

British Film Production

In many countries, so much importance is attached to domestic film production that various methods are in operation with the object of protecting locally-produced films from excessive competition in their home market from imported films; and in a number of countries assistance is given to local film producers by their Governments to enable them to export their films to foreign markets. It is desirable at the outset of this article to make it clear that little of this kind is in operation in the United Kingdom. The only assistance given by Parliament to British film producers at the present time is, first, an Exhibitors' Quota and, secondly, facilities for borrowing from the National Film Finance Corporation a part of the money required by some British producers to make individual films. Both of these forms of assistance will be discussed in detail in this article. In addition, reference will be made to the Entertainments Tax which transfers to the British Exchequer year by year far larger sums which have been attracted to cinema box-offices by British films than the Government spends on assisting British film production. In short, the British film industry gives much greater assistance to the British Exchequer than it receives from it. Particulars will also be given in this article of the British Film Production Levy, which, however, has hitherto had no statutory foundation but has been a scheme operated within the industry itself by exhibitors, distributors and producers with the approval of the British Government but without any financial assistance from State funds. The Government has, however, announced its decision (1) that the Production Levy is to

(1) The announcement was made on the 2nd August, 1956 by the President of the Board of Trade, Mr. Thorneycroft, in

be made statutory as from October, 1957 when the existing agreed levy expires. What form the statutory levy will take will not be known until the Government Bill is published next year.

Film producers and distributors in many countries have from time to time expressed interest in and made detailed enquiry about the special administrative conditions which apply to film production in Great Britain. The invitation to write an article on this subject for publication in the Quarterly Review of the Banca Nazionale del Lavoro is, therefore, welcomed as providing an opportunity for stating and explaining a number of facts which may not otherwise be available for readers in an accessible form.

In some important respects the British film industry is required to face greater risks than the film industries of other nations. In export markets, conditions are approximately equal for all exporting countries. But in their principal market, that is their home market, British producers have to contend with far more serious competition than exists in other film producing countries. The reason for this is that, except for a small duty which gives some protection to the British processing industry, negatives from overseas can be delivered in the United Kingdom without any customs restrictions whatever; nor is there any numerical or other restriction on the importation of negatives. Moreover, as films in the United States are made in the English language, they can be given a premiere in London at the same time as they are being

reply to a Question in the House of Commons. The reply also announced the Government's intention to extend the Exhibitors' Quota beyond its termination in October, 1958, and to renew the powers of the National Film Finance Corporation to make loans, which expire in March, 1957.

shown on Broadway, New York, without any expenditure other than would be incurred in the case of a British film being given a premiere in the same cinema except for the cost of transport across the Atlantic. So far as is known, in no other country in which there is a major film industry is it exposed in this way, to unrestricted competition from the largest and most wealthy centre of production in the world.

Attention is called to two phrases which will be used in this article, namely, «the British film production industry» and «films made by British producers». The second of these phrases is intended to refer only to films made by British producers, whereas the first phrase is used as covering, in addition, films made in Great Britain by companies which are subsidiaries of American producing companies, in other words, companies which have the legal status of British companies but are nevertheless controlled from the United States. The distinction is important, because the main purpose of the Exhibitors' Quota and the British Production Levy is to give British producers assistance in their home market to enable them to survive against American competition. Nevertheless, precisely the same test, prescribed by the Cinematograph Film Act, is applied to every film produced in the British Commonwealth in order to determine whether it qualifies for a Quota Certificate or a payment from the Production Fund.

The Exhibitors' Quota.

The Exhibitors' Quota was first introduced in 1927, renewed in 1938 and again in 1948. The Government has announced its decision to introduce a further Bill to extend the Exhibitors' Quota beyond 1958. It is desirable to emphasise here that the provisions on this subject in all three Acts of Parliament just mentioned have been concerned solely with the exhibition of British films in British cinemas. They have in no way been concerned with the importation into Great Britain of films from overseas to which reference has

been made in the first paragraph of this article.

