France's Protected and Subsidised Film Industry: Is the Subsidy Scheme Living Up to Its Promises?

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1 France's Film Industry: Is It Healthy?

No other country in the world can claim to be involved in as many film productions as France. Over the years, an increasingly complex support framework has emerged in France, in which grants and public subsidies coexist with tax incentives directed at private investors. Supported by state subsidies and partly sheltered from Hollywood hegemony, the French film industry has traditionally been regarded with envy by its European neighbours.

As is shown in Table 1, 2015 was a healthy year for French film production and saw 300 feature films approved for public funding (against 258 in 2014 and 203 in 2006). A record number of 234 were *French majority films* ("French Initiative Films" or FIFs) with over 50% of their budget funded by French interests, while 66 were minority French co-productions or *foreign majority films*. Of these, most were fiction films, but 47 films were documentaries and 3 animation films. 142 films form the total approved were co-productions with 41 different foreign investors. It is also worth noting the high proportion of debut films and second-run film (75 and 38, respectively, in 2015 (CNC, 2016, p. 81), suggesting the good health of the French industry.

Another positive sign is the renewed financial commitment to film shown by TV channels, which invested 377.97 million euros in 2015 (+29.7% compared to the previous year) in pre-purchases and co-production for 168 FIFs. *Canal+* is still leading the way with 178.73 million euros spent in pre-purchases for 128 films, including 113 FIFs, while the other Pay-TV channels making their mark on this

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Table 1 Number of films approved by the CNC in France (2006–2015)

Year	FIFs	Of which wholly French	And co-productions	Foreign majority films	Total approved films
2006	164	127	37	39	203
2007	185	133	52	43	228
2008	196	145	51	44	240
2009	182	137	45	48	230
2010	203	143	60	58	261
2011	206	151	55	65	271
2012	209	150	59	70	279
2013	208	153	55	61	269
2014	203	152	51	55	258
2015	234	158	76	66	300
2015 (%)	78.0	52.7	25.3	22.0	100.0
Avg. growth rate (%)	+4.3	+2.5	+10.5	+6.6	+4.7

Source: CNC (2016, *Bilan* 2015, p. 76)

landscape were *Ciné*+ (20.21 million euros for 114 films) and OCS (Orange) (20.93 million euros for 37 features). 2015 saw the highest level of investment by free channels in the past decade, with 157.92 million euros (+29.8% to 2014), funding 135 films (12 of which were minority films). TF1 contributed with 46.9 million euros in 18 films), *France* 2 46.55 million euros for 48 titles, *France* 3 22.96 million euros for 26 films, *M6* 24.45 million euros for ten films, *Arte France* 9.91 million euros for 26 features, and TNT's free nonhistorical channels 7.06 million euros for 34 -pre-purchased films, including 12 movies for D8 and ten for TMC. The number of FIFs not benefiting from any investment by TV channels has decreased in 2015 (66 films, against 77 in 2014) even though TV is still the main source of funding, covering 35.5% of overall budgets. The remainder of the funding comes from contributions by French producers (30.4%) and mandates for theatrical distribution in France (13.7%), while funds received in advance from mandates of video editions and from international sales continue to decline (Cineurope, 2016).

But there are dissenting voices to this rosy picture. The role of state subsidies has been repeatedly criticised in France and is attracting comments from abroad. The producer Vincent Maraval called 2012 "a disaster [year] for French cinema". He asked for an urgent reform of the system, including a cap on actors' wages: "why is it that well-known French actors—whether it's Vincent Cassel, Jean Reno, Marion Cotillard, Gad Elmaleh, Guillaume Canet, Audrey Tautou, Léa Seydoux—make €500K to €2m for a French film, with a market limited to our borders, while, when they shoot an American film, aimed at the international market, they're happy with €50K to €200k?", Maraval asked (in Brooks, 2013, see also Maraval, 2012). The Oscar-winning director Michel Hazanavicius also blamed the state subsidy scheme for its negative effects on the inflation of salaries for actors and a growing sense of "complacency" in the film profession: "today our responsibility is to denounce the failings of a once virtuous system that is being devoured by gangrene" (Hazanavicius, in *The Guardian*, 2013). His comments are not isolated.

The purpose of this chapter is twofold: The first part introduces France's film funding ecosystem as it stands today, presenting a brief overview of its key elements and evaluating selected support mechanisms. Essentially, it then analyses the public subsidy system for film managed by France's national film agency, *the Centre national du cinéma et de l'image animée* (CNC, French national centre for cinema and the moving image), located in Paris. In doing this, we explain why France's public film policy is still considered by some as being unique and widely acclaimed for contributing to the diversity and richness of French film culture (Creton, 2015, p. 17; Escande-Gauquié, 2012, p. 19).

However, and this is our main argument, the different funding mechanisms reveal discrepancies between perceptions that the French film industry is going through institutional crises conveyed by alarmist reports and press articles on the one hand, and CNC reports continuing to suggest that the production remains healthy and profitable.

This is why the second part of this chapter shifts the perspective to issues of audience demand. It looks critically into demand structures and preferences for choosing French films, to understand its poor performance in terms of attracting audiences at home, especially in the context of changes brought in by the digital era. In short, we question the capacity of the generous existing subsidy system to attract a larger audience for French films and the success of the French film policy through its public subsidy scheme. We argue that the French support policy has failed to increase the attractiveness of French films and highlight the limits and paradoxes of the current system.

Before looking at public funding in detail in the next section, it is important to realise that France's public funding scheme is complemented with various mechanisms designed to facilitate or encourage private investment in cinematographic production via tax credit schemes for private investors or production companies. Two examples are presented here briefly: the SOFICAs (*Sociétés pour le financement des industries cinématographiques et audiovisuelles [societies for the financing of the film and audiovisual industries]*) and the *tax rebates for international productions* (TRIPs).

