

Whatever financial support mechanisms are used to promote film production, no film should ever receive total funding by these mechanisms. The requirement of satisfying an audience and thus creating audience demand is an integral part of the film-maker's responsibility, and funding should not be such that it relieves him of this responsibility. Furthermore, maintaining a level of risk for the producers allows the natural market forces to play a role. The SAFF will not assist any film project where such assistance would create a situation where the producers are in profit prior to release of the film.

- Funding of films should employ a variety of mechanisms

In general it is agreed that the traditional box office subsidy alone is not an effective mechanism for support of the industry. Box office subsidies may continue, but only as one of a range of funding mechanisms. Others include grants, subordinated loans, and low cost loans.

- The State assist in the export and international marketing of films

Notwithstanding any support via the SAFF, producers who are exporting films should be granted the same assistance that is given to all other export industries.

- Funding mechanisms should encourage private sector involvement in film projects towards building a strong local film industry

- Donations to the SAFF should qualify for deduction in terms of section 18a of the Income Tax Act.

FUNDING THE SAFF

In addition to direct state grants, mechanisms of ongoing funding should be put into place.

Possible financing for these mechanisms:

Taxation

In many countries, film industry support schemes are financed by a levy on cinema tickets and TV licences. In South Africa, the recently introduced VAT on cinema tickets provides additional income to the fiscus of the order of R60 million. The research team should investigate the possibility of channelling those funds to the film industry support scheme.

Other possibilities are:

Import duties

An import duty on foreign programming for theatrical, video distributors and broadcasters.

AND

Withholding tax levied on foreign remittances, made by broadcasters and distributors to international principals, at a level of 10% could net approximately R50 million for the fiscus.

STRUCTURE AND FUNCTIONS OF THE STAFF

Board of Directors

The Board of directors that controls SAFF will initially draw up the aims and procedures of the SAFF and will be instrumental in implementing the new mechanisms required to re-structure the industry and the legislation which will govern it. Thereafter they will meet regularly to guide the executive and full-time staff in interpreting, revising and carrying out the aims of the SAFF.

This will include, inter alia, determining broad criteria for films qualifying for assistance, the distribution of funds across films of different types, the degree of assistance producers can expect from SAFF staff, reporting procedures, etc.

Executive and full-time staff

The SAFF should be run by a Chief Executive and full time staff according to the guidelines laid down by the Board. To be suitably qualified to carry out their task, the executive and staff will be people with an understanding of the film industry, business in general, contractual and legal matters, film training, etc. It is thus probable that the SAFF will be staffed by people previously employed in the film or related industries, merchant banking, etc.

Staff members must have no financial interest in any film production or facilities company.

It is conceivable that the SAFF may from time to time appoint or second temporary staff to handle short-term functions, to advise or assist in implementing schemes from overseas, etc.

Training

The SAFF should facilitate the co-ordination of all film-related training schemes, in company, in universities and technikons, etc.

Executive Summary

The executive and staff of the SAFF will carry out the aims and intentions laid down by the Board of Governors. We repeat that we believe that these functions should be fully researched by the research team, but we believe they will include the broad areas described below. The number of activities might seem large, but we foresee a small staff which wears many hats. We firmly believe that the SAFF should be structured in such a way that it is an efficient, enthusiastic team, and not a self-serving bureaucracy.

Industry Liaison

Areas of operation

Administration and internal finance

This function will include the efficient management of all funds received by the SAFF.

Assisting films which are essentially commercial

This department would receive and consider applications for funding for producers, and liaise with them in structuring their financing in such a way as to take advantage of the support mechanisms of the SAFF to maximise their appeal to private enterprise. This category may be further sub-divided.

Assisting films which are essentially non-commercial

We believe this function is significantly different from the above, in that the SAFF will probably be supplying a greater proportion of the management skills, guiding the producer in the efficient management of his project. The SAFF would also provide guidance in structuring the project so that it is as attractive as possible to broadcasters and other users who might provide additional income to the project. This category may be further sub-divided.

Training

The SAFF should facilitate the co-ordination of all film-related training schemes, in company, in universities and technikons, etc.

Promotions Department

The SAFF should fund activities which promote local films, publicize the achievements of our film-makers, draw attention to the cultural and entertainment value of our films, and generally place the film industry in the awareness of the local and international public. An expert team which specifically promoted film as an investment medium to the financial community could also show the flag at suitable occasions like the annual Financial Mail investment conference, etc.

Industry Liaison

The SAFF should not be remote from, or authoritarian towards, the film-makers it serves. There should be a consultative forum between the SAFF and film-makers, to allow for active participation by the industry in the activities and direction of the SAFF. Extending this, we believe the SAFF will have a useful role to play in being the "home" of the industry. Because SAFF staff will deal with film-makers at all levels, they will be able to perform many informal liaison functions within the industry, and between the industry and others.

Archive management

The SAFF may not necessarily physically administrate the archives, but might allocate funding for that purpose.

Research and information

The Research and Information section of the SAFF should conduct and facilitate research into all aspects of the film and television industries.

Short Films

Support for short film projects should be designed to enable newcomers to the film industry to gain experience.

Regional initiatives

The SAFF will support and encourage the development of cinema and video centres in the different regions of South Africa.

The protection of free market mechanisms

The SAFF will have as one of its aims, the formulation of regulation to ensure that monopolies in the film industry do not endanger free market principles and the free flow of information through unfair competition.

DISTRIBUTION, EXHIBITION & BROADCASTING

We recommend that the research team should look into remedies for the possible bias against local films amongst distributors, exhibitors and broadcasters. To explain this recommendation, we need to expound on the marketing side of the film industry somewhat.

The success of individual films, and of the film-production industry as a whole, is greatly determined by elements over which film-makers have very little influence - distribution, exhibition and broadcasting.

It is important to understand that a good film does not necessarily get the market exposure commensurate with its quality or potential appeal. Distributors, exhibitors and broadcasters are in competitive industries of their own and have no obligation to assist film-makers in winning a market for their products.

Let us briefly examine the position of the local distributors and exhibitors of films. Each year they have the choice of several dozen international pictures. Because the films have already been shown in their home markets, their success or otherwise is already largely known, and local distributors can ignore the failure and purchase only the winners. These almost always have massive budgets and well-known stars, have largely recouped their costs in much larger markets and are comparatively "cheap" for local distributors. The stars generate free publicity in the form of articles and pictures in the glossy magazines and entertainment Press. Critics comment on the millions, sometimes hundred of millions that these films have already earned overseas, thus virtually ensuring a compulsive tendency to support the films here.

This is what the locally-made film is competing against for screen-time. The locally-made film is completely unproved, has little potential for generating interest via big name stars, and faces a great barrier of scepticism.

This situation needs to be changed if there is to be a future for the local industry.

It is not our intention to recommend that the distributors, exhibitors and broadcasters be forced to do anything other than exercise their normal commercial judgement in selecting their product. But we do believe that creative incentives to promote local films could be instituted and supported by the SAFF. The research team should investigate such incentives.

We reject the premise that local product is automatically inferior to imported product, and point to the experience in television where, although a great deal of American product is still paramount on our screens, good local productions are given prime-time screening, and turn out to be very popular with audiences.

The lack of cinemas in black areas is one of the main limiting factors in local film-makers reaching local audiences, and it is possible that the SAFF could be a motivating force in making the development of such cinemas possible.

This would greatly enhance the cultural and informative role of film-making, as well as opening up new markets which would assist locally-produced films in recouping their costs.

ADDENDUM 1

Participating bodies

All organisations in the film and broadcasting industries support this report through the Film and Broadcasting Forum (FBF)

- SAFTI

-

South African Film and Television Institute

Representing film and television production companies, facility houses, distributors. Associate members are: The Commercial Producers Association, National Television Association.
- FAWO

-

Film and Allied Workers Organisation

Representing film-makers, film educationalist, independent distributors and exhibitors, technicians and the community vide sector on a national level.
- SAFFTA

-

SA Film & Television Technicians Union
- SAFTU

-

SA Film & Theatre Union
- PAWE

-

Performers Arts Workers Equity
- PMA

-

Personnel Managers Association
- SASWA

-

South African Script Writers Association

Representing individual, self-employed scriptwriter
- PRETORIA
TECHNIKON

-

Cinema and TV School

Representing training for film-makers and technicians.

ADDENDUM 2

The domination of American films

"Hollywood" films dominate the industry in the western world, even in foreign cultures and foreign languages. In West Germany, 90% of all cinema tickets sold are for American films; in Spain and Britain 80%, and Italy 70%. Only the French, as previously discussed, have managed to encourage a strong following for their local product, but American films still take 54% of tickets.

1. An explanation for this phenomenon begins with the huge American domestic market, which allows producers to work on a production scale far greater than anything non-American producers could justify. This scale of production obviously carries the highest salaries, and thus attracts the major talent from around the world, in creative, technical and producing/financing fields.
2. Film attendance is driven by "Star Appeal" as much as by the intrinsic dramatic quality of films; the dominance of American films means that American film stars become established as icons in popular media virtually all over the world. Their pervasive popularity cycles back as instant appeal of American films with American stars.
3. All of the above becomes a self-perpetuating cycle: American stars, American situations, jargon, fashion, and morality have become the universal norm in film entertainment; American-style film-making establishes the base-line in technical and artist convention. The Hollywood look and style is the norm, everything else is deviant - even in its home town.

In the 1960s, Marshall McLuhan observed that people in cultures foreign to America did not watch American films for the story, "they go to see Debbie Reynolds opening a fridge". That about sums up the cultural imperialism that America has achieved, however unintentionally, through the mass global response to Hollywood product.

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ADDENDUM 3

SAFTI - FINANCIAL MODELS

FINANCIAL MODELS - SAFTI

The models presented below are based on the guiding principles and mechanisms previously discussed, particularly on creating an adequate capital base to enable the SAFF to support selected film budgets in such a way as to make them attractive to private investors. The models assume that the SAFF will be involved in aiding a mix of commercial and cultural films each year.

The models indicated a Government capital grant of R60-million a year escalating at 10% per year for five years. This will put the industry on a footing to be largely self-funding, and after the five-year period, Government's contribution to the industry would be greatly reduced, to a level commensurate with the support given to other cultural bodies.

Over the years state support of the performing arts has been of the order of R300 million per annum. Support received by the Film Industry has varied between R5 and R15 million per annum. Without diminishing the importance of other mediums, there can be no doubt that in the new South Africa film and the electronic media will be of vastly greater importance in terms of the wide audience it reaches and its consequent influence on socio-political change.

(See attached financial scenarios)

RECOMMENDATION - CURRENT SUBSIDY

In the event that the passage of this document, through Codesa/Interim Government, takes longer than anticipated and as a result of this the SAFF has not been constituted by end 1992, we strongly recommend that the current subsidy scheme is extended for a further year, with the modification that it be limited a ceiling of 1.5 x the total budget.

3. In consequence, if the industry is to be preserved, support mechanisms are necessary as is the case in many other countries, including France, Australia, Canada and Germany.

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S A F T I - FINANCIAL MODEL

INTRODUCTION

Any financial model on the viability of feature films in South Africa must be based on the actual potential income that can be generated by feature films in South Africa as a function of production cost.