The Exhibitors' Quota is divided into two parts. One concerns the first feature, and the other the supporting programme, which for this purpose excludes the newsreel and commercial advertising films. The quota is expressed in each case as a percentage. In the case of British first features it is the percentage of the total *number of days* on which first features are shown at each cinema in each half year. In the case of the supporting programme the percentage is applied to the *length* of the film shown. Since 1st October, 1950 the first feature quota has remained unaltered at 30 per cent and the quota for the supporting programme has been constant at 25 per cent. For any cinema in the three major circuits — A.B.C., Gaumont and Odeon — the prescribed percentages cannot be reduced. They can be reduced by the Board of Trade for other cinemas which comply with specific conditions laid down in the Act. Taking into account the cinemas which are granted relief, the over-all average quota in force throughout Great Britain for first features is estimated to be about 25 per cent. At one time a large number of exhibitors did not fully carry out their statutory obligations. The position to-day is greatly improved and the aggregate showing of British first features in the 4,500 cinemas in Great Britain exceeds the minimum laid down by law for individual cinemas. This result is partly due to the fact that the cinemas in the three major circuits show British films to an extent considerably in excess of their legal obligations.

Exhibitors would undoubtedly be glad to be relieved of the necessity of complying with a statutory quota. Not unnaturally, they would prefer to be left free to select for showing in their cinemas what films they wish. But there is a more general acceptance among exhibitors to-day than there was thirty years ago of the view that British films need statutory assistance, and that it would not be for the benefit of the exhibiting side of the industry for British production to be crushed out of

existence by American imports. British producers are, so far as can be seen, unanimously of the opinion that a statutory quota is essential for the maintenance of their industry. Producers as well as exhibitors, recognise that films are not a suitable medium for tariff barriers in the United Kingdom (or in any other country) such as might be imposed to protect another industry which it was considered desirable to preserve in the national interest. The exhibitors' quota should, therefore, be viewed as an alternative to a customs duty, preferred because it is more suited to the circumstances of all branches of the industry, as well as to the needs of the cinemagoing public.

The following table gives an indication of the size of the home market:

Year	Gross Box Office Takings £ million
1950	105.2
1951	108.3
1952	109.9
1953	108.8
1954	110.0
1955	105.8

It is generally accepted that 30 per cent of the gross box office takings is paid by cinemagoers for admission to performances at which the first feature is a British film.

The National Film Finance Corporation.

The National Film Finance Corporation was established by statute in April, 1949. In August, 1947, the British Government had imposed an *ad valorem* duty of 75 per cent on imported foreign films which was countered by American distributors refusing to send any new films to Great Britain. British producers, urged by Ministers to increase their output so as to fill the gap, endeavoured to assist exhibitors by stepping up production. But before these hurriedly-produced films were ready for release, the Government repealed the *ad valorem* duty, and the large backlog

of American films was quickly on offer to British exhibitors. The ill-considered action by the Government, first in imposing the duty, then repealing it without any consultation with British film producers, almost destroyed the financial standing of the whole industry. It was immediately following this disastrous action by the Government that Parliament were informed by the (then) President of the Board of Trade that the N.F.F.C. was to be established to help finance the production of films.

The function of the Corporation was officially defined as « to make loans to be employed in financing the production or distribution of cinematograph films to persons who, in the judgment of the Corporation, while having reasonable expectations of being able to arrange for the production or distribution of cinematograph films on a commercially successful basis, are not for the time being in a position otherwise to obtain adequate financial facilities for the purpose on reasonable terms from an appropriate source ». The Act provided that the aggregate amount of the principal outstanding in respect of any advances was not at any time to exceed five (later increased to six) million pounds. It also laid down that loans by the Corporation should be for a period not exceeding five years, and should carry such reasonable rate of interest as the Corporation may determine, having regard to current market rates and other commercial factors. The interest charged by the N.F.F.C. is at a rate $1\frac{1}{2}$ per cent higher than the official Bank Rate, subject to a minimum of 5 per cent. Thus in August 1956 the N.F.F.C. were charging 7 per cent, the Bank Rate being $5\frac{1}{2}$ per cent.

The Corporation soon realised that its operations could not be more than a measure of expediency. In its first Report it stated that « the lending of money will not bridge the gap between income and expenditure ». In its second Annual Report (for 1950-51) it confirmed this view and added: « The gap has been narrowed: nothing like bridged ». That position still continues. The films releas-

ed in the four years 1952-55 which had been financially assisted by the N.F.F.C. numbered 152. These represented only a part of the output of the British film production industry, finance being provided for the remaining films without resort to the N.F.F.C.