1.1 SOFICAs

The legislation passed in July 1985 to regulate the development of SOFICAs had for main objective to make it easier to collect private funds to inject into the film industry in return for tax deductions. They can be initiated and managed by cinema professionals or banks. In 2015 and 2016, a dozen companies were accredited by the CNC, i.e. 62 million euros, 90% of which has to be invested in film or audiovisual ventures. As the Table 2 below shows, the SOFICAs are involved in the production package of around 1000 films per year from 2010 to 2015. They

Table 2 The input of SOFICAs in film funding (2006–2015)

	Number of films funded	Of which FIFs	SOFICA (M€)	Avg investment per film (K €)	Budget of films concerned (M€)	Share of Soficas in funding of films concerned (%)
2006	78	72	32.8	420.3	485.7	6.7
2007	88	82	40.6	461.3	562.9	7.2
2008	97	86	38.3	395.2	800.1	4.8
2009	98	91	36.2	369.5	651.3	5.6
2010	108	100	50.0	463.3	632.5	7.9
2011	104	93	36.4	350.3	554.7	6.6
2012	118	102	44.7	378.4	630.7	7.1
2013	99	91	32.9	332.3	443.7	7.4
2014	103	89	34.0	330.0	465.8	7.3
2015	112	101	36.7	328.0	574.2	6.4

Source CNC (2016)

represent 6.4% of the overall budget of films concerned in 2015, which represents a drop from the 3 previous years (7.1% in 2012, 7.4% in 2013, 7.3% in 2014).

A more general tax credit system (*crédit d'impôts*) has also been in place in France since 1994 (for more information, see Escande-Gauquié, 2012, pp. 91–92; Jäckel & Creton, 2004, p. 213). For example, from 2013, tax rebates for international productions (TRIPs) have been introduced in an attempt to reform the system and attract film production in France.

1.2 Tax Rebates for International Productions (TRIPs)

The TRIPs is designed for cinema or audiovisual works of fiction and animations whose production is initiated by a foreign company and that are wholly or partially shot in France. The Incentives Guide published by the CNC (Chebance, Julliard-Mourgues, Bender, & Priot, 2016) lists the different subsidies available to foreign professionals who have a film project that they want to produce in France. TRIPs have undergone several reforms since 2012. The tax credit ceiling increased from 1 to 4 million euros after January 2013, and the tax credit rate rose from 20 to 30% for films under 4 million euros after December 2013. For applications made after January 2016, the 30% rate was extended to all films under 7 million euros. The 2016 Finance Act extended the 30% tax credit rate to films made in French of over 7 million euros and foreign-language animated films or films with extensive visual effects and, in some cases, to films where the use of a language other than French was justified by the script (20% rate) (CNC, 2016, p. 205).

Since 2009, tax credits have been extended to international film productions—30% of the eligible costs of foreign films and television programmes (including animation and VFX). Over 110 foreign productions have benefited from this, including films by Christopher Nolan, Stephen Frears, Wong Kar-wai, Woody

Allen, Martin Scorsese, and Jackie Chan. Other international projects can receive similar support through the co-production scheme (CNC, 2016, p. 7). These co-productions reached a peak in 2015, with 142 films co-produced with 41 foreign countries, the highest figure ever for the past decade. The main partners for French cinema were Belgium (48 films), Germany (17), Italy (16), Canada (12), Switzerland, and Spain (eight each) (CNC, 2016, p. 79).

2 France's Subsidy Scheme: Success Through Public Funding

The *Centre National du cinéma et de l'image animée* (CNC), created (by law) in 1946 and set up as a separate and financially independent entity, is the French national film agency under the authority of the Ministry of Culture responsible for implementing the government's policy for film and moving images.

2.1 The Role of the CNC

Under the authority of the Ministry of Culture, the CNC, i.e. France's national film agency, administers a range of policies that regulate the film industry and ensures the vitality of the film, television, and multimedia sectors through the support funds that it manages. Its public policy serves two key purposes: (1) it maintains the strong presence of French and European projects in France and abroad and (2) fosters diversity and renewal of production. It also archives the film funding and production statistics, producing regular reports and dossiers available on its website. The CNC publishes at regular intervals specialised official reports used by national and European cultural institutions to evaluate policies and their impact, providing valuable statistics on the industry. The 2016 report indicates that 765.2 million euros of support funding were allocated in 2015, representing a slight decrease of 1% (7.5 million euros) compared with 2014, 332.5 million euros of which were for cinema (CNC, 2016, pp. 198–201). This corresponds to a breakdown of 391.5 million euros for "automatic support" (defined below, 51.2%), 347.2 million euros for "selective support" (defined below; 45.4%), and 26.5 million euros for "digital content" (3.4%).

The CNC mission statement makes its priorities explicit: "The CNC provides automatic and selective support for the production, distribution and broadcasting of films. It also finances the film education policy for young audiences. Its mission is the conservation and promotion of film and filmmaking heritage." (CNC, 2016, p. 198). Since 1959, it has managed funds coming from three different sources: the tax on cinema tickets or *special additional tax* (TSA "*taxe spéciale additionnelle*") raised on all cinema tickets sold in France to support the French film industry; the tax on television services (TST); and the tax on video and video on demand (VoD). The TSA corresponds to 10.72% of the total French box office receipts. It brought revenues of 140.3 million euros in 2015 (CNC, 2016, p. 201). The programme of support consists of distinct automatic and selective grant mechanisms for which filmmakers and producers can apply. In 2015, of the 234 French initiative films that received support, 143 requested provisional tax credit approvals. The total expenses eligible for these 143 films were estimated at 328 million euros and an overall film tax credit of approximately 74.9 million euros in 2016 (CNC, 2016, pp. 203–204).

2.2 The CNC Funding Mechanisms

France is arguably one of the systems that is most supportive of its national cinema industry in Europe and even in the rest of the world. It includes a generous subsidy programme for cinema and video worth more than 700 million euros yearly.