A statistical base of information should make the model a fair reflection of reality, but obviously since there are many variables, not least of which is a changing market with increased competition from television, the exercise is by its nature, complex.

To get back to basics, however, the question that arises is why is it considered necessary to stimulate the local feature film industry at all? Are there financial reasons (over and above the cultural issue) why previous subsidies came into being?

The main problem for the S.A. Producer is a restricted market. The diversity of languages and cultures, and the relatively small cinema going population makes it impossible for him to recoup his production cost from South African revenue sources.

1. Two case studies of real films follow - a recent local Afrikaans Drama, and a popular comedy. In each case had there been no subsidy the films would have shown losses in excess of R1,000,000.

2. From what follows, the conclusion is simple -

WITHOUT FINANCIAL SUPPORT (VIA LOANS, SUBSIDIES, GRANTS, EXPORT INCENTIVES OR OTHER MECHANISMS), NO FEATURE FILMS WOULD BE PRODUCED IN SOUTH AFRICA.

3. In consequence, if the industry is to be preserved, support mechanisms are necessary as is the case in many other countries, including France, Australia, Canada and Germany.

CASE STUDIES

CONSIDER:

WHAT ARE THE SOURCES OF INCOME?

1. LOCAL BOX OFFICE
2. LOCAL VIDEO SALES
3. LOCAL TELEVISION SALES
4. INTERNATIONAL SALES

CASE STUDY I - LOCAL AFRIKAANS DRAMA

PRODUCTION COST R2,450,000

INCOME GENERATED

1. LOCAL BOX OFFICE

Every R100 of box office was divided in roughly the following way:

VAT	10
EXHIBITOR - THEATRES	50
DISTRIBUTOR	8
PRODUCER	<u>32</u>
	100

From this 32% share of box office, the Producer must still pay for prints and advertising.

In the case of the LOCAL AFRIKAANS DRAMA:

BOX OFFICE WAS APPROXIMATELY 650,000

LESS

VAT	65,000	
EXHIBITOR	350,000	
DISTRIBUTOR	47,000	
PRINTS & ADVERTISING	<u>160,000</u>	<u>622,000</u>
NET Producers Share from Box Office		28,000
Television License		750,000
Projected Video Share		<u>42,000</u>
		820,000

Since the film was produced in Afrikaans, potential foreign sales are limited.

Assuming Net Foreign Sales of 500,000

TOTAL PRODUCER'S SHARE 1,320,000

Since the production costs was R2,450,000
the film will still have made a loss of (1,130,000)
without Subsidy

CASE STUDY II - POPULAR COMEDY

PRODUCTION COST	3,500,000	
OVERSEAS VERSION	<u>300,000</u>	3,800.000
LOCAL BOX OFFICE	4,500,000	
NET PRODUCER SHARE	1,400,000	
VIDEO SALES	100,000	
TV LICENSE	350,000	
NET FOREIGN SALES	<u>900,000</u>	2,750,000

Showing a net loss of approximately (1,050,000)
without subsidy

SOUTH AFRICAN FILM FOUNDATION

BASIS OF FINANCIAL MODELS

1. BACKGROUND

The model indicating the fund position (see Addendum 3 - 1) was developed on the assumption that an adequate capital base for the fund should be created to enable the SAFF to support selected film budgets in such a way as to make them attractive to private investors. For the purposes of the model, it was assumed that 30 feature films would be produced per annum:

1.1 Eighteen low budget films with budgets below R1,0 million each.

1.2 Ten medium budget films, viz:

- four budgets between R1,0 and R2,0 million
- five budgets between R2,0 and R3,0 million
- one budget between R3,0 and R4,0 million

1.3 Two high budget films with budgets above R4,0 million each.

The basis of the model is that an adequate capital base should be established over a period of five years in order to generate enough investment income in years thereafter to support the local film industry and to therefore limit state support to a minimum. This capital base should be managed in the same way as a pension fund and annual support to the film industry will be limited to the available investment income. State support will still be required to fund administration costs, marketing, affirmative action, etc.

2. DISCUSSION

2.1 Income and expenditure

The ten year income statement of the fund is based on a normal distribution of the 30 films mentioned above but support is limited every year to investment income. Detailed examples of R500,000, R2,0 million and R4,0 million films are enclosed as well as a R3,0 million example of an indigenous film with no export potential.

2.1.1 Initial capitalisation

The model shows that a capital base of approximately R300 million is required. This can be achieved by an initial state contribution of R60 million in year one, escalating at 10% per year up to year five. Thereafter, state funding stops.

In year one, investment income of R13 million is generated and the model limits the total of grants and loans in year 1 accordingly to R13 million. This level will be too low to support the industry and the fund manager will have to utilise some capital initially to increase support to the required levels, without adversely affecting future growth of the fund.

2.1.2 Continuous State support

This will be needed to finance the initial capital cost of the building of the foundation, estimated at R2,5 million, plus R7,5 million per annum escalating at the consumer price index. Support in year one will therefore be R10 million, followed by R8,625 million in year two and escalating with inflation annually thereafter.

2.1.3 Film loans recovered

The Film Fund provides loan finance to approved film projects of up to 50% of the budget of the film. These loans will be repayable, bearing simple interest of 15%, after ten years. As can be seen from the Fund's cash flow statement, R4,4 million loans will be granted in year one, of which R1,8 million is recouped in year two. The balance of R2,6 million is written off in the income statement in year two. The value of these loans written off is reflected as income in year ten, when the loans become repayable.

These loans will not be applicable to low budget films, i.e. R500 000 or below.

2.1.4 Investment income

Investment income is calculated annually at 22% based on the average cash balance of the fund in that year.

2.1.5 Film loan income

As can be seen from the individual models of a R2,0 million, R3,0 million and a R4,0 million film, the film fund starts earning income, once the investor reaches cash breakeven. The basis of this income line in the fund's income statement is that the investor, in any given film production, will recover its investment first, thereafter the film fund will recover its loan plus 15% flat interest and thereafter the investor and the film fund share profits in their investment ratios.

2.1.6 Grants

The models envisage three tax free grants, viz a lab and prints grant, local income grant, and foreign sales grant. The total of all three grants is limited to the investor's investment in the film. The upper limit on the grants is a major change from previous subsidies in which subsidies were unlimited.

2.1.6.1 Local income grant

This grant will be made once box office sales of R500 000 or more is achieved by the film and is based on 25% of all local income, including sales to local broadcasters.

Should the film be classified as an indigenous film, when application for loan funding is made, the local income grant will be 50% of all local income up to a level of R2,0 million local income and 25% of local income above R2,0 million. This will be applicable to films which will not be suitable for export and have no potential of foreign revenue. Should the investor afterwards decide to market the film internationally, the local income grant will again be limited to 25% in all local income. This scenario is illustrated in the attached example of a R3,0 million indigenous film. (Addendum 3 - 3)

2.1.6.2 Lab and prints grant

To finance laboratory and prints costs and is limited to the lesser of R250 000 or actual costs.

2.1.6.3 Foreign sales grant

25% of foreign gross revenue to finance the cost of marketing internationally.

2.2 It is clear from both the income statement and cash flow statement of the fund that an adequate capital base is reached after five years to independently finance the items discussed above.

2.3 Addendum 3 - 5 shows the investor's cash return in a R4,0 million scenario.

3. CONCLUSION

The following material changes to the current subsidy scheme are proposed in the models:

3.1 Unlimited local income subsidy of 70% of local income is replaced by a local income grant of 25% of local income, a lab and prints grant limited to R250 000 and a foreign revenue grant of 25% of foreign income. The new local income grant starts at a box office of 500 000, compared to the current 200 000 level. Total grants are also limited to the investor's contribution.

3.2 Introduction of repayable loan financing by the film fund up to 50% of the budget.

As can be seen from the R2,0 million example, the proposal shows a cash saving of R4,6 million compared to the current subsidy scheme in a best case scenario.

INDEPENDENT FILM FUND										
FUND POSITION										
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
INCOME STATEMENT										
INCOME										
Initial capitalisation	60000	66000	72600	79860	87846	0	0	0	0	0
State support	10000	8625	9919	9886	11369	13074	15035	17290	19884	22866
Admin	1200	1380	1587	1825	2099	2414	2776	3192	3671	4221
Foreign marketing	1000	1150	1323	1521	1749	2011	2313	2660	3059	3518
Festivals	500	575	661	760	875	1006	1157	1330	1530	1759
Affirmative action	1000	1150	1323	0	0	0	0	0	0	0
Training	1000	1150	1323	1521	1749	2011	2313	2660	3059	3518
Project development	800	920	1058	1217	1399	1609	1850	2128	2447	2814
Local marketing & exhibition	2000	2300	2645	3042	3498	4023	4626	5320	6118	7036
Building capital cost	2500	0	0	0	0	0	0	0	0	0
Film loans recovered	0	0	0	0	0	0	0	0	0	2632
Investment income	13000	18813	33180	49214	67191	77650	79720	81969	84290	86949
Film loan income	0	372	409	450	495	545	599	659	725	797
TOTAL INCOME	83000	93810	116108	139410	166900	91269	95354	99918	104898	113244
LESS: EXPENDITURE										
Affirmative actions	10000	8625	9919	9886	11369	13074	15035	17290	19884	22866
Lab & Prints grants	2108	3051	5380	7980	10896	12592	12927	13292	13668	14100
Local income grants	5919	8565	15107	22407	30592	35354	36296	37321	38377	39588
Foreign sales grants	587	849	1498	2222	3033	3505	3599	3700	3805	3925
Administration costs	0	0	0	0	0	0	0	0	0	0
Film loans written off	0	2632	3808	6717	9963	13602	15719	16138	16594	17063
NET INCOME	64386	78713	90314	100083	112417	26215	26812	29467	32454	38568
OPENING BALANCE ACCUMULATED FUNDS	0	64386	143099	233413	333497	445913	472129	498941	528408	560862
CLOSING BALANCE ACCUMULATED FUNDS	64386	143099	233413	333497	445913	472129	498941	528408	560862	599430

<u>INDEPENDENT FILM FUND</u> <u>FUND POSITION</u>		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
CASH FLOW											
	OPENING BALANCE OF FUND	0	60000	128126	203675	288463	383446	393058	404137	415555	427342
CASH INFLOW											
	Total income	83000	93810	116108	139410	166900	91269	95354	99918	104898	113244
	Film loans recouped	0	1754	2539	4478	6642	9068	10480	10759	11062	25251
CASH OUTFLOW											
	Total expenditure	-18614	-21090	-31904	-42495	-55889	-64525	-67857	-71603	-75734	-80479
	Film loans	-4386	-6347	-11195	-16605	-22670	-26199	-26897	-27656	-28439	-29336
	CLOSING BALANCE OF FUND	60000	128126	203675	288463	383446	393058	404137	415555	427342	456022

INDEPENDENT FILM TRUST**EXAMPLE: R2,0 million film****DATA**

	R'000
Production costs	2000
Producer finance	50.00%
Film fund finance	50.00%

FINANCING

	PRODUCER R'000	FILM FUND R'000	TOTAL R'000
Total funds	1000	1000	2000

INCOME STATEMENT

Box office in thousands	0 R'000	500 R'000	1000 R'000	2000 R'000	3000 R'000	4000 R'000	5000 R'000	6000 R'000
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INVESTOR**INCOME**