In 1950-51 consideration was given, as a matter of urgency, to the amount of the loan to be made to British Lion Film Corporation Ltd. The loan was eventually agreed at £ 3 million. In June, 1954, the N.F.F.C., exercising its rights under its mortgage debenture, appointed a Receiver and Manager to take charge of the affairs of British Lion. Following this appointment £ 2,069,000 was written off the original loan. The Corporation subsequently made a further loan of £ 569,000, thus increasing the net assets of the Company to £ 600,000. This investment was exchanged for shares in a new Company entitled British Lion Films Ltd. This Company, which was formed in January, 1955, is for all practical purposes a state-controlled enterprise, the Chairman of the N.F.F.C. being also the Chairman of British Lion. The Company does not itself produce films but it provides the usual distribution guarantees for independent producers, the N.F.F.C. putting up in most cases a proportion of the money required.

Apart from the heavy loss suffered by the N.F.F.C. on its investment in British Lion as set out above, the Corporation has, since it came into existence in 1949, lost a further £ 750,000 approximately. Of this amount more than one-half has been lost as a result of special ventures supported by the Corporation. This loss was not incurred in the production of normal cinema films. The amount of loans advanced to assist producers to make individual films which has proved to be irrecoverable, together with agreed interest, is, therefore, comparatively small. N.F.F.C. loans of this kind form only part of the money required for the film that is particularly subject to the risk of loss. The normal arrangements for finance include the provision of a guarantee from a distributor to reimburse, out of the proceeds of distribu-

tion, a sum equivalent to seven-tenths of the estimated cost of the film. On the basis of this guarantee, a bank or finance house makes an advance. The N.F.F.C. generally provides a substantial part of the remaining three-tenths, but usually requires the production company also to put up some of the « risk » money — and the producers' contribution is of course the first to be lost in the event of failure of the film. It is hoped by many producers that the Corporation will in future restrict its operations to the making of loans for individual films for which it receives applications from independent producers.

The British Film Production Fund.

The British Film Production Fund was brought into existence in June 1950, as a result of a suggestion made to the four trade associations by the Treasury, a suggestion which, after some hesitation by exhibitors, was unanimously accepted.

It may seem surprising that the Treasury should recommend the industry to adopt a scheme based on the two principles (i) that exhibitors should undertake to pay over to British film producers a levy from their box-office receipts; and (ii) that distributors should not charge film rental on levy payments. The reasons for the Treasury's action were, however, fairly obvious to anyone watching events at the time. British producers had not recovered from the losses they incurred as a result of the Government's sudden imposition of the *ad valorem* duty on imported films, and the reaction of American exporters in refusing to send any new films to Britain. This embargo caused a lowering of cinema attendances which reduced the earnings of all sections of the industry, including British film producers. The sudden repeal of the duty was even more disastrous to British producers who had endeavoured to fill the gap by increasing their output, only to find that with the removal of the duty and the arrival of new American films in great numbers, the demand among exhibitors for British films was much reduced.

Members of Parliament asked why American films should be imported without any restrictions, seeing that tobacco and many other imports involving dollar expenditure were severely reduced. The Exchequer was, however, very interested in the £40 million revenue per annum which it received from cinema box-offices and which might be in jeopardy if the House of Commons insisted upon substantially reducing imports of American films, partly to conserve dollars and partly to give British film producers a better prospect of earning money in their home market. For these reasons, the proposal to establish a British Production Levy was made by a senior officer of the Treasury to a meeting of representatives of all sections of the British industry. The American industry, realising that Great Britain is its most profitable foreign market, agreed to support the proposal and to forego film rental on the amount of the levy actually paid into the Fund by each exhibitor.

The Production Levy has not been based on statutory authority but on a series of agreements between the four trade associations. The Levy is paid to a registered company entitled British Film Production Fund Ltd., the Board of which consists of an independent chairman (a well-known professional accountant) appointed by the Board of Trade, and of three representatives of each of the four trade associations. The part-time Secretary of the Company is the General Secretary of the Cinematograph Exhibitors Association and the financial work of the Company is undertaken by two firms of professional accountants, one dealing with the collection of the Levy from exhibitors, and the other with the payments from the Production Fund to producers or their nominees. The Levy is payable weekly. The payments from the Fund are on an annual basis, but each month payments on account are made from the levy collected since the previous payment was made; the balance, being the thirteenth payment for the year, becomes payable several months after the end of the year, by which time a final claim accom-

panied by an auditor's certificate for each eligible film has been received and meticulously examined. The final payments exhaust the balance of the total receipts of the Fund for the year, after payment of costs of administration.