2.3 The Cinema Support Fund (compte du soutien)

The *Compte du soutien financier de l'Etat à l'industrie cinématographique* (the state support fund for the cinematographic industry) was created in 1959 and is the major source of subsidies to the film industry in France. Subsidies are available for all sectors of the industry, including for film production and distribution, exhibition, exportation and for related technical industries. Although the CNC administers the fund, it remains technically under the control of the French Parliament, the trustees, and the *Cour des Comptes*. The fund is divided into two sections: cinema and video and audiovisual. The funds available are largely the product of taxes on various sectors of the cinematographic industry:

1. All cinema tickets sold in France are taxed at a rate of 10.9%. This tax is known as the *taxe spéciale additionnelle*, or TSA (i.e. a tax on all cinema tickets sold)
2. Pay and free-to-air television is taxed at 5.5% (TST—*Taxe services de television*),
3. Sales and rentals from DVD/video and VoD transactions (2%)

The CNC also receives grants from the state budget (contributions from the Ministry of Culture and Communication) which vary from year to year, and in addition to this, the *compte de soutien* takes in the repayments of loans it has granted (such as the *avances sur recettes*).

2.3.1 Automatic Support Fund

CNC has a number of different support schemes, both automatic and selective. The decision in the selective schemes is made by committees with representatives from the French film industry. The *automatic support* scheme for production, distribution, and exhibition is accessible on application to producers or directors previously accredited with a business plan for their next project, subject to the film project fulfilling a number of eligibility criteria, i.e. accreditation by the CNC. One automatic support scheme for film production is a tax rebate system where 20%

of certain specified production costs, up to 1 million euros, are exempt from taxation. A similar tax rebate has in recent years been introduced for international co-productions. The other major automatic scheme gives support to producers and distributors based on the total revenues from cinema, DVD/video sales, and sold TV viewing rights for their last production.

Automatic support represented 391.5 million euros in 2015 (+2.2% as compared with 2014; CNC, 2016, p. 128). The broadcasting of the film on television and its release on video also generate returns for the producer credited to his/her CNC account. However, this automatic funding comes with an important obligation—monies deposited in these accounts can only be mobilised for re-investment in a subsequent film accredited by the CNC. If these funds are invested in a French-language film, the CNC will increase the available funds by 25%.

Two automatic funding mechanisms are also allocated specifically to short films: (1) a pre-production aid for films that already have some degree of financial backing from a feature-length film producer and (2) a pre-production aid from COSIP (the Support Fund for Audiovisual Programme Industries operated by the CNC) for films that have audiovisual financial backing from a producer and from a television channel.

Distributors of CNC accredited films can benefit from automatic funding in much the same way as producers. In addition, they receive a sum of money proportional to the box office success of their film. These subsidies are designed to finance the establishment of new cinemas and the modernisation of existing ones, including equipment upgrades. Specific funding mechanisms include: "support for the production of additional prints" (*aide au tirage des copies*) and "support for cinemas within the art and experimental cinema network and for independent cinemas" (*aide aux salles classées "Art et essai" et aux salles indépendantes*).

2.4 Selective Funding

These selective subsidies whose function is primarily to encourage the emergence of new talent and promote the diversity of the French film production are allocated through different commissions following a rigorous selection process for film production, distribution, and exhibition. The funding is awarded after examination of the film/screenplay by specialised commissions who meet three times a year using clearly defined quality criteria. Unlike the automatic funding, which responds to economic objectives, the criteria used for allocating the selective funds are cultural and artistic. The most prominent one is known as the "advance on takings" (*avance sur recettes*).

2.5 Advance on Takings (Avance sur recettes)

Since 1959, the advance on takings fund has nurtured first-time filmmakers and supported independent filmmaking. A commission made up of leading members of the cinematographic profession (one chairperson, three vice chair-persons, and 32 members) examines applications made by French authors, directors, or production companies. The projects are considered in the two separate groups forming the commission: one for first film applications and one reserved to directors who have already made at least one feature-length film. The advance on takings is an interest-free loan (repayable from the receipts of the film) rather than grants. Although it is usually granted prior to filming, it may also (less commonly) be granted after the film is made. The advance on takings represents one of the cornerstone of the support system to this day. It is estimated that only about 10% of applicants receive an advance on takings of up to 700,000 euros, normally prior to shooting, but also sometimes retrospectively. Theoretically, these interest-free loans must be repaid using the profits from the commercial exploitation of the film, but the actual estimated repayment levels remain low at about 10%.

2.5.1 Aid for Script-Writing (or Re-writing)

Instituted in 2002, the aid for script-writing is available to all writers and directors who have previously successfully written and directed a feature-length film, while the aid for re-writing is open to all writers and producers. It is different from development aid which is designed to help producers develop their projects and cover costs for things such as location research and feasibility studies.

2.5.2 Aid for International Co-production

These subsidies are often granted according to bilateral agreements—for example, France and Germany have co-production agreements, which resulted in eight of their co-produced films receiving funding worth a total of 1.77 million euros in 2004. Under this title, the CNC also attributes money to cinematographic production in developing countries (in 2004, 19 such projects received a total of 1.8 million euros in funding).

2.5.3 Aid for Foreign-Language Films

Instituted in 1997, this funding is aimed at supporting the production of feature-length foreign-language films made by French directors or foreign directors of a certain distinction.

2.5.4 Aid for the Production of Short Films

The CNC has four different selective aid mechanisms for short-film production:

1. The "*contribution financière*" which is granted prior to production and aims to encourage new talent
2. The "*aide au programme*", available to companies in the production sector and aimed at promoting the growth of the most dynamic and successful companies

3. The "*prix de qualité*", granted post-production, which aims to acknowledge quality films that have not benefited from state aid and thus to compensate the producers for the financial risk undertaken
4. The "*aide audiovisuelle*" from COSIP available to films that have been financed in part by a television channel.