Net local film rental	-150	-26	122	445	693	974	1315	1588
Rentals	0	150	320	700	1050	1440	1900	2280
Ads & marketing	-75	-75	-75	-75	-100	-125	-150	-175
Prints	-75	-75	-75	-75	-100	-125	-150	-175
Distr. fee	0	-26	-48	-105	-158	-216	-285	-342
Local TV sale-15%	300	300	300	300	300	300	300	300
Foreign revenue	0	0	0	500	1000	1500	2000	2500
Lab & Prints grant	250	250	250	250	250	250	250	250
Local income grant-25%	0	200	325	575	500	375	250	125
Foreign sales grant-25%	0	0	0	125	250	375	500	625

TOTAL INCOME	400	724	997	2195	2993	3774	4615	5388
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LESS: EXPENDITURE

Production costs	-1750	-1750	-1750	-1750	-1750	-1750	-1750	-1750
Lab costs	-250	-250	-250	-250	-250	-250	-250	-250
Foreign marketing	0	0	0	-150	-300	-450	-600	-750
Film fund share	0	0	0	-1045	-1367	-1620	-1896	-2145
Producer's fee - 20%	0	0	0	0	-109	-235	-373	-498

NET INCOME BEFORE TAX	-1600	-1276	-1003	-1000	-783	-530	-254	-5
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TAX SAVED/(PAID)	888	829	757	434	304	183	50	-70
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NET INCOME AFTER TAX	-712	-448	-246	-566	-479	-348	-204	-74
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ROI - INVESTOR	-71.20%	-44.77%	-24.56%	-56.56%	-47.92%	-34.78%	-20.41%	-7.45%
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ROI - INVESTOR/PRODUCER	-71.20%	-44.77%	-24.56%	-56.56%	-42.27%	-22.57%	-1.01%	18.43%
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NOTES:

1. Total film fund grants can be a maximum of investor's investment only.
2. Up to cash breakeven on net income before tax, investor recovers first.
3. Thereafter film fund recovers its investment plus interest at a 15% flat rate.
4. Thereafter:
 - Producer: 20% producer's fee
 - Film fund: 40% investor's share
 - Investor: 40% investor's share

AUSTRALIAN FILM FINANCE CORPORATION PTY LIMITED

Incorporated in the Australian Capital Territory

FUNDING GUIDELINES

November 1990

The Australian Film Finance Corporation Pty Limited (FFC) was incorporated in July 1988 as a wholly owned Commonwealth company to provide financial support for Australian feature films, telemovies, mini-series and documentaries in collaboration with private investors. The FFC is empowered to subordinate its right to returns as a means of attracting private investment and may do so on a case-by-case basis.

The FFC revises its guidelines annually. These are the FFC's third funding guidelines. The guidelines are not an exhaustive statement of the FFC's policies, as from time to time new policies may be introduced to address particular concerns and some current policies may have an interim application. Producers are advised to contact the FFC in regard to their particular categories of production and to ensure that the guidelines on which they are relying are current.

1. OBJECTIVES OF THE FFC

- To underpin a production slate in each financial year at a high level.
- To support projects with demonstrated market interest and with budget levels commensurate with the potential market and realisation of returns.
- To develop a committed and active private sector involvement in the financing of Australian films.
- To maximise returns on each of its investments commensurate with the potential returns for the appropriate production categories.
- To disburse its funds as evenly as possible throughout each financial year.
- To secure a balanced production slate between feature films, television drama (including children's drama) and documentaries.

2 METHODS OF FUNDING

The FFC can financially participate in projects through:

- equity investments;
- ✓ • equity investments in the share capital of production companies or in units of trusts formed for the purpose of making films;
- equity investments or loans for production by means of a joint venture vehicle or loan syndicate;
- ✓ • loans for acquisition of equity in a film;
- ✓ • participation in underwriting agreements for raising production finance;
- ✓ • print and advertising loans;
- provision of guarantees.

Loans (other than for print and advertising), particularly bridging finance, and underwriting facilities are not generally available as a matter of policy. Loans will need to be secured to the FFC's satisfaction and will attract commercial rates of interest. The FFC will not discount pre-sales, as the FFC regards this to be more appropriately undertaken by the private sector.

The FFC will not form or participate in the formation of trusts or companies and hold shares or interests in those trusts and companies if:

- they are able to borrow funds other than for short term working purposes;
- ✗ • repayment of FFC funds is subordinated to any other funds.

From time to time the FFC may implement a discrete funding program. One such program is the FFC's Feature Film Fund, an initiative introduced last financial year and to be repeated in 1990/91. Separate criteria and eligibility apply to this Fund and are advertised in the trade press and through media announcements.

The FFC will also consider production funding applications of an innovative nature from producers.

3. APPLICATIONS FOR FUNDING

Australian independent producers, production companies and other entities engaged in production are entitled to apply for FFC funding.

Individual producers must be Australian citizens or residents as defined in the Tax Act. Companies must be registered under the Companies Code.

Broadcasters and their related companies are not entitled to apply for FFC funding following the Commonwealth's requirement that FFC resources be directed to the independent production sector.

Producers will need to complete an FFC application form, available from the FFC. The application will detail the producer's proposed arrangements for financing and marketing, so as to encourage FFC input into these arrangements. Applications will be treated in confidence.

4. REQUIREMENTS OF FFC FUNDING

(a) Qualifying Australian Films

The FFC will only provide financial support to a project which has been issued a provisional certificate under Division 10BA of the Income Tax Assessment Act.

A provisional certificate is issued by the Department of the Arts, Sport, the Environment, Tourism and Territories (DASETT) if the project is an "eligible film", being a feature film, telemovie, mini-series or documentary which is either:

- (i) made wholly or substantially in Australia and has a significant Australian content as described in the Act
- or
- (ii) an official co-production, that is made pursuant to a treaty or a bilateral or multilateral arrangement between an authority of the Commonwealth Government and a foreign counterpart body.

Applications for provisional certificates are available from DASETT.

Inquiries in regard to co-production status should be made to the Australian Film Commission.

The level of Australian pre-sale required for documentaries is not less than 25 per cent of the budget, or \$40,000 whichever is the greater.

(b) Private Sector Participation

The FFC will require an overall private sector participation level of 40 per cent in its approvals during the 1991 calendar year. The 40 per cent level is an aggregate target, applicable to the FFC's portfolio of projects for the year, and individual projects with lower levels of private sector participation may receive FFC funding provided the FFC is satisfied that the average private sector participation level across its 1991 production slate is 40 per cent. In particular, the FFC may allow the 40 per cent level to be reduced for individual projects in the following cases:

- children's drama
- certain documentaries
- low budget feature films and television drama
- other exceptional cases

The FFC will require substantially more than 40 per cent in the case of high budget projects or projects where the potential for FFC recoupment has been significantly diminished due to secured pre-sale commitments.

Private sector investments are investments by way of equity or debt whether or not the investments or the returns on such investments are directly or indirectly guaranteed by the FFC.

The FFC may examine the source of proposed private sector funds.

Investments by or loans from federal or state film authorities or the Australian Broadcasting Corporation or the Special Broadcasting Service (whether cash or by way of facilities deals) are *not* private sector contributions.

Deferred fees and non-cash private sector facilities may constitute some part, but not the majority, of the private sector contribution.

(c) Distribution & Marketing Arrangements

The FFC requires television drama to be supported by Australian television pre-sales and this policy also applies to documentaries. Distribution interest (advances in the case of television drama) in at least one other territory is also required.

The level of Australian pre-sale required for documentaries is not less than 25 per cent of the budget, or \$40,000 whichever is the greater.

In the case of high budget feature films, the FFC will expect significant distribution attachments, either in the form of direct investments or advances for at least one major territory.

The FFC will generally not allow a producer a sales commission, and never in the case of pre-sale commitments. Producers would need to have marketing expertise and some infrastructure to qualify for a commission. Expenses related to obtaining pre-sales or other distribution agreements are allowable expenses, either as budget items or marketing expenses deductible from gross receipts, as the case may be.

The FFC will not approve distribution arrangements where the commissions do not conform with accepted industry norms or where there is no provision for a ceiling on marketing expenses. The FFC may require letters of credit or other evidence of the distributor's financial capacity to honour its commitments.

Producers need to prepare an estimate of projected revenues for at least the major territories and indicate their sources of information.

5. FFC ASSESSMENT OF PROJECTS

The FFC will take the following factors into account when assessing projects:

- ✓ • the track record of the producer and the creative principals;
- the level of the budget in relation to expected returns;
- the level of market attachments;
- the expected return to the FFC.

When a project lacks substantial market commitment, it may be assessed by an independent marketing assessor having regard to the script, budget and other elements in order to establish an estimation of likely returns.

On a case-by-case basis the FFC will also favourably consider:

- projects which match experienced personnel with less experienced personnel. The FFC recognises the need to provide opportunities to talented filmmakers and performers lacking a track record in the industry;
- telemovies, especially in the area of children's drama. The FFC wishes to see more diversity in this area.

6. CONTRACTUAL REQUIREMENTS

- (a) The contract governing the financial participation of the FFC will be provided by the FFC. A standard production and investment agreement for drama is available from the FFC. A short form documentary agreement will be available from November 1990. The FFC will not cashflow its funds prior to execution of the agreement and satisfaction of any preconditions to the FFC's investment.
- (b) Each FFC supported project, including documentaries, will require all necessary insurances and a completion guarantee to be provided by a completion guarantor satisfactory to the FFC. The FFC will be a party to the completion guarantee agreements. The FFC will require a copy of each report given to the completion guarantor and may require other reports to confirm cashflow and budget/schedule adherence.
- (c) Producers will need to establish the chain of title to any underlying work. Any applicable licences or options must generally extend for at least 12 months from the date of application to the FFC and, where appropriate, include a right of renewal. Sequel and merchandising rights will be expected to be secured for major film and television productions.
- (d) The relevant period for the FFC's participation in the project shall be for the duration of the copyright. The FFC's ownership of copyright shall be commensurate with its investment.
- (e) The FFC requires independent audit of the accounts and records of applicants to ensure that funds provided were used to the purpose intended. An audit statement at completion of production will be required.
- (f) The FFC will have approval over distribution agreements, in particular, commissions and expenses. A marketing plan must be provided and approved before expenses can be deducted from gross revenues.
- (g) The FFC will require three monthly reports on marketing of the film in the first two years and six monthly reports thereafter.
- (h) The FFC may require the producer either to deposit all revenues from the exploitation of the project into a dedicated disbursement account or to ensure all revenues are paid directly to the FFC or the Australian Film Commission as agent for the FFC.
- (i) In the case of documentaries where the FFC is the principal investor the FFC may appoint or require the producer to appoint specified agents or distributors to market the documentary outside Australia.

