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THE AUDIOVISUAL INDUSTRY AND MARKETS TODAY

This chapter examines the contemporary audiovisual product and the structure of today's industry in its basic components to provide an overall picture of current market power and key player strategies.

Business environments tend toward either extreme competition or alternatively, mutual co-operation. The result of the interplay between industry structure and individual company behaviour is the performance of the industry as a whole, expressed in economic terms: efficiency, productivity, technological progressiveness and profitability.

2.1. INDUSTRY MERGERS AND COMPANY CONSOLIDATION

2.1.1. Independence vs. Group Integration

The amount of capital required for any business operation is often a tremendous barrier that prevents new competitors from entering the market. This particularly applies to the entertainment industry, as most sectors (including music, movies, broadcasters and video games) have come to be ruled by large companies that have relatively easy access to large pools of capital.

In the case of communication media, it is advantageous to belong to a group because of the greater ease in attracting advertising (the main source of revenue). Large multimedia groups are composed of distinct companies, each often dedicated to one particular type of activity within the same field: television, radio, publications, etc.

These groups can also include film production and distribution, thereby serving as a source of programming content for a TV network; cinematography companies integrated with book publishers are in a prime position to secure the film exploitation rights of novels published by the publishing house.

2.1.2. Key Multimedia Groups

Today's leading global economic trend that began in the 80s and was cemented during the 90s has been the consolidation of companies into larger groups, encompassing several activities and operating across borders. The media and entertainment industry in particular has seen the rise of many powerful business groups.

According to a study conducted by Andersen in 2000, merger and acquisition (M&A) transactions have become a key strategy in the European entertainment industry. European entertainment companies made 383 M&A deals during the year 2000 in comparison to 245 M&A made the previous year. The substantial increase in the number of transactions was accompanied by an impressive increase in the disclosed value of said transactions: from 11.7 billion Euro in 1999 to 85.2 billion Euro in 2000. Leading acquiring nations were the UK and Germany; France enjoyed the highest transaction value thanks to two transactions by conglomerate Vivendi: the merger with Canadian film and music giant Universal Seagram (43.9 billion Euro) and the acquisition of the remaining shares of French Pay TV operator Canal+ (12.9 billion Euro).

In contrast, M&A activities in the North American entertainment industry decreased 23% to 257 in 2000 from 1999 figures. However, the disclosed transaction value was extraordinarily high in the USA, at 206.9 billion Euro in 2000 compared to 70.6 billion Euro in 1999, due to the merger of Internet service provider giant America Online (AOL) and long-standing media conglomerate Time Warner, in a transaction valued at over 179 billion Euro.

The consolidation process usually begins with straightforward commercial alliances between competitive audiovisual companies (or groups) when facing their commercial introduction into a specific area. Other forms of alliance include those made between audiovisual companies and telecommunications organisations. In some cases the process is not uniform: groups can be part of an alliance in one country and competitors in another.

The overall objective is the most extensive control possible over the entire process of the media value chain. In the creation of multimedia groups, two main trends have been prevalent:

- Multimedia groups created by (initially) complementary forms of mass media that ally themselves into a larger structure to overcome obstacles in foreign markets; for example: Time Warner and AOL, Universal and Seagram, Disney and ABC.
- Multimedia groups created by investments from companies or groups from other industries which decide to diversify activities: i.e. Sony and Columbia, CGE-Vivendi and Universal, and Telefónica and Endemol.

The development of multimedia groups has also begun to incorporate computer software and Internet companies, due to the need to facilitate increasingly powerful interactive services for international clients.

Before describing Europe's leading multimedia groups, we will explore in depth the evolution of two leading multimedia groups through recent years, highlighting the key strategies behind the above mentioned types of consolidation processes.

CONSOLIDATION STRATEGIES

A. Creation through consolidation of mass media companies into a multimedia group: TIME WARNER-AOL

Created in the early 20s, the Time and Warner Brothers groups were two very different businesses, operating in different areas with dissimilar business interests. Time Inc was essentially dedicated to publishing, while Warner Brothers (WB) was one of the world's top film producers.