2.5.5 Selective Funding for Film Distribution

By offering selective funding for film distribution, the CNC supports independent enterprises whose activity favours an increase in the diversity of the cinematographic spectrum. For example, they offer a subsidy for independent distribution companies (*Aides aux entreprises de distribution indépendantes*), which can allow for the wide distribution of quality films whose release on the market would otherwise represent a significant financial risk. There is also selective funding available for the distribution of feature films for young audiences (*aide selective à la distribution de films destinés au jeune public*), of retrospectives or re-issued classic films, of re-edited films, of documentaries, and of films from lesser-known cinematographic traditions and for distribution campaigns. Distribution support also encourages the circulation of quality commercial films from countries whose films are little known in France. The French Ministry of Foreign Affairs contributes to this funding of film distribution alongside the CNC, and in 2004, 20 foreign films—four from Asia, eight from Latin America, one from Eastern Europe, three from northern Africa, and four from the Middle East—received funding amounting to a total of 375,000 euros (CNC, 2015).

2.5.6 Selective Funding for Film Exhibition

The CNC offers a "selective support to exhibitors for the modernisation and construction of cinemas in rural areas" (*aide selective à la creation et à la modernisation de salles*). This funding mechanism is designed to finance the modernisation of movie theatres and technical equipment as well as to promote the creation of new cinemas, especially in rural areas and on the outskirts of large cities. In each *Annual Bilan*, the CNC provides some information on the revenues it gets and on the main types of support it uses for funding the film industry. Table 3 below summarises this information. The main sources of CNC revenues are those described above in the subsection entitled "The cinema support fund", namely, the seat tax (TSA), the tax on pay and free-to-air televisions (TST), and the tax on sales and rentals from DVD/video/VoD transactions. The main types of subsidies the CNC grants are also described above and consist in the automatic and selective funding for the cinema and audiovisual as well as special funds for digitising film production and distribution.

Table 3 CNC revenues and support, € million, selected years

Revenues from the taxes on				"Support" granted to			
	2006	2011	2015		2006	2011	2015
Seats	112.9	143.1	140.3	Cinema	251.6	309.5	332.5
Audiovisual	337.9	631.6	504.3	Automatic	153.0	154.8	171.6
Videos—VoD	44.0	32.0	19.4	Selective	98.6	154.7	160.9
Others	0.8	0.2	0.7	Audiovisual	221.1	287.0	286.3
				Automatic	166.0	201.8	214.9
				Selective	55.1	85.3	71.4
Management costs				Digital plan		35.5	26.5
	−22.8	−42.0	−34.7	Horizontal schemes		91.1	117.1
				Automatic	–	3.9	4.9
				Selective	–	87.3	112.2
Total	472.7	764.9	630.0		472.7	723.1	762.4

Sources: CNC (*Bilans* 2007, p. 128, 2012, pp. 170–171, 2016, pp. 247 and 249)

2.6 A First Résumé

As a number of observers of the French film industry have noted, however, the film support system is driven by incessant controversies (Alexandre, 2015; Vanderschelden, 2016; Nacache, 2016). Regularly, debates are restarted on quality issues as illustrated by the report by the *Club des 13* in 2008 (see Vanderschelden, 2009) and then by the recent reports of Pierre Lescure on the funding of cultural projects, which included sections on film and pressed for reform (Lescure, 2013). René Bonnell's report on the financing of production and distribution of French films in the digital age, commissioned by the Ministry of Culture and released in December 2013, raised a number of issues and made 50 recommendations to engage financing reforms which have been heard but may take time to really make an impact (Vanderschelden, 2016). The Maraval affair in 2012–2013 questioned the commercial viability of films and the inflated star salaries (see Maraval, 2012; Nacache, 2016).

The attempts at reforming the working conditions and social protection of the profession are also a recurrent subject of industrial action. As Olivier Alexandre suggests, "when the different film corporations do not attack one another, it is because they come together to fight over burning issues such as pirating and illegal downloading, these controversies share a common origin in the French model of cinema production." (Alexandre, 2015, p. 13)

3 Have Subsidies Strengthened Audience Demand?

Let us now move to the analysis of film audience demand in France with regard to subsidies—an aspect rarely examined in the scholarly literature. By this, we are able to evidence the attractiveness of films much better than simply counting the number of French films produced. For instance, Table 1 shows a 42–45% increase of the number of films produced between 2006 and 2015: this figure is very close to the 30–40% minimal increase in subsidies over the same period (see Figs. 2 and 3).

In fact, something would be very wrong with the French subsidy scheme if it did not result in more films produced. Pushed to its limits, an indicator based on the number of films produced would qualify any subsidy policy as successful even if the increased number of films produced failed to attract an audience—a remark that echoes the fact that a notable share of the French films produced are actually never shown in cinemas (Cour des Comptes, 2012). As a result, *demand attractiveness* should be defined by a more relevant indicator. The simplest and most reliable one is a demand-based indicator, namely, the number of admissions for French films screened by French cinemas and the number of watchers of French films exhibited by French TV channels.

To start this debate, it is worth mentioning that the French film subsidy policy is so complex that it has generated an increasingly fierce debate over the last 20 years. This debate reached new heights in late 2012 with the Maraval's op-ed on the excessive fees paid to French stars when compared to actors from other countries (Maraval, 2012). For a long time, this debate has suffered from a lack of reliable and exhaustive data on subsidies. However, the situation is different now following the recent publication of three reports by the highest French institutions in charge of monitoring public budget. These include two reports by Cour des Comptes (2012, 2014) and a joint report by the Inspections Générales des Finances et des Affaires Culturelles (2013). Based upon these new robust sources which cover all the various types of subsidies—from *avances sur recettes* to grants to tax rebates, to subsidies to cinemas, etc.—this section will present the first economic and fact-based assessment of France's subsidy policies.