7. BUDGET MATTERS

- (a) The FFC closely scrutinises budgets and any general disparities relative to prevailing industry norms. All budgets are assessed or independently budgeted by the FFC to ensure production values are realised and that fees and other expenditure comply with industry norms. Budgets are expected to conform with expected returns. Reasonable overhead costs are allowable budget items. Costs relating to aborted pre-production or production will generally not be allowed.
- (b) The FFC will not fund foreign elements in a project (except where there is no Australian substitute) other than costs associated with foreign production shooting integral to the storyline. In the case of official co-productions, the FFC will only fund the cost of the Australian elements and will not fund the cost of foreign elements. Australian elements comprise Australian cast, crew, facilities and materials, per diems of all Australians and their costs of travel and accommodation. The FFC may fund these costs whether incurred in Australia or not. The contingency and the cost of insurances and the completion guarantee will be pro rated in accordance with the percentage of the Australian and foreign contributions. Financing and legal costs will be attributed to the co-producer who incurs them.
- (c) All production underages are to be returned to the FFC and other investors likewise at risk.
- (d) Where the producer proposes a facilities arrangement, for example with a broadcaster, the FFC may require the producer to provide an alternative commercial costing of the budget or to obtain such a costing at the FFC's expense.

8. GENERAL MATTERS

- (a) The FFC will cashflow its funding into production on a needs basis in accordance with an agreed cashflow schedule, generally pro rata pari passu with other investors.
- (b) Producers in default of any contractual obligations to the FFC in respect of any projects may not submit new projects to the FFC pending remedy of their default.
- (c) The FFC may choose to secure recoupment of its commitment from certain specified rights and/or specified territories.

- (d) The FFC will not subordinate its right of return to any public sector investors.
- (e) In any one financial year FFC contracted commitments to any one producer, production company or related production company will not exceed \$10 million.
- (f) In any one financial year FFC contracted commitments to any one producer, production company or related company in receipt of FFC documentary funding support will not exceed \$1.5 million, although the limit may be increased to ensure the financing of documentary series.
- (g) The FFC will be reluctant to agree to fund projects in pre-production at the time of application and is highly unlikely to do so in the case of projects that have commenced principal photography or are in post-production.
- (h) Where the FFC commits to funding and the producer commences pre-production without securing other proposed investors and/or distribution arrangements upon which the FFC's participation is conditional, the FFC may terminate its commitment.

9. FFC FEES

- (a) Application fees will be charged at the time of lodgement to process the application. The fees will be:
 - \$250 for projects with budgets of \$2 million or more
 - \$100 if \$0.5 million up to \$2 million
 - \$50 if less than \$0.5 million
- (b) Administration fees will be charged for the FFC's financial participation and will be deducted from the first drawdown of FFC funds. The fees to be included in the budget will be calculated as a percentage of the amount provided by the FFC on the following scale:
 - 0.25% for projects with budgets less than \$0.5 million
 - 0.5% where the budget is over \$0.5 million and up to \$2 million
 - 1% where the budget is \$2 million and up to \$5 million
 - 1.5% where the budget is \$5 million or more

Special arrangements, commercially reflecting the above, may need to apply to proposals for the acquisition of share capital.

- (c) Fees will be charged to cover the FFC's legal costs associated with contracting the project. These fees are to be included in the budget (other than for print and advertising loans) and will be deducted from the FFC's first drawdown of funds.

The rates are revised from time to time. At present they are:

- \$7,500 one episode documentary
- \$10,000 documentary series
- \$25,000 investments in feature films and television
 drama (other than official co-productions)
 distribution guarantees
- \$35,000 print and advertising loans outside Australia
 official co-productions

- (d) A commitment fee for projects with budgets of \$0.5 million or more may be charged on the FFC's commitment monies where there is a delay between commitment and drawdown of FFC funds.

Further information can be obtained from the FFC at its Sydney and Melbourne offices:

Sydney

Australian Film Finance Corporation Pty Limited
Level 6, 1 Pacific Highway
North Sydney NSW 2060
G P O Box 3886
Sydney NSW 2001
Tel: (02) 956 2555
Fax: (02) 954 4253

Melbourne

Australian Film Finance Corporation Pty Limited
11th Floor, 432 St Kilda Road
Melbourne VIC 3004
P O Box 6181
St Kilda Road Central
Melbourne VIC 3004
Tel: (03) 823 4111
Fax: (03) 820 2663

CASH FLOW

Box office in thousands

	0	500	1000	2000	3000	4000	5000	6000
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

FILM FUND

CASH INFLOW

Share of income	0	0	0	1045	1367	1620	1896	2145
Repayment of loans	284	284	284	26	0	0	0	0
	284	284	284	1071	1367	1620	1896	2145

LESS: EXPENDITURE

Investment	-1000	-1000	-1000	-1000	-1000	-1000	-1000	-1000
Grants	-250	-450	-575	-950	-1000	-1000	-1000	-1000

NET CASH OUTFLOW

	-966	-1166	-1291	-879	-633	-380	-104	145
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RETURN ON INVESTMENT

	-96.60%	-116.60%	-129.10%	-87.90%	-63.30%	-38.04%	-10.40%	14.52%
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CASH FLOW COMPARISON FOR STATE CURRENT SCHEME/PROPOSED SCHEME

Current scheme	210	560	910	1610	2310	3010	3710	4410
Proposed scheme	966	1166	1291	879	633	380	104	-145
DIFFERENCE	-756	-606	-381	731	1677	2630	3606	4555

DATA	R'000
Production costs	3000
Producer finance	50.00%
Film fund finance	50.00%

FINANCING

	PRODUCER	FILM FUND	TOTAL
	R'000	R'000	R'000
Total funds	1500	1500	3000

INCOME STATEMENT

Box office in thousands	0	500	1000	2000	3000	4000	5000	6000
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

INVESTOR

INCOME

Net local film rental	-150	-26	122	445	693	974	1315	1588
Rentals	0	150	320	700	1050	1440	1900	2280
Ads & marketing	-75	-75	-75	-75	-100	-125	-150	-175
Prints	-75	-75	-75	-75	-100	-125	-150	-175
Distr. fee	0	-26	-48	-105	-158	-216	-285	-342
Local TV sale-15%	450	450	450	450	450	450	450	450
Foreign revenue	0	0	0	0	0	0	0	0
Lab & Prints grant	250	250	250	250	250	250	250	250
Local income grant-25%	0	475	725	1113	1250	1250	1250	1250
Foreign sales grant-25%	0	0	0	0	0	0	0	0

TOTAL INCOME	550	1149	1547	2258	2643	2924	3265	3538
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LESS:EXPENDITURE

Production costs	-2750	-2750	-2750	-2750	-2750	-2750	-2750	-2750
Lab costs	-250	-250	-250	-250	-250	-250	-250	-250
Foreign marketing	0	0	0	0	0	0	0	0
Film fund share	0	0	-47	-758	-1143	-1424	-1741	-1850
Producer's fee - 20%	0	0	0	0	0	0	-8	-63

NET INCOME BEFORE TAX	-2450	-1851	-1500	-1500	-1500	-1500	-1484	-1375
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TAX SAVED/(PAID)	1296	1237	1165	1010	892	756	604	552
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NET INCOME AFTER TAX	-1154	-615	-335	-490	-608	-744	-880	-823
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ROI - INVESTOR	-76.93%	-40.98%	-22.30%	-32.64%	-40.56%	-49.57%	-58.65%	-54.86%
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ROI - INVESTOR/PRODUCER	-76.93%	-40.98%	-22.30%	-32.64%	-40.56%	-49.57%	-58.37%	-52.69%
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NOTES:

- 1.Total film fund grants can be a maximum of investor's investment only.
- 2.Up to cash breakeven on net income before tax, investor recovers first.
- 3.Thereafter film fund recovers its investment plus interest at a 15% flat rate.
- 4.Thereafter:
 - Producer:20% producer's fee
 - Film fund:40% investor's share
 - Investor:40% investor's share

CASH FLOW

Box office in thousands

0 500 1000 2000 3000 4000 5000 6000
R'000 R'000 R'000 R'000 R'000 R'000 R'000 R'000

FILM FUND

CASH INFLOW

Share of income	0	0	47	758	1143	1424	1741	1850
Repayment of loans	426	426	414	122	0	247	0	0
	426	426	461	880	1143	1671	1741	1850

LESS: EXPENDITURE

Investment	-1500	-1500	-1500	-1500	-1500	-1500	-1500	-1500
Grants	-250	-725	-975	-1363	-1500	-1500	-1500	-1500

NET CASH OUTFLOW

	-1324	-1799	-2014	-1983	-1858	-1329	-1259	-1150
--	-------	-------	-------	-------	-------	-------	-------	-------

RETURN ON INVESTMENT

	-88.27%	-119.93%	-134.27%	-132.20%	-123.83%	-88.60%	-83.93%	-76.65%
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CASH FLOW COMPARISON FOR STATE CURRENT SCHEME/PROPOSED SCHEME

Current scheme	315	665	1015	1715	2415	3115	3815	4515
Proposed scheme	1324	1799	2014	1983	1858	1329	1259	1150
DIFFERENCE	-1009	-1134	-999	-268	558	1786	2556	3365

DATA

	R'000
Production costs	4000
Producer finance	50.00%
Film fund finance	50.00%

FINANCING

	PRODUCER R'000	FILM FUND R'000	TOTAL R'000
Total funds	2000	2000	4000

INCOME STATEMENT

Box office in thousands	0	500	1000	2000	3000	4000	5000	6000
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

INVESTOR

INCOME

Net local film rental	-150	-26	122	445	693	974	1315	1588
Rentals	0	150	320	700	1050	1440	1900	2280
Ads & marketing	-75	-75	-75	-75	-100	-125	-150	-175
Prints	-75	-75	-75	-75	-100	-125	-150	-175
Distr. fee	0	-26	-48	-105	-158	-216	-285	-342
Local TV sale-15%	600	600	600	600	600	600	600	600
Foreign revenue	0	0	0	500	1000	1500	2000	2500
Lab & Prints grant	250	250	250	250	250	250	250	250
Local income grant-25%	0	275	400	650	900	1150	1250	1125
Foreign sales grant-25%	0	0	0	125	250	375	500	625

TOTAL INCOME

700	1099	1372	2570	3693	4849	5915	6688
-----	------	------	------	------	------	------	------

LESS: EXPENDITURE

Production costs	-3750	-3750	-3750	-3750	-3750	-3750	-3750	-3750
Lab costs	-250	-250	-250	-250	-250	-250	-250	-250
Foreign marketing	0	0	0	-150	-300	-450	-600	-750
Film fund share	0	0	0	-420	-1393	-2340	-2706	-2955
Producer's fee - 20%	0	0	0	0	0	-20	-203	-328

NET INCOME BEFORE TAX

-3300	-2901	-2628	-2000	-2000	-1960	-1594	-1345
-------	-------	-------	-------	-------	-------	-------	-------

TAX SAVED/(PAID)

1704	1645	1573	1250	964	689	621	502
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NET INCOME AFTER TAX

-1596	-1257	-1055	-750	-1036	-1271	-973	-843
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ROI - INVESTOR

-79.80%	-62.83%	-52.73%	-37.48%	-51.82%	-63.57%	-48.64%	-42.16%
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ROI - INVESTOR/PRODUCER