The present scale of Levy came into operation in October, 1954 for a period of three years and is as follows:

Gross Admission Price	Levy
Up to 8d.	Nil
9d. to 1/- inclusive	¼d.
1/1d. to 2/2d. inclusive	½d.
2/3d. to 2/6d. inclusive	¾d.
2/7d.	1d.
2/8d. and upwards	1¼d.

The responsibility for the administration, since 1950, of this novel scheme has been divided between the four trade associations and the Board of British Film Production Fund, Ltd. The associations have decided all questions of policy, recommendations being put forward to each association by a joint committee in the form of a draft Agreement, which when approved by all four associations is signed by the four Presidents in office at the time and is then submitted for formal approval by the Board of Trade. The Agreements as soon as they are approved by the Board of Trade are sent to British Film Production Fund, Ltd., which is charged with the duty of carrying out the decisions of the trade associations as expressed in the signed agreements. This procedure may seem unwieldy. In practice it has worked well. Important issues such as a change in the amount of the Levy, or the action to be taken when exhibitors refuse to pay, would be bound to prove difficult whatever procedure was adopted in a scheme which requires for every alteration unanimous agreement by four trade associations each with widely different interests.

The British Film Production Fund was established in June, 1950 but, as was inevitable, it took some time before the weekly collec-

tion of levy payments began to reach British film producers. The following table shows the number of films registered with the Board of Trade in the years immediately before producers began to have the benefit of the Fund and in each subsequent year:

Period Year Ended 31st March	Number of Films Registered		
	Over 6,500 ft.	6,500 ft. or less	Total
1949	71	49	120
1950	81	50	131
1951	76	49	125
1952	63	51	114
1953	85	32	117
1954	89	49	138
1955	95	55	150
1956	73	36	109

In considering the above figures it should be remembered that the smaller the number of films eligible to receive payments from the Fund in any year, the larger the amount receivable by the producer of each film.

The following table shows the importance of the Production Fund to producers of British films:

Calendar Year	British film producers' receipts from U.K. rentals (films over 3,000 ft.) £ million	Total collections by British Film Production Fund Ltd. (1) £ million	Amount paid from fund in respect of British films over 3,000 ft. £ million
1950	4.386	0.4	0.34
1951	3.789	2.1	1.61
1952	3.924	2.9	2.58
1953	4.065	2.7	2.33
1954	4.675	2.7	2.38

(1) It should be noted that the collections are from places of exhibition in Great Britain and the Channel Islands.

As explained in the first paragraph of this article films made in Great Britain by subsidiaries to American companies are legally British films, and therefore figure in the rentals (second column) and share in the supplementary payments (fourth column) in the above table.

This may be a convenient place to explain that it is from the British Film Production Fund that an annual grant is made to the Children's Film Foundation, Ltd., which is responsible for making children's entertainment films. These films have attracted much attention and approval in Great Britain, where they are providing an ever-increasing proportion of the programmes shown at special performances on Saturday mornings throughout the country. The annual grant from the Production Fund to C.F.F. has been unchanged at £125,000 annually for the last three years.

The Entertainments Duty.

The Entertainments Duty falls into an entirely different category from the three subjects — Exhibitors' Quota, the National Film Finance Corporation and the British Film Production Fund — just treated. These all rest on the aim of supporting British film production and may, therefore, be regarded as assets to the industry. The Cinema Entertainments Duty, on the other hand, is a first charge on box-office gross receipts for the benefit of the National Exchequer, and is, therefore, a liability on the industry.

Whether the cinema is full or half empty, whether the exhibitor is making or losing money, the amount of Entertainments Duty payable must be paid over to the Government at the end of the week. The amount payable is calculated on the sum received at the box-office, the tax varying with the price of the seat occupied. If the exhibitor is losing money and is inclined to increase his prices, he realises that he will have to pay more to the Government and will benefit very little himself. This is especially true in the case of the more popular seats. For example, if the price of a 1/- seat (tax 1½d.) were increased to 1/6 (tax 5½d.), the exhibitor would be required to pay 4d. extra to the Government and ¼d. more as Levy. He would retain only an additional 1¾d. of the extra 6d. paid by the cinemagoer, and he would be running the

risk that some of his customers might stop at home, or go to another cinema or to cheaper seats in his own cinema. The duty, therefore, is not only a heavy burden on every section of the industry; it also restricts the freedom of exhibitors to raise their prices when they might otherwise do so to the advantage of themselves, of the distributors, and of the producers from whom they obtain their programmes.