3.1 What Is the "True" Size of the French Cinema Sector?

This section is organised into four steps: (1) estimating the "true" size of the French cinema sector, (2) calculating its "true" subsidy rate, (3) measuring the attractiveness of French cinema domestically, and (4) finally comparing the evolution of the subsidy rate and the attractiveness indicator over the period 2000–2013. Assessing the French subsidy policy as successful requires that the attractiveness indicator has increased more than the subsidy rate.

From an economic perspective, the size of a cinema sector should always be measured by its "value added", not by its turnover.[1] Column 1 of Table 4 presents the value added of the various activities "made in France" of the cinema sector. However, these figures cover activities generated by both French and foreign inputs, such as French and foreign investments, French and foreign actors, etc.

[1] Value added is the value of the products or services sold by a sector minus the inputs (goods and services) that this sector needs in order to produce its own goods or services. For instance, film production includes inputs such as travel expenses for shooting films in various locations. The value added of the cinema sector correctly excludes air services produced by sectors other than the film industry.

There is thus a need to estimate the “true French” value added, that is to say, the one generated only by French inputs. In production and post-production activities (Table 4, rows A and B), a crude indicator of *true French* inputs is the share of domestic investments among those for films considered to be “made in France”.[2] This share is roughly 76% over the last decade (CNC, *Bilan*, 2012). The *true French* value added in production and post-production activities (column 2, rows A and B) is thus estimated to be 0.76 times the value added of these activities made in France (column 1, same rows). The value added of film distribution and screening made in France (column 1, rows C and D) includes the value added generated by distributing and screening foreign films in France. The average admission share for French films in cinemas is roughly 38% for the period 2000–2013. Column 2 of Table 4 estimates thus that the *true French* value added in these activities (rows C and D) is 0.38 times the value added of these activities made in France.

The value added of the *true French* cinema sector can thus be estimated at 1.7 billion euros (column 2, row E), which corresponds to only two-thirds of all the cinema activities made in France. It is interesting to compare this figure to the size of another film industry which has received no notable film subsidies until very recently, specifically the Korean film industry. In 2011, the size of the almost unsubsidised Korean cinema sector was estimated at 1.1 billion euros, roughly two-thirds of the *true French* cinema sector. In 2014, the size of the Korean cinema sector was estimated to be almost 90% of the French size in terms of box office

Table 4 Value added and subsidies in the French cinema sector, € million, 2011

Activities in the cinema sector	Value added *“made in France”* [1]	*“True French”* value added [2]	*“Subsidised”* value added [3]
A. Production of films for cinemas	1273	967	1273
B. Post-production	499	380	499
C. Distribution of films to cinemas	526	200	200
D. Screening of films in cinemas	444	169	169
E. Total value added	2742	1715	2141
F. Government-related subsidies			476
G. Labour subsidies (“*intermittents*”)			200
H. Total subsidies			676
I. Subsidy rate (in percent of value added)			31.6

Sources: INSEE, Esane database. *Inspection Générales*, report for state-related subsidies; for detailed calculations, see Messerlin (2014)

[2]This is an approximation because the massive French subsidies combined with the many bilateral co-production agreements induce French investment in non-French films.

(Motion Picture Association of America, 2015; Parc, 2017). This rapid evolution raises a key question: could it be the case that a non-subsidised film industry can prosper as well as a highly subsidised one? This question has been examined in depth elsewhere: evidence suggests that it is indeed the case (see Messerlin & Parc, 2014, 2017; Parc, 2016).

3.2 The "True" French Cinema Sector: How Much Is Actually Subsidised?

The *Inspections Générales*' report provides the most exhaustive and robust data of all the government subsidies and equivalents (aids, tax deductions, etc.) granted to the cinema sector for the year 2011 (see Table 4, row F) which is 476 million euros. This amount is higher than the one given in Table 3 for two main reasons: First, the report authors have been able to allocate the appropriate portion of Table 3 "horizontal schemes" to the cinema sector. Second, the report authors have taken into account subsidies that are not channelled by the CNC, such as tax credits (75 million euros) and other "fiscal expenses". In addition, Table 4 (row G) takes into account the labour subsidies associated with the special unemployment regime for part-time workers or *intermittents du spectacle* to be at 200 million euros (for detailed calculations, see Messerlin, 2014). These two combined, the total amount of subsidies granted to the French cinema sector is almost 700 million euros.

From an economic perspective, this absolute figure needs to be related to the corresponding value added of the film sector. This is undertaken by calculating the "subsidy rate" or the share of subsidies in the subsidised value added. The subsidised value added in the production of films and post-production (rows A and B) is defined as the value added for films "made in France". This is a conservative assumption because some foreign investors may invest in French films in order to benefit from the French subsidies—hence "enter" into the subsidised perimeter.

By contrast, the subsidised value added in the film distribution and screening activities is limited to the *true French* value added because foreign films exhibited domestically are not direct beneficiaries of the subsidies granted to French films. Table 4 (row I) shows that the "subsidy rate" in the French film sector roughly corresponds to one-third of the value added of this sector. It should be stressed that this number is an underestimate since it relies on the above conservative assumption of how to define the subsidised value added in production and post-production.