-79.80%	-62.83%	-52.73%	-37.48%	-51.82%	-63.06%	-43.37%	-33.65%
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NOTES:

- 1.Total film fund grants can be a maximum of investor's investment only.
- 2.Up to cash breakeven on net income before tax, investor recovers first.
- 3.Thereafter film fund recovers its investment plus interest at a 15% flat rate.
- 4.Thereafter:
 - Producer:20% producer's fee
 - Film fund:40% investor's share
 - Investor:40% investor's share

CASH FLOW

Box office in thousands	0	500	1000	2000	3000	4000	5000	6000
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

FILM FUND

CASH INFLOW								
Share of income	0	0	0	420	1393	2340	2706	2955
Repayment of loans	568	568	568	464	224	0	0	0
	568	568	568	884	1617	2340	2706	2955
LESS: EXPENDITURE								
Investment	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000
Grants	-250	-525	-650	-1025	-1400	-1775	-2000	-2000
NET CASH OUTFLOW	-1682	-1957	-2082	-2141	-1784	-1435	-1294	-1045
RETURN ON INVESTMENT	-84.10%	-97.85%	-104.10%	-107.05%	-89.18%	-71.77%	-64.70%	-52.24%

CASH FLOW COMPARISON FOR STATE
CURRENT SCHEME/PROPOSED SCHEME

Current scheme	420	770	1120	1820	2520	3220	3920	4620
Proposed scheme	1682	1957	2082	2141	1784	1435	1294	1045
DIFFERENCE	-1262	-1187	-962	-321	737	1785	2626	3575

DATA

	R'000
Production costs	4000
Producer finance	50.00%
Film fund finance	50.00%

FINANCING

	PRODUCER R'000	FILM FUND R'000	TOTAL R'000
Total funds	2000	2000	4000

INCOME STATEMENT

Box office in thousands	0	500	1000	2000	3000	4000	5000	6000
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

INVESTOR

INCOME

Net local film rental	-150	-26	122	445	693	974	1315	1588
Rentals	0	150	320	700	1050	1440	1900	2280
Ads & marketing	-75	-75	-75	-75	-100	-125	-150	-175
Prints	-75	-75	-75	-75	-100	-125	-150	-175
Distr. fee	0	-26	-48	-105	-158	-216	-285	-342
Local TV sale-15%	600	600	600	600	600	600	600	600
Foreign revenue	0	0	0	500	1000	1500	2000	2500
Lab & Prints grant	250	250	250	250	250	250	250	250
Local income grant-25%	0	275	400	650	900	1150	1250	1125
Foreign sales grant-25%	0	0	0	125	250	375	500	625

TOTAL INCOME	700	1099	1372	2570	3693	4849	5915	6688
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LESS:EXPENDITURE

Production costs	-3750	-3750	-3750	-3750	-3750	-3750	-3750	-3750
Lab costs	-250	-250	-250	-250	-250	-250	-250	-250
Foreign marketing	0	0	0	-150	-300	-450	-600	-750
Film fund share	0	0	0	-420	-1393	-2340	-2706	-2955
Producer's fee - 20%	0	0	0	0	0	-20	-203	-328

NET INCOME BEFORE TAX	-3300	-2901	-2628	-2000	-2000	-1960	-1594	-1345
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TAX SAVED/(PAID)	1704	1645	1573	1250	964	689	621	502
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NET INCOME AFTER TAX	-1596	-1257	-1055	-750	-1036	-1271	-973	-843
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ADD: LOAN	2000	2000	2000	2000	2000	2000	2000	2000
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LESS: LOAN REPAYMENT	-568	-568	-568	-464	-224	0	0	0
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NET CASH POSITION	-164	175	377	786	740	729	1027	1157
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CASH RETURN	-8.20%	8.77%	18.87%	39.32%	36.98%	36.43%	51.36%	57.84%
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NOTES:

- Total film fund grants can be a maximum of investor's investment only.
- Up to cash breakeven on net income before tax, investor recovers first.
- Thereafter film fund recovers its investment plus interest at a 15% flat rate.
- Thereafter:
 - Producer: 20% producer's fee
 - Film fund: 40% investor's share
 - Investor: 40% investor's share

CASH FLOW

Box office in thousands

0	500	1000	2000	3000	4000	5000	6000
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

FILM FUND

CASH INFLOW

Share of income	0	0	0	420	1393	2340	2706	2955
Repayment of loans	568	568	568	464	224	0	0	0

LESS: EXPENDITURE

Investment	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000
Grants	-250	-525	-650	-1025	-1400	-1775	-2000	-2000

NET CASH OUTFLOW

-1682	-1957	-2082	-2141	-1784	-1435	-1294	-1045
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RETURN ON INVESTMENT

-84.10%	-97.85%	-104.10%	-107.05%	-89.18%	-71.77%	-64.70%	-52.24%
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CASH FLOW COMPARISON FOR STATE CURRENT SCHEME/PROPOSED SCHEME

Current scheme	420	770	1120	1820	2520	3220	3920	4620
Proposed scheme	1682	1957	2082	2141	1784	1435	1294	1045
DIFFERENCE	-1262	-1187	-962	-321	737	1785	2626	3575

ADDENDUM 4

FINANCIAL MODELS - FILM AND ALLIED WORKERS ORGANISATION (FAWO)

FAWO believes that the drawing up of financial models for state support to the film industry should be the last phase in the process of restructuring the South African film and video industry, and not the first. The structure and mechanisms of public financing to the audiovisual sector should be nothing more than the expression of an agreement reached between a representative public sector and a wide range of interest groups about the role and relative importance of the audiovisual mass media in society.

The discussions necessary for such agreements have not taken place yet. This is indeed the reason why the Film and Broadcasting Forum proposes the appointment of a representative and suitably qualified group of people whose task it would be to restructure the South African film industry through a process of consultation and the gathering of information.

FAWO has however done extensive research into the mechanisms by which film industries are regulated and supported in other countries and found that the system in operation in France and in West Africa (particularly in Burkina Faso), successfully encourages the development of a strong, stable and independent audiovisual sector which serves the needs of the communities in which it is based.

Included a discussion document entitled "Addressing the Crisis in the South African Film Industry - the French Centre National de la Cinematographie as a Model for Discussion", which sets out the structure and mechanisms of state regulation and support used in those countries.

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A. BACKGROUND TO THE RESEARCH

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1. Establishment of the FAVO Film Commission

Both the FAVO Film- and Broadcast Commissions were established

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of the South African film industry and its potential role in a future democratic society, with particular reference to the relationship between the public sector and the film industry against a background of political changes.

3. Method

Research was conducted in two phases:

- In the first, information was gathered on the history and current infrastructure of the South African film industry. This included a detailed historical account of public support structures relating to the industry, from the inception of the first subsidy scheme in 1957 to the present.
- In the second phase, these structures were compared with film industries elsewhere as an attempt to find solutions to the problems that were identified in the first phase of research.

Each of the members of the Commission carried out independent research and meetings were held at fortnightly intervals.

A. BACKGROUND TO THE RESEARCH

1. Establishment of the FAWO Film Commission

Both the FAWO Film- and Broadcast Commissions were established in March 1990 as part of the activities of the Research and Information Committee. The commissions were made up of FAWO members who had an interest in or a knowledge of film and broadcast structures, and who were prepared to give of their time.

2. Brief

The brief of the Film Commission was to investigate the state of the South African film industry and its potential role in a future democratic society, with particular reference to the relationship between the public sector and the film industry against a background of political changes.

3. Method

Research was conducted in two phases:

- In the first, information was gathered on the history and current infrastructure of the South African film industry. This included a detailed historical account of public support structures relating to the industry, from the inception of the first subsidy scheme in 1957 to the present.

- In the second phase, these structures were compared with film industries elsewhere in an attempt to find solutions to the problems that were identified in the first phase of research.

Each of the members of the Commission carried out independent research and meetings were held at fortnightly intervals.

FAWC members were kept informed of the progress of the Commission through regular report-backs.

4. Contact with other organisations

During the course of research, both the Film- and Broadcast Commissions identified the need for contact with other organisations in the audiovisual industry. The matter was debated at a FAWC general workshop held in August 1990 and members endorsed wider engagement. In subsequent meetings between FAWC and other individual organisations, the Film Commission has always been represented.

5. Findings relating to the first phase of research: the state of the South African film industry

The present report deals specifically with the results of the latter phase of research, namely the comparison between South African film structures and those of other countries.

However, in order to understand the context within which the report is presented, it is necessary to give a brief account of the findings of the first phase of research:

1. In South Africa, where the infrastructures facilitating the flow of information and the encouragement of debate are severely limited, the film industry has a vital role to play in the forging of social cohesion and the process of democratisation and development that so urgently needs to take place. This role is shared by all mass media, but the film industry has a particular responsibility in this regard:

- a) High levels of illiteracy and the multi-lingual make-up of the South African society, add to the importance of the

language of images. The film industry can reach communities and individuals who do not have access to television.

b) Mainly because of the differences in the exhibition infrastructures of film and television (viewers going to see a film in a theatre on its own terms, as opposed to television as a "guest" in the house), the film industry traditionally leads the way in the introduction of new debates into the audiovisual arena. (This does of course not detract from its role as national entertainer!)

2. The South African film industry does not, at present, play the role set out above - on the contrary: it is experiencing a serious crisis that is threatening its continued existence.

3. A comparison between the box office revenue and the production costs of South African films since before the advent of television, reveals that very few local films would have been made without financial support from the state. Even in European countries, with their highly developed exhibition infrastructures, the single most important factor determining the nature of national film industries and their role in society, is their relationship with the public sector, even if by default.

This is due the economic and industrial make-up of the film industry: the "production cost" of an imported film that has already recouped its costs in its country of origin, is basically limited to the cost of making prints from the original, a minute amount compared to the total cost of producing a local film.

The effect of this is that local films will never be able to compete with foreign - and particularly American - productions on the basis of purely free market principles.

It is therefore misguided to suggest that the film industry needs state funding only "to help it on its feet" or until such a time that it has found a viable export market: a South African national film industry, reflecting local realities, cannot exist without a certain measure of on-going support from the state.

4. The only way in which it can motivate demands for scarce public funding, is to accept its social responsibility towards the taxpayer whose contributions it asks for: The cost to the taxpayer for the creation of employment in the film industry is too high to justify public funding on those grounds only, and promises of export earnings through the film industry have until now singularly failed to materialise.

5. In an official speech made at a meeting with members of the film industry in February 1990, the minister charged with the film industry, Mr. Gene Louw, expressed his views on public funding for the film industry as follows:

"What can we offer (the taxpayer) in return for his money?...

a) firstly a vital, vibrant, and viable industry, with all its consequences - higher employment, greater creativity, imaginative artistry, domestic contentment (and) the unique opportunity for the different sections of our kaleidoscopic population to associate with one another...

b) secondly, a chance to create an industry with a purely South African character... that depicts our own South African ethos..."

It has become evident that the current system of automatic aid to the film industry (rewarding box office success) is on its own not enough to realise the vision described above by Mr. Louw.

6. The series of criminal investigations into the affairs of members of the film industry announced by the Department of Home Affairs, gives an indication of the loopholes in the current control mechanisms of state support to the industry.