The present level of tax averages close on 33 per cent of gross takings or just over 50 per cent of net takings. The latter percentage can be compared with the tax payments by exhibitors in the United States where admissions up to 50 cents are tax free, and beyond that a tax of 10 per cent is added to the net prices. It will be obvious that British producers, with a much smaller home market — about one-third of that in the United States — and with more than five times the amount of tax deducted from gross box-office receipts, are at a great disadvantage as compared with their competitors in Hollywood in the task of recovering a substantial proportion of their costs of production from exhibition in their home country.

Overseas Markets.

Overseas markets are of great importance to the British film industry; indeed, they are essential. The United Kingdom is too small a market from which to recover the cost of producing first feature films in competition with imported films. When hostilities ended in 1945, American pictures were occupying a large proportion of screen time not only in Great Britain but also in every part of the British Commonwealth. In addition, there were nearly five years of Hollywood product waiting for exhibition in Europe, Japan and other countries as soon as they were ready to receive them. It has, therefore, been a stiff struggle for British producers to win a place in overseas markets. Not only have they won a good and improving place, but they have done it by their own ability and

determination. The difficulty of the task has been accentuated by the restrictions imposed on the importation or exhibition of foreign films by the Government of practically every country — except the United States — where there is a domestic film production industry, and of many other countries as well. It is safe to say that in countries such as Italy, France and Germany the main object of the restrictions, whatever form they take, is to prevent the local film production industry from being crushed by overwhelming imports from the United States. But wherever restrictive measures have been devised, the American industry, strongly supported where necessary by its Government's representatives, has claimed successfully that it is entitled by its past record to a large share of the controlled imports to be admitted in future. In other countries where there may be no local, or only a small, film production industry, Governments have restricted film imports on account of the shortage of foreign currency. Here again, even where the chief shortage is in dollars, the restrictions are imposed no less severely on British than on American film imports. British producers and their distributors have not received much effective help from the British Government Departments or their overseas representatives in the industry's fight against the restrictions in operation in foreign markets. This is all the more remarkable in view of the fact that there are, as stated earlier in this article, no direct barriers to the importation of films from any source into United Kingdom.

In the United States, the percentage of cinema screen time which is devoted to imported films is very small. American distributors and exhibitors assert that this state of affairs is due to the fact that the great majority of American cinemagoers are prepared to pay to see films only if they have been made, or are like those made, in Hollywood, have American artists in the principal parts, and are preferably made by American directors, no matter where the films come from. Con-

sequently, British, like French and Italian films, however highly they may be appreciated in other countries, bring back to their producers very little in the way of dollars earned from cinemas in the United States.

For the reasons briefly described, the last ten years have been a period of constant struggle to increase the exhibition of British films in overseas markets. It is, however, encouraging to be able to record that, notwithstanding all the difficulties, considerable progress has been made and is continuing to be made. At the present time, 40 per cent of the total net earnings of films made by British companies, i.e. of the amount actually received by the producing companies after costs of distribution, prints, etc. have been paid, comes from exhibition overseas. In the case of the more important films the proportion is much more than 40 per cent.

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Notwithstanding the high level of Entertainment Duty in Great Britain, and the competition of unrestricted imports of films from overseas, British producers have in recent years made many films which in the United Kingdom have competed successfully with the best American motion pictures. Year after year, six out of the twelve films which have earned the most at cinema box-offices in Great

Britain have been British, although there have been at least three times as many American as British films available for exhibition. As regards distribution in overseas markets, both within the Commonwealth and in foreign countries, films made by British producing companies are gradually increasing their hold in most markets outside the United States of America. We refer here to films made by British producers, since films made in England by American controlled companies are generally exhibited in other markets, and particularly in America, as American films. Experience has shown that, speaking generally, if a British film is a success in its home market, it will be a success in overseas markets. This is an important matter because it has encouraged many British producers to aim at making films not specially for the domestic market but for the world market. Television is having an influence in this connection. The rapid increase in the number of television viewers in the United Kingdom does not appear to be reducing attendances at cinemas when first-class films, whether British or imported, are being shown. The cinema can draw people away from the small television screen in their own home, but the first feature at the cinema must be a good one.

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