3.3 The "True" Attractiveness of French Films: Stagnant

It is now important to assess the evolution in the attractiveness of French cinema in France since 2000.[3] The absolute number of admissions does not represent a

[3]This section does not look at the attractiveness of French films internationally because reliable data on total admissions around the rest of the world are not available.

satisfactory indicator of this evolution. For example, twice the number of admissions for French films cannot be interpreted as an increase in their attractiveness if total admissions (both domestic and foreign films in France) have increased threefold in France. Rather, a more meaningful indicator for the attractiveness is thus the share of admissions for French films in the total number of admissions nationwide. Figure 1 presents these shares for three major types of films in France: US films, French films, and other films. In order to eliminate any bias which could be generated by picking a good or a bad year as a reference point, the average from the period 1995–1999 has been used. Figure 1 provides three remarkable observations: the lower curve illustrates the share of admissions for US films in French cinemas. Its steady decrease illustrates the erosion in the attractiveness of US films. It is important to stress that this erosion is very similar to the one observed in other EU countries, mirroring a general erosion in the attractiveness of US films across Europe since 2000. In other words, contrary to widespread belief, the French subsidy policy has had no noticeable impact upon the evolution of the attractiveness of US films.

Secondly, the upper curve illustrates the sum of admission shares for US and French films. The distance between the lower and upper curves indicates the admission share of French films in the domestic market. This distance is almost constant over time: this reveals a stagnation in the attractiveness of French films over the whole period.

Finally, the distance between the upper curve and the 100% ceiling illustrates the share of admissions for non-US/non-French films in French cinemas. This distance tends to increase, meaning that the share of these films has risen.

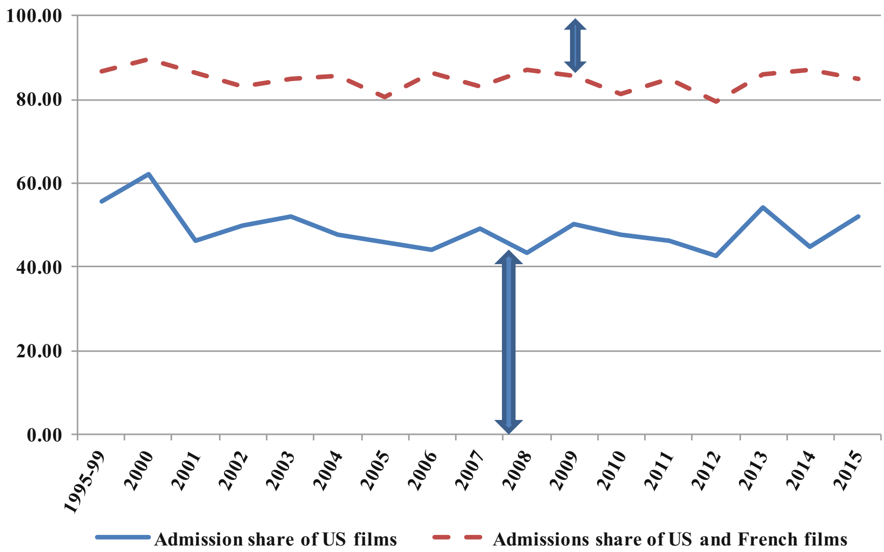

Fig. 1 The attractiveness of French films in cinemas: stagnant. Source: CNC, *Bilan*. Unit share (in per cent) of total admissions in France

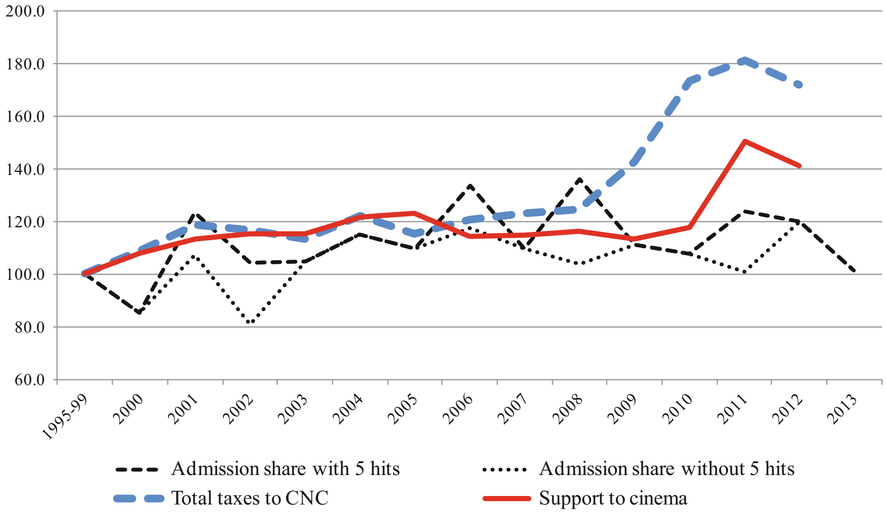

Fig. 2 The cinema sector: The "attractiveness-subsidy" gap. Units: indexes (1995–1999 = 100). Sources: CNC (Annual Bilan). Ministère de la Culture. Cour des Comptes (2012). Author's calculations

3.4 Attractiveness and Subsidies in the French Cinema Sector: Diverging Patterns of Evolution

Figure 2 allows us to compare the evolution in the attractiveness of French films with the evolution in the subsidies granted to French cinema for the period 2000–2012 (no equivalent data are available on subsidies for the period 2012–2015). To facilitate comparative reading, Fig. 2 is based on indexes, 100 being the average for the period 1995–1999. The index of the French film share in total admissions in domestic cinemas trails close to 105.

The peaks observed between 2000 and 2013 are generated by five films (out of a total production of 1900 films during the whole period) with more than 10 million admissions.[4] Figure 2 shows the index of the French film share in total admissions with or without these five films. Figure 2 provides two possible alternative estimates of the subsidies granted to French cinema covering the period 2000–2012. The lower estimate is the sum of the support to cinema (*soutien au cinéma et à la vidéo*) and, for the most recent years, half of the expenses related to horizontal schemes and digital cinema (*dispositifs transversaux et cinéma numérique*) (Ministère de la

[4]These five films are *Taxi 2* (2001) 10.3 million admissions, *Astérix et Obélix: Mission Cléopâtre* (2002) 14.6 million, *Les Bronzés 3* (2006) 10.4 million, *Bienvenue chez les Chtis* (2009) 20.5 million, and *Intouchables* (2011) 19.5 million. Only one of these five films (*Intouchables*) has received wide acclaim in the rest of the world. In 2014, a sixth movie (*Qu'est-ce que j'ai fait au Bon Dieu?*) has entered this very small club, followed by a return to a stagnant situation. 2015 is one of the 3 worst years since 2000 in terms of admission shares for French films.