7. The lack of a clear direction, efficient administration, long term planning and effective communication in the SA film industry is mainly due to the absence of a specialised statutory body dealing with matters relating to the industry. It is impractical for government officials, who have no background knowledge or practical experience of the film industry, to take sole responsibility for administering its complex and sensitive infrastructure.

The major weakness of the present system of state administration becomes most apparent when the responsibility for the film industry is moved from one government department to another (sometimes at very short notice), and officials are faced with the impossible task of administering a complex industry without the necessary know-how.

8. The Department of Home Affairs is currently administering the affairs of the film industry without consulting the majority of the organisations in the film industry.

Reports and recommendations from the Film Industry Task Force and from officials in the Department of Home Affairs handed in to the Minister, are not made available to organisations in

the film industry for discussion and comment. There is also no consultation about the procedures of invitation to, or the agenda of meetings arranged by the Ministry with members of the film industry.

Apart from research into the structures of the South African film industry, the industry structures of the following countries were studied: Italy, Australia, Canada and France, with New Zealand and Iceland as examples of smaller industries. Attention was also given to African film structures, in particular to those of Burkina Faso. A further paper dealt with the theory of Third Cinema.

This research brought to light the fact that all over the world, a very high percentage of cinema tickets sold are for imported American productions, with a disproportionately small percentage for local productions and other imports.

In the previous financial year, for example, 70% of tickets sold in Italy were for American films and 28% for local films. In Spain, the ratio was 80% American and 18% local, in Great Britain, also 80% American, in West Germany, 80% of all tickets sold were for American films and 7% for German or German co-produced films, and in Australia, 2% of tickets sold were for local productions. In Africa, the situation was even more imbalanced.

Two exceptions were France and Burkina Faso. In France, 120 million cinema tickets were sold last year, an average of 2.3 visits to the cinema by every man, woman and child for the period, much higher than for any other country that was studied. Of these tickets, 37% were for French films and only 54% for American films.

A similar phenomenon was observed in Burkina Faso, a small and relatively poor country in West Africa, but nevertheless the undisputed leader of cinema in Africa. (Between February 1986 and February 1991, no less than 27 local films were produced

B. FIELD OF INVESTIGATION

Apart from research into the structures of the South African film industry, the industry structures of the following countries were studied: Italy, Australia, Canada and France, with New Zealand and Iceland as examples of smaller industries. Attention was also given to African film structures, in particular to those of Burkina Faso. A further paper dealt with the theory of Third Cinema.

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In the previous financial year, for example, 70% of tickets sold in Italy were for American films and 25% for local films, in Spain, the ratio was 80% American and 15% local, in Great Britain, also 80% American, in West Germany, 90% of all tickets sold were for American films and 7% for German- or German co-produced films, and in Australia, 2% of tickets sold were for local productions. In Africa, the situation was even more imbalanced.

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A similar phenomenon was observed in Burkina Faso, a small and relatively poor country in West Africa, but nevertheless the undisputed leader of cinema in Africa. (Between February 1989 and February 1991, no less than 23 local films were produced

in that country, more than in South Africa during the corresponding period. One of these, *Tilai*, won both the prestigious Grand Jury Prize in Cannes in 1990 and the "Stallion of Yennenga" prize for best film at the Ouagadougou festival earlier this year.)

Closer investigation revealed that the structures into which the film industries of these two countries were organised, were very similar. Of all the former French colonies, Burkina Faso was the only one to adopt the same principles of regulation and support for its film industry as those in operation in France.

During the FESPACO film festival in Burkina Faso earlier this year, the cinema structures of these two countries moved even closer to each other when a formal agreement was signed between them, giving Burkinabe films access to the same measures of support that a French film qualifies for in France.

In order to avoid unnecessarily complicating the presentation, the Film Commission has therefore decided to expound only the infrastructure of the French film industry as a model for discussion.

The relative success of the French film industry in maintaining a strong national cinema is almost entirely due to the role played by the *Centre National de la Cinematographie* (CNC). What follows is a breakdown of its structure and functions.

Due to the intricate nature of the mechanisms administered by the CNC and the extent of its functions, only a limited number of its aspects are discussed.

C. THE FRENCH *CENTRE NATIONAL DE LA CINEMATOGRAPHIE* (CNC)

"If cinema is above all an art form, it is also an industry. An industry that requires the mobilisation of large amounts of money to manufacture an original product, the film, whose prospects of recouping its costs are uncertain, because it depends on the public. The creation and the subsequent history of the *Centre National de la Cinematographie* were induced by this essential characteristic of the 7th art."

- Dominique Wallon, Director-General of the CNC in his preface to *Le Guide: Centre National de la Cinematographie* (1990)

I. INTRODUCTION TO THE CNC

1. Origins

The classic problems of the film industry (decline of audience figures, increase in production costs and competition from foreign films) manifested themselves for the first time in French cinema in the 1930's. After many debates in parliament and among industry professionals, the CNC was created in 1946 in order to address these difficulties.

By 1947, the measure that was to form the basis of the relationship between the public sector and the film industry in France, namely a system of control over the issuing of tickets, was put into effect by the CNC: All tickets sold to the public by cinema operators could be obtained only from the CNC. This permitted the government to keep track of each ticket sold and it prevented all forms of fraud by cinema operators.

Included in the price of the ticket was the so-called *TSA*, the *Taxe Speciale Additionnelle*. This tax was used to support the film industry, at first only through a system of automatic aid (as we have in South Africa, where films are rewarded by the state in proportion to the amount of viewers they attract), but shortly afterwards, when the weaknesses of this form of aid became apparent, a parallel system of selective aid was created.

Another distinctive feature of the relationship between French state and film industry that developed early on, was the regulation of the industry that took place through the CNC. Producers, distributors and exhibitors had to conform to minimum requirements laid down by the CNC before they were allowed to operate, and directors and a certain number of key technicians had to obtain "professional cards" before they were allowed to work on films that would qualify for public aid.

The purpose of these controls were:

- to protect the interests of all beneficiaries of the income of the film
- to monitor the dispensation of public aid to the industry
- to encourage investor confidence.

Since the 1950's, when television became a factor, many changes have been made to the structures of the CNC in a rapidly changing audiovisual sector, but the foundation of what has been described above, has remained the same.

2. Area of operation

What makes the CNC unique, is the diversity of its responsibilities and the permanent consultation that it maintains with professionals in the film industry.

Its responsibilities can be divided into three main categories:

- film and television finance;
- regulation of the industries and communication with professionals;
- the advancement of cinema and the protection of the audiovisual heritage.

2.1 Film and television finance

The CNC administers the budget of state funding to the film industry and to audiovisual programmes:

- to the film industry: support for the production and distribution of films, for the construction and modernisation of theatres, for the facility sector of the industry and for the promotion of cinema in France and abroad;
- to the television industry: support for the production of programmes made for all television stations (private and public, encoded, cable or open broadcast).

Other mechanisms put into place by the CNC to encourage investment in the film and television industries include:

- tax concessions for investments in financial institutions specialising in film and audiovisual financing;
- the establishment of statutory bodies such as the Institute for the Financing of Cinema and Cultural Industries (IFCIC) and the Agency for the Regional Development of Cinema (ADRC).

The CNC finally administers the budget allocated to the cinema and to audiovisual programmes by the Ministry of Culture and other state departments.

2.2 Regulation and relations with professionals

The CNC:

- advises the government on legislation concerning the audiovisual industries;
- grants authorisation to operate to producers, distributors and exhibitors and issues professional cards to directors and key technicians;
- approves film and audiovisual projects;
- provides the secretariat of the Commission of Classification of films (age restrictions, etc, not a censure board);
- verifies box office receipts in order to protect the interests of all beneficiaries;
- regulates the sequence of exhibition of films on the different media;
- regulates the home video market;
- informs professionals and the public through the publication of a bulletin and monographs, and the administration of an audiovisual information centre open to the public.

2.3 Training, the promotion of cinema and the protection of the audiovisual heritage

- training and education in film schools, high schools etc;
- promotion of cinema among the youth;
- film festivals (among which, Cannes);
- support to experimental and art cinema and film clubs;
- promotion of French cinema abroad;
- international relations;
- archival services;
- recording of live arts (theatre, dance, etc);

3. The financing of the CNC

- The *Taxe Speciale Additionnelle*, levied on the sale of cinema tickets, is the oldest form of financing for the CNC. The exact percentage of the tax is determined on a yearly basis, but it works out to approximately 12% of the price of the ticket. This source supplies about 20% of the total annual budget of the CNC.
- A tax of approximately 5,5% is levied on the total income (advertising, licence fees, subscription fees) of all television stations (public, private, encoded, cable, etc). This amounts to nearly half of the total budget of the CNC.
- Taxes on both the importation and the showing of pornographic films.
- Refunding of selective aid from films who have benefitted from pre-sale contributions (selective aid) from the CNC (less than 1% of the total budget).
- Direct contributions from the Ministry of Culture for cinema and audiovisual production, exhibition and training purposes: approximately 15%.
- Exceptional contributions from the Ministry of Culture for specific purposes, eg youth programmes.
- Budgets for programmes commissioned by state departments, administrated by the CNC.
- Compulsory membership fees paid by producers, distributors, exhibitors, exporters, facility houses, film laboratories, etc.

II. FUNCTIONS OF THE CNC

The CNC reports into of the Ministry of Culture, Communication and Public Works and is organised into four services:

- A. Production, Distribution and Foreign Relations (Feature and Short Films)
- B. Exhibition
- C. Audiovisual Programmes
- D. Administration and Finance, incorporating two sub-sections namely:
 - Film Archives
 - Information and research

The following break-down shows the main functions of each:

CNC

(Centre National de la Cinematographie)

Prod, Distr, & Foreign Relations Service (Feat. & Short Films)	Exhibition Service	Audiovisual Programmes Service	Administrative & Financial Service
* Authorisation to operate: Prod & distr. co's, Prof. Cards	* Authorisation to operate	* Fin. aid to aud. programmes	* General admin. & budget
* Approval of products	* Programming	* New tech-nologies	* Legal matters
* Automatic aid	* Modernisation & constr. of cinemas		* Status of CNC
* Selective aid	* Relations film soc's		* Regulation of video market & feat. films on television
* Relations foreign ind.	* Non-commercial distr.		- Archives
	* Training		- Information & Research

A. Production-, Distribution- and Foreign Relations Service
(Feature and Short Films)

1. Feature film production

Feature films are defined as 35mm films of a length equal or superior to 1 600 meters.

1.1 Regulation

The regulation concerns mainly two aspects:

- The criteria for the nationality of the film in order to support and promote French films
- The coherence and viability of the financial structure.

Four areas of production are regulated:

a) The authorisation to set up a business related to any of the branches of cinema is subject to approval by the CNC. In order to set up a company for the production of feature films, the prospective producer must submit proof that the company is registered in France and that it has a minimum capital amount at its disposal.

b) Directors and certain key technicians have to be in possession of "professional cards" before they can work in those capacities on a film. These cards are obtained through professional training and/or experience and are issued by a commission made up of two representatives each of the organisation of technicians and producers.

c) In order to qualify for automatic or selective state aid for their films, producers must submit their projects twice to

the CNC for approval: before the start of principal photography and after completion of the film.