Culture, 2013). The higher estimate is the total taxes to CNC (*principales taxes affectées au CNC*) (Cour des Comptes, 2012, p. 25), an estimate which takes into account the financial links between French cinema and television sectors. Though different, these two estimates provide the same key result: the index on the level of subsidies has skyrocketed—from 100 for the period 1995–1999 to a range of 140–170 in the final years.

Figure 2 shows thus a clear divergence between the stagnant attractiveness of French films and strongly increasing subsidies. It suggests that the French film subsidy policy has not reached its goal in the cinema sector—to increase the attractiveness of French films over the period covered.

3.5 The "True" Size of the French Television Sector

A complete assessment of the French film subsidy policy needs to take into account the television sector because French regulations have created close links between the two sectors in terms of public support and production (films and TV works use overlapping pools of inputs, such as actors, technicians, etc.). In particular, the French television sector is required to produce films in return for receiving subsidies. Thus, it is necessary to include subsidies granted to the television sector. The following analysis is organised in the same four steps as in the cinema part.

As with the cinema sector, the value added produced by the French television channels is not due exclusively to French operators. Table 5 presents two key adjustments required: the production of films and programmes (row A) makes a distinction between those "made in France" and those made by "true" French operators. The share of French investments in television productions is high (95%). Hence, column 2 estimates the value added of the true French production of films and television productions (row A) as 0.95 times the value added of these activities "made in France" reported in column 1. Secondly, the "general" and "thematic" broadcasters (rows B and C) cover two very different types of activities: (i) broadcasting films and television productions and (ii) broadcasting news, sport events, talk shows, and entertainment shows. Concerning the first type of activities, the French spend on average 31% of their television time watching films and television productions (CNC, *Bilan*, 2012, p. 33). As 39% of these films and television productions broadcast in 2011 qualify as French (for simplicity sake, the fact that this percentage has benefited to some extent from foreign investors is ignored), the true French content of broadcast films and television productions represents roughly 12% (31% times 0.39) of the first type of broadcasting activities.

Turning to the second type of broadcasting activities (broadcasting news, sport events, talk shows, and entertainment shows), the absence of detailed information imposes the most conservative working hypothesis—namely to assume that these activities are 100% French. After these adjustments, the value added of the "true French" television sector is estimated at 5.3 billion euros (column 2, row D), compared to a value added of 6.1 billion euros for television activities "made in

Table 5 Value added and subsidies in the French television sector, € million, 2011

Activities in the television sector	Value added *"made in France"*	*"True French"* value added	*"Subsidised"* value added	
			whole sector	"aided produc."
	[1]	[2]	[3]	[4]
A. Prod. of films/works for TV	2460	2337	2460	–
B. General TV channels	3214	2604	2604	–
C. Thematic TV channels	410	332	332	–
D. Total value added	6085	5273	5396	1302.3
E. Government-related subsidies			5006	1112
F. Labour subsidies ("*intermittents*")			200	200
G. Total subsidies			5206	1312
H. Subsidy rate (in percent of total value added)		96.5	100.7	

Sources: INSEE, Esane database. Inspections Générales' report for state-related and labour subsidies. For detailed calculations, see Messerlin (2014)

France" (column 1, row D); that is, only 85% of all the activities in the television sector are made in France.

3.6 The Subsidy Rate of French Television Channels

The Inspections Générales' report provides an exhaustive estimate of all the subsidies and equivalents granted by the French Government to the television sector for the year 2011.

Table 5 (row E) reports the total amount of all these subsidies—roughly 5 billion euros. This amount is much higher than the one given in Table 3 for the two same basic reasons than those mentioned for the cinema sector. First, the report authors have been able to allocate the appropriate portion of the "horizontal schemes" to the audiovisual sector. Second, the report authors have taken into account subsidies that are not channelled by the CNC, such as some "fiscal expenses" (exemption of the tax on TV sets for low-income households) and the huge contribution (3290 million euros) of the state budget to the state-owned TV channels for compensating the absence of advertising revenues. One should add to this amount the second half of labour subsidies provided by the special insurance regime of the *intermittents du spectacle* (that is 200 million euros).

Based upon these two figures, the total amount of subsidies granted to French television is 5.2 billion euros. In order to calculate the subsidy rate, one needs to define the "subsidised" value added. For the production of films and television productions, the subsidised value added is for the one that is "made in France". This is for the same reason as in the cinema sector: foreign investors probably invest to some extent in French television productions in order to benefit from French subsidies; hence, they "enter" into this subsidised perimeter. For the edition of general and thematic television channels, it is best to stick to the most conservative working hypothesis—the subsidised value added is the "true" French value added. This is because public ownership and cross-interests among television channels generated by tight regulations make it extremely hard to disentangle activities that are not directly subsidised. Note that this conservative assumption implies that the subsidy rate provided below is underestimated. As a result, the total subsidy rate (production and labour subsidies) in the French television sector is 97% of the subsidised value added.

This subsidy rate is so high that it deserves confirmation by an alternative calculation based on the "aided production of television productions" which is reported in Table 5 (column 4). When examined, this also provides the same conclusion (for detailed calculations, see Messerlin, 2014).

3.7 The Attractiveness of the French Television Sector: Declining

The attractiveness of the French television sector is harder to estimate than the case for cinema. This is because, since the early 2000s, the television sector has been completely transformed by Internet-driven technical developments and regulatory changes.

Today, the abundance of foreign and thematic television channels through the Internet is such that, if he/she wants to do so, a French viewer can watch television without ever having to watch a French movie, TV work, or even a French television channel.

Second, an increasing number of television audience (especially among the younger generation) tend to create their "own" television channel based on compilations from YouTube or its equivalents which include (or not) French films in a proportion that is impossible to measure.

As a result, the only available option that remains for estimating the attractiveness of French films in the television sector is to use the share of French films broadcast by French television channels (CNC, *Annual Bilan*). The above-mentioned changes in the French television sector strongly suggest that this indicator is an overestimate and has increasingly been the case over recent years.

That said, this biased indicator leaves a clear message: there is a declining trend of French films' attractiveness exhibited by the French TV channels—from an index of 100 for the period 1995–1999 to slightly above 80 for the mid-2010s, as shown in Fig. 3.

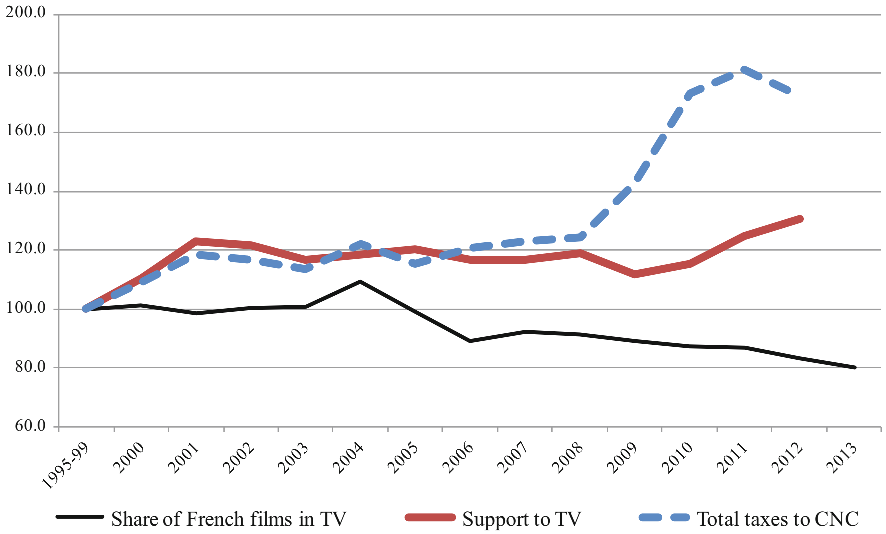

Fig. 3 The television sector: declining attractiveness, booming subsidies. Unit: Indexes (1995–1999 = 100). Sources: CNC, *Annual Bilan*. *Ministère de la Culture*. Cour des Comptes (2012). Author computations

3.8 Attractiveness and Subsidies in the French Television Sector: Strong Divergence

Figure 3 compares the evolution of French television's attractiveness with the evolution of subsidies granted to the French television sector since 2000.

Since the precise assessment of French subsidies done by the *Inspections Générales*' report is available only for the year 2011, Fig. 3 has to recourse to the same approach as Fig. 2 did—that is, to look at two possible alternative estimates of subsidies granted to the French television sector for the period 2000–2012. The lower estimate is the support to the television sector (*soutien à l'audiovisuel*) of the *Fonds de soutien* (Ministère de la Culture, 2013), while the higher estimate is the total taxes to CNC (*principales taxes affectées au CNC*) (Cour des Comptes, 2012, p. 25). Though different, these two estimates provide the same key result: the level of subsidies has increased dramatically over this period— from an index of 100 for the years 1995–1999 to a range of 130–170 in the final years. The divergence between the decline of the attractiveness and the skyrocketing subsidies is thus much stronger in the television sector than in the film sector.

To conclude, this part has shown a clear divergence in both the cinema and television sectors between a stagnant or declining attractiveness of French films and strongly increasing volume of subsidies. In short, in our view, the French film subsidy policy has failed to reach its goal—to increase the attractiveness of French films over the period covered. It is beyond the scope of this chapter to present the full list of reforms needed.[5]

4 Conclusion: Booming Subsidies but Declining Attractiveness

This chapter presented the two sides of the current French debate on the film policy.

The first section has argued that the subsidy system has allowed to increase the supply of films and their diversity and greatly boosted the audiovisual sector in France. This is all made possible by the wide-reaching public funding model, which is unique in Europe (and the world).

The second section has argued, however, that these subsidies are failing to improve the attractiveness of these subsidised films by driving higher audience figures for French films into French cinemas and TV channels. Both our sections suggest a need for reform of the French subsidy policy, all the more because it is now under constant scrutiny.[6]

In all, let us bring up two major points: First, this should not be done without taking into account other crucial elements of the French film policy, that is, its huge and complex set of regulations. For instance, there are tight mandatory rules (*chronologie des médias*) on the possible time sequence for exhibiting films in the various distribution channels (cinema, TV channel, DVD, free or paid VoD, etc.), and French TV channels do not compete on a level playing field since they have different rights and obligations in terms of the number and type of films to be produced. These rules have been written for a world that no longer exists, and they impose increasing costs on film production. Second, the need for structural reforms is amplified by the rapid emergence of new instruments brought by digital technologies: crowd-funding techniques for financing small-budget films, the availability of much lower costs for producing films, the emergence of new channels of distribution, etc.[7] Too limited or badly conceived reforms would induce the French film producers to turn faster to these new instruments or to use them more intensively, generating unnecessary conflicts and eroding further the legitimacy of the current French subsidy policy.

[5]See, Bonnell (2013).

[6]See Jäckel (2007) and Jäckel and Creton (2004).

[7]Forest's work on the digitisation process in French cinemas reveals transformations in the distribution and exhibition sectors since moving to digital screens. He shows how these changes have modified the professional landscape, bringing in technical transformations and new financial partners. This has affected the balance of the different stakeholders and increased France's reliance on norms and technological developments coming from the United States (Forest, 2013, p. 163).

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