The first application for approval principally concerns the determination of the "nationality" of the film according to specific formulas applying to the percentages of local, regional and foreign financing, the quota regulations governing actors and technicians, the language of the film, the laboratories used, etc.

The producer must also participate in a certain minimum percentage of the budget of the film and professional credit may not exceed a certain maximum percentage. Proposed key technicians must be in possession of professional cards.

The commission granting this authorisation is made up of representatives of each of the following professions: feature film producers (6), distributors (1), facility houses (1), scriptwriters (1), directors (1), directors of photography (1), production managers and line producers (1), actors (2) and two representatives of the salaried personnel of the film.

After having obtained this approval, the producer may now apply for both selective and automatic financial support from the CNC for the production.

After completion of the film, the following information must be submitted to the CNC by the producer in order to qualify for the second approval: proof that financial engagements set out in the first application were honoured, that salaries were paid, that the amounts budgeted for were in fact spent during production, proof of the origins of the sources of financing, and finally the certificate of classification of the film. (Films classified as pornographic by the commission of classification do not qualify for automatic financial aid).

If the producer has not honoured the financial and other engagements (the use of local crew and actors, for example), the project might be referred back to the first commission and the producer asked to refund state aid already received.

d) Authorisation for the production of foreign films in France: foreign producers have to submit proof of the foreign financing of their films. This gives them the right of remittance on VAT.

1.2 The mechanisms of state aid to feature film production

1.2.1 Automatic Aid

After approval of the financial and technical structure of a film project, the film automatically qualifies for state aid when shown in cinemas or broadcast on television (except in the case of pornographic films, who are subject to an additional tax paid to the CNC).

In the case of theatre releases, the producer of a film has the right to 12% of the amount of tax levied on ticket sales for his film, over a period of five years from the release of the film.

If the film is shown on television, the producer can claim 18% of the amount paid out to him by the television station for the broadcast rights, on condition that the broadcaster reaches a minimum of a 100 000 households. If the amount being paid for the broadcast rights exceeds 1.5M FF, the percentage of aid reduces to 8%. This aid remains in force for eight years from the date of release of the film.

However, it is important to note that the automatic aid can not be used by the producer for any other purpose than to pay off debts of previous productions, or for the preparation and production of a new film.

1.2.2 Selective aid to production

a) Advance on Box Office Receipts

The stated aims of this form of aid are to:

- support a different and independent cinema, risky according to the norms of the market, which can not be produced without state aid;
- encourage innovation in creation by supporting first-time directors;
- assist in the production of films with a recognised cultural value which have to take financial risks to achieve this ambition.

The commission that decides about the attribution of aid consists of fourteen members (each with a replacement), a president and two vice-presidents designated by the Minister of Culture for a period of one year. These appointments are made from a wide range of cinema professionals, academics, critics, cultural leaders, writers, etc.

The commission is made up of two colleges of seven members each - one for projects proposed by first-time directors and one for the other projects. The identity of the applicants is not made known to the members of the colleges. Committees having to read the scripts and study the projects, are determined by lot.

Producers can apply to this fund either during the planning stages of production or after completion of principal

photography. A special bureau has been set up at the CNC to help with the administration of productions which have qualified for selective aid, especially those of first-time directors.

Both colleges may also decide to make available an "Aid for Rewriting" to projects which do not qualify for Advance on Box Office support, but which nevertheless show potential. This aid may be accorded for additional research and writing, or for employing professional scriptwriters etc.

b) Support for project development

In order to qualify for this aid, projects must be of particular cultural interest and require exceptional expenditure in preparation. Applications are considered by the Advance on Box Office Commission.

c) Support for script development

Every year, the CNC makes available an amount to the Centre for Writers to financially support writers developing film scripts.

d) Support for original scores

The CNC and the Department of Music and Dance of the Ministry of Culture administer this aid jointly. The commission selecting projects qualifying for aid are made up of cinema and music professionals.

e) Support for co-productions

France has signed co-production agreements with several other countries, determining the amount of aid made available by each of the signatory countries to joint projects.

f) Support to the film industries of developing countries

Administered jointly by the Ministries of Culture, Co-operation and Foreign Affairs. The purpose of this aid is dual: to enable cinema to play a role in the development of these countries and for France to form partnerships with other countries against the dominance of particularly American cinema.

1.3 Specialised mechanisms for the financing of feature films

The most important among these are:

1.3.1 The Institute for the Financing of Cinema and the Cultural Industries (IFCIC)

The initial capital for the Institute was provided by the state (20%), the Small- and Medium Business Development Corporation (20%) and a state loan of a further 20%. The remainder of the capital was invested by a group of thirteen banks.

IFCIC guarantees loans to all sectors of the cultural industry by financial institutions. The thirteen banks that participate are in turn protected from losses by a guarantee fund set up by the state.

The following categories of loans are guaranteed by the Institute:

- short term, leasing and long term for investment in equipment, operating capital, the fitting out of buildings etc, to companies involved in the production, manufacturing or the exhibition of all cultural products.
- project by project: loans to produce a single film, play, or concert, for example.

An advisory board, consisting of respected professionals from the fields of cinema, television, music, theatre, publishing and fine arts, are called upon to advise the management committee of IFCIC. The members of the advisory board are actors, directors, producers, publishers, industrialists, etc.

1.3.2 The Corporations for the Financing of the Film and Television Industries (SOFICA)

All individuals and companies can deduct as a tax deduction any amounts invested in film and certain categories of television production, up to a maximum of 25% of their net income. These investments are administrated by the SOFICAs.

The SOFICA's are commercial concerns, but an official from the Ministry of Finance is appointed to each of them. This official has the right to attend board meetings and has access to all records of financial transactions in order to ensure that the conditions of operation are adhered to.

Films or audiovisual programmes which are financed have to:

- be in French;
- qualify as French or EEC films;
- be approved by the CNC, according to the normal procedures.

1.4 The participation of television stations in the financing of feature films

Television stations are required to spend 5% of their turnover of the previous financial year on local feature film production, either by co-producing, or by pre-buying broadcast rights for the production.

The investment may only be made through feature film production companies: television stations are not allowed to co-produce films as television stations. In addition to this, they may not be majority co-producers of feature films.

2. Feature Film Distribution

Distributors also have to register with the CNC before they are allowed to operate. As in the case of feature film producers, the company must be registered in France and must have a minimum amount of capital at its disposal, depending on the areas in France which it covers and the films which it distributes (the qualifying amount for distributors of experimental and art films is lower). The distributor must also be able to fulfil all the normal responsibilities of film distribution.

2.1 Automatic aid to distributors

If a distributor contributes a minimum of 10% to the production cost of a French film (either through pre-sales or direct participation), he/she qualifies for automatic aid according to the same principles as the producer of the film: 50% of the tax levied on ticket sales until the film has reached a gross income of 20M French Francs (FF); 15% of the

ticket tax thereafter. As in the case of the producer, the subsidy may only be used to re-invest in film production.

2.2 Selective aid to distributors

The distributor may apply to the CNC for selective aid for the distribution of experimental and art films. In order to qualify, he/she must already have a history of distributing experimental and art films and must present the commission (made up of fellow professionals and other cultural representatives) with specific projects for the future.

The distributor may also apply for aid for the distribution of a particularly meritorious film that would not be distributed otherwise.

Aid is only available for the distribution of French or French co-produced films, except in the case of films from countries whose films are rarely seen in France.

3. Short Films

As in the case of feature films, the production company producing the short film (duration less than one hour) has to be registered with the CNC and authorisation for production has to be obtained from the Production, Distribution and Foreign Relations Service.

The director, director of photography / cameraperson and the editor also have to be holders of professional cards, although the director may apply for an exemption in the case of a first film. After approval of the project, it may apply for selective (advance on box office) aid.

The project can also qualify for selective aid at an earlier stage, on the grounds of the script only. The author-director may apply directly (not through a producer as in the case of feature films) to the CNC for selective development finance.

After having been classified by the Commission of Classification (age restrictions) the film is shown to a commission made up of directors, producers and technicians. If it is found to be of an acceptable technical and artistic standard, it receives a so-called "mention".

In order to encourage the exhibition of the short films which have received a "mention", an incentive is offered to French feature film producers: if they include a short film in their programme, the percentage of automatic aid which they qualify for is augmented (currently from 120% to 128% of the TSA).

All short films which have received a "mention" during a particular year, are viewed again by the Short Film Commission. A maximum of sixty among them then receive prizes with a certain monetary value, to be shared between the director and the producer of the film.

4. Foreign relations

Finally, the Service of Production, Distribution and Foreign Relations is responsible for regulating and encouraging relations with regional and foreign film industries.

These responsibilities include controls over the importation and the exportation of films, the encouragement of the export of French films through Unifrance Film International (who receives funding from the CNC), financing agreements for exporters from IFCIC, information campaigns about French cinema abroad and international co-production agreements.

B. The Exhibition Service of the CNC

1. Regulation

1.1 Authorisation to operate

As in the case of producers and distributors, exhibitors have to obtain the CNC's authorisation to operate. Exhibitors are defined as all individuals or business entities showing moving pictures to a paying public, even on an irregular basis.

The authorisation is granted to exhibitors for each locality of exhibition and is not transferable. In order to qualify for permission, the exhibitor has to comply with certain technical and administrative requirements.

Technical requirements concern the safety and comfort of the public, and the quality of the projection. Adherence to safety measures are verified by local municipalities and the quality of projection (size of the screen, quality of the projection equipment and of the copies being shown) by the Technical Cinema Commission, administered by the CNC.

In the case of mobile cinemas, applications have to be submitted for each location where a film will be screened, and the local receiver of revenue has to certify that the place of screening is inaccessible to non-paying members of the public.

In the case of administrative and legal requirements, the Director-General of the CNC is advised by regional commissions made up of four representatives each of exhibitors, distributors and salaried personnel of the sector.

1.2 Verification of box office receipts

Verification of box office receipts is an essential element of the mechanisms of control administered by the CNC. The box office receipts do not belong to the exhibitor only, but have to be divided among all beneficiaries of the film (producer, distributor, exhibitor, and fiscal authorities). It is therefore necessary to strictly verify box office income.

As explained before, exhibitors can obtain tickets to sell to the public only from the CNC. In the case of computerised sales, the system in use has to be authorised by the CNC. Prices are however not controlled and depend on free market mechanisms.

Books have to be kept up to date rigorously: the serial numbers of the tickets sold for each projection have to be filled into a standard form during the course of the projection that they relate to and weekly reports have to be submitted to the CNC.

A permanent inspection service, administered by the CNC, verifies that all requirements laid down are met by exhibitors. This includes the inspection of video shops.

2. The mechanisms of aid to exhibitors

2.1 Automatic aid

As with production and distribution, the basis for the calculation of the amount of automatic aid for which an exhibitor qualifies, is the amount of *Taxe Speciale Additionnelle* that has been generated through the exercise of his functions. Again the aid can be claimed only for re-investment in cinema-related expenses.

The purpose of this aid is to assist in the financing of the modernisation and construction of theatres and it is not available to theatres showing pornographic films.

The commission which allocates the aid consists of one representative each of the CNC, the Ministry of Finance, distributors and three representatives of exhibitors.

2.2 Selective aid

a) Support for the construction and modernisation of theatres in areas which are insufficiently serviced

The commission which advises the minister responsible for cinema in this regard, consists of representatives of the following interested parties:

- regional authorities (2)
- Ministry of Finance (1)
- Ministry of Home Affairs (1)
- Regional Development Corporation (1)
- Small and Medium Business Development Corporation (1)
- exhibitors (2)
- distributors (1)
- the fund for the construction and modernisation of theatres
- the CNC

A representative of financial institutions has observer status at the meetings. The Agency for the Regional Development of Cinema (ADRC) reports to the Commission about the details of projects.

In order to qualify for this aid, a detailed application has to be submitted by the prospective beneficiary, providing particulars of the costs involved and the market which will

be served. The ARDC is responsible for supporting the preparation of these applications.

b) Aid to communities to take over theatres closing down

Direct state aid, administered by the CNC, contributes to the costs involved in taking over theatres which are forced to close down because of falling attendance figures.

Applications have to be submitted by territorial bodies: representatives of local or regional communities qualify.

c) The Regional Agency for the Development of Cinema (ARDC)

The ARDC is a subsidiary of the CNC, whose budget is provided directly by the Ministry of Culture. Its role is:

i) To ensure that communities throughout the national territory have access to film screenings by financially supporting the construction and modernisation of theatres. It provides assistance to private concerns, municipalities or associations. In this regard, it provides the following services:

- feasibility studies
- market research
- costing for the equipment and construction necessary
- advice on management and programming
- financing
- support for the taking over of cinemas by local communities (before and after).

ii) To improve audience attendance in smaller communities by making available financial support for the making of prints of certain films. This allows these films to benefit

from the national publicity campaign not too long after it has taken place.

The ARDC also supports and co-ordinates the promotion and publicity of certain films. This is done on a regional or a national level, in collaboration with distributors, exhibitors and other bodies that wish to be associated with the action (communities, press, television, radio, welfare, etc).

2.3 Loans to exhibitors

Under certain conditions, the CNC guarantees loans by the Small and Medium Business Development Corporation to exhibitors. Exhibitors themselves have also set up a guarantee fund to facilitate loans to the sector directly from financial institutions.

2.4 Support to theatres classified as "experimental and art cinemas"

Theatres are classified as "experimental and art" theatres when they show certain minimum percentages of films with the following characteristics:

- films with undeniable qualities, but that have not reached a wide audience;
- films of an innovative nature;
- films which reflect life in a country of which little is known in France;
- screen classics;
- short films with an innovative character or effecting research in the field of cinema;

- new films that are recognised by critics and audiences as films contributing to the art of cinema;
- exceptional amateur films.

Theatres classified as "experimental and art" qualify for a larger percentage of the TSA than commercial cinemas. The exact percentage depend on the area in which the cinema operates, the percentage of art and experimental cinema, etc.

The commission classifying cinema houses which have applied for classification, consist of representatives of the CNC, government departments, directors, producers, exhibitors, distributors, the French Association of Experimental and Art Cinema (AFCAE) and a regional representative of the ARDC.

Films are classified as experimental and art films by representatives of the CNC, directors, producers, distributors, independant exhibitors, AFCAE, cultural leaders and the young cinema public.

2.5 Other mechanisms of aid to exhibition

Prizes have been created to reward cinema operators who do most to promote cinema in France. Cinema theatres with the lowest audience figures may, under certain conditions, also apply for an additional subsidy.

3. The protection of free market mechanisms

3.1 Associations or agreements between exhibitors

All associations formed and agreements entered into by two or more exhibitors have to be authorised by the Director-General of the CNC.

The purpose of this legislation is:

- to formalise agreements and to protect the rights of all interested parties;
- to prevent unfair competition and to ensure that, in the public interest, films are shown to as wide an audience as possible.

The Director-General decides on applications for authorisation after consultation with the Programming Commission. This Commission consists of nine members, equally made up of exhibitors, distributors or producers, and other individuals qualified in the field under consideration, appointed by the minister responsible for cinema.

The Commission has three functions:

- To advise the CNC on applications from exhibitors for authorisation to form associations or to enter into agreements. In its deliberations, the Commission gives consideration to the possible negative effects that proposed agreements or associations might have, particularly on independent exhibitors.
- To consider situations of possible unfair competition at the demand of the CNC;
- To suggest penalties when rules are not adhered to.

It is prohibited by law for exhibition entities which operate on a national level to enter into agreements.

3.2 The Cinema Mediator

The Mediator is an independent administrative authority, appointed jointly by the Minister of Finance and the Minister responsible for Cinema, after consultation with the Council for Fair Competition. He or she can then appoint specialised

personnel after consultation with the Director-General of the CNC.

The role of the Mediator is to attempt to solve differences arising from claims of unfair competition, particularly in the field of exhibition. At the demand of the Mediator and after consultation with different government departments, statutory bodies and cinema professionals, a document entitled "Code for Fair Competition in Cinema Exhibition" has been developed to provide guidelines to distribution entities.

4. The non-commercial sector

Cine-clubs and all other organisms projecting films on a non-profit basis, also have to obtain authorisation from the CNC.

5. Festivals

More than two hundred cultural events involving cinema take place in France yearly. These events are designed to promote the showing of films that are generally not seen, the discovery of new talent and a way for local communities to associate socially. Many of these events receive financial support from the CNC. Numerous film festivals also benefit from the support of the CNC, among them, the Cannes festival, the biggest film festival in the world.

6. Training

The CNC co-finances the film school, FEMIS, colleges, etc, and, together with the Ministries of Culture and National Education, is involved in the extension of audiovisual

training and education to schools. In certain schools, children can specialise in cinema and audiovisual studies, instead of science or languages, for example.

Registration

In order to qualify for automatic or selective aid from the CNC, audiovisual programme producers have to subject their projects to measures of control similar to those applicable to feature film production: determination of the nationality of the programme (sources of financing, the nationality of the crew and actors, language) and its financial structure.

Applications for aid may be submitted only by producers whose production companies are independent of television channels. However, before the programme qualifies for registration, the producer must have reached an agreement for its broadcast with a channel contributing to the CNC fund through tax on its income. This channel must reach at least a hundred thousand households, but the programme can "accumulate households" by being broadcast on different channels.

2. Aid to audiovisual programmes

2.1 Automatic Aid

Drama series, films made for television, animation programmes, and in exceptional cases, other programmes with a high cost per minute, qualify for automatic aid. The amount is worked out according to a formula which takes into account the overall cost of the programme and the average amount per minute that was paid out by the CNC in the previous financial year. The higher the cost of the programme under consideration, the higher the amount of aid it receives. Again the automatic aid may only be used for re-investment in programme production.

C. The Audiovisual Programmes Service of the CNC

1. Regulation

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2.2 Selective aid to programme production

Programmes of particular cultural, technical or economical interest qualify for this aid. The Director-General of the CNC decides about its allocation in consultation with the Commission for the Financial Support of Audiovisual Programme Production.

This Commission consists of the Director-General of the CNC, one representative each of the Ministry of Culture and Communication and the Ministry of Finance and six members appointed by the Minister of Culture and Communication for their particular qualities to fulfil the functions required.

The aim of the financial support is:

- to help develop works of fiction or animation that do not (yet) have access to automatic support
- to support programme genres that do not normally benefit from automatic aid: documentaries, cultural magazine programmes, the recording of live performances.

It is also possible to obtain support from the CNC for the production of a pilot for a series of programmes.

As in the case of cinema, other special mechanisms exist to facilitate the production and broadcast of certain programmes.

D. The Administrative and Financial Service of the CNC

The functions of this section comprise the administration of the archives and the Information and Research centre, which is open to the public, and all the legal and other administrative functions of the CNC.

This includes the regulation of the order of release of films in the different media (one year after theatre release for encoded channels, one year later for video shops and on television channels which co-financed the film, and another year later, three years after theatre release, on other television channels).

The Administrative and Financial Service also regulate the quota of local films on television, the amount of films which different categories of channels may broadcast per year, and when films may be broadcast. (On Wednesday, Friday and Saturday nights, no films may be broadcast on open channels until 22h30, to encourage viewers to go to the cinema.)

D. RECOMMENDATIONS REGARDING CHANGES TO THE CURRENT SYSTEM OF STATE SUPPORT TO THE FILM INDUSTRY

1. The complex infrastructure of the film industry necessitates the creation of a specialised statutory body to ensure continuity in government policies regulating and supporting the South African film industry. The Film Commission found that the French *Centre National de la Cinematographie* offers a positive example of a statutory body efficiently administering state support to the film industry while ensuring the independence of the industry from the government of the day.

2. In order to co-ordinate initiatives concerning the industry and to facilitate integrated, long-term planning, this body should be made responsible for the administration of all aspects of the industry: Not only production, distribution and exhibition, but also resource functions like training, archives and research and information.

3. Given the areas of mutual interest between cinema and television, this body should further be responsible for maintaining close contact and co-operation with the television industry.

4. It is essential that professionals from the film industry be involved in the planning and continuing operation of such a body.

5. A system of tax on cinema tickets and on the income of television stations could provide both a stable and a relatively independent source of funding for such a body.

6. Both the present and the recommended mechanisms of state support to the industry require efficient measures of control to secure the accuracy of the box office receipts declared by cinema operators. We recommend that the suggested body be made responsible for the issuing of tickets to cinema owners and the verification of receipts.

7. The current system of automatic aid to the film industry does not fulfil the function that it was intended for and serious attention should be given to the creation of selective state support structures in addition to certain forms of automatic aid.

8. Measures of control and support applied to one of the branches of the film industry in isolation from the others are ineffective in helping to build a local industry. These measures should apply to the totality of the industry.

9. There is an urgent need for wide-ranging, ongoing research to guide the changes that need to be brought about if the South African film industry is to ward off the current threat to its survival.

Immediate attention should be given to the establishment of a full-time research unit with the necessary resources at its disposal to investigate the viability of an independent statutory body to administer the South African film industry.

The composition, brief and funding of the unit should be determined through a process of consultation among organisations in the film industry, political representatives, broadcasters and other interested parties.

10. The fate of the South African film industry is inextricably tied up with the South African public (in their capacity as viewers *and* taxpayers). It is necessary to launch a public awareness campaign on the current plight of, and future directions for the local film industry. This campaign could be used to begin nurturing a pride in South African images.

11. In the light of:

- a) the extent of the crisis in the film industry;
- b) the need for this medium to play its role during the period of far-reaching changes in the socio-political arena;
- c) the rapidly changing context of audiovisual production, distribution and exhibition, coupled with revolutionary changes in audiovisual technology;
- d) the current process of redefinition of regional and international audiovisual relations worldwide, and particularly in South Africa;
- e) the lack of access to film screenings for the large majority of South Africans,

it is necessary to accept the need for urgent and effective action in this regard.

Report written up by Danie Pieterse
Chairperson, FAWO Film Commission

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