In the period between 1925 and the end of World War II both businesses grew. Between 1945 and 1962 WB continued diversifying, creating a TV production division and a recording company, Warner Bros. Records. Time flourished with successful sales of Time and Life Magazines, launching new publications, such as Sports Illustrated magazine, Fortune 500, among others. The 60s saw the expansion of WB's music division with the creation of Atlantic Records, Elektra Records and Reprise Records. Meanwhile, Time invested in the newly born cable television systems.

The 70s were a big decade of growth for both groups. Time continued to launch new publications while Warner Communications also expanded its holdings to include many companies in fields such as home video (Warner Home Video), Pay TV (HBO, Nickelodeon), the Cable System and new technologies (Atari).

During the 80s both groups realised that the only way of reaching the next level was through a merger of both complementary empires. 1989 saw the birth of the giant and unprecedented merger between Time Inc and Warner Communications, consolidated into Time Warner Inc. The transaction closed at \$ 14 billion.

Following the merger, the multimedia group entered a purchasing period, and many new companies were created. Finally, in 1996 Time Warner acquired another television and entertainment group, Turner, for \$ 8 billion.

The year 2000 brought “dotcom-mania” and Internet businesses suddenly became the “hot” market. Media companies massively redefined their strategies by going online and Time Warner decided to merge with one of the leading Internet service providers of America: AOL. The merger between them, completed in 2001, meant one of the biggest company conglomerates worldwide.

Time Warner AOL, as it is called today, is comprised of many different companies structured through divisions, including:

- **Home Box Office** (Cinemax, Comedy Central, HBO, HBO Direct, HBO Home Satellite, HBO Home Video, HBO Multichannel and HBO4Kids)
- **New Line Cinema** (Fine Line, New Line Auction, New Line Cinema, New Line Online Store)
- **Time Inc.** (Asia Now, People Daily, Asiaweek, President, Book-of-the-Month Club, Progressive Farmer, CNN SI, Real Simple, Coastal Living, Southern Accents, Cooking Light, Southern Living, Dancyu, Sports Illustrated, eCompany Now, Sports Illustrated For Kids, Entertainment Weekly, Sports Illustrated For Women, Fortune, Sunset, Fortune Business Report, Teen People, Fortune Small Business, This Old House, In Style, Time, Life Time for Kids, Money, Time Life, Mutual Funds, People, Parenting, Wallpaper)
- **Time Warner Telecom** (Local News Channels: Bay News 9, News 8, NY1, R/News)
- **45 Local CableSystem Sites**
- **Time Warner Trade Publishing** (iPublish, Little, Brown and Company, TW Bookmark)
- **Turner Broadcasting System** (Atlanta Braves, Cartoon Network - in Japan, Latin America, Mexico, Netherlands, UK, Australia, Italy, Brazil and Spain, Atlanta Hawks, Atlanta Thrashers, Boomerang, The Goodwill Games, TBS Superstation, TNT, TNT Latin America, Turner Classic Movies, Turner South, AllPolitics.com, and news television CNN in Spain, Denmark, Asia Pacific, Italy, Sweden and Portugal)

- **The WB Television Network (Kids' WB!, The WB Warner Bros.)**
- **Castle Rock Entertainment, DC Comics, Looney Tunes, MAD Magazine**
- **Warner Bros. Animation, Warner Bros. Online, Warner Bros. Pictures, Warner Bros. Studio Stores. Warner Bros. Television, Warner Home Video, Warner Music Group** (Atlantic Records, Rhino Records, Columbia House Records, Sire Records, The D.A.V.E. (Direct Audio Video Express), TotalE, Elektra Records, Warner Bros. Publications, Ivy Hill Corp., Warner Bros. Records, Kinetic Records, Warner/Chappell Music, Inc., Maverick Records, Warner Classics International, Preview Tunes, WEA Inc., Reprise Records).

B. Creation by investment in other industry companies:

CGE-VIVENDI-UNIVERSAL

Compagnie Générale des Eaux (CGE) was created in 1853 by Imperial decree, which helped the company win its first public service concession to supply water in Lyon. Through this activity CGE was able to build a solid financial structure over the years. The economic growth and funds obtained during its first hundred years made it possible for CGE to expand into new business areas.

In the early 80s, CGE decided to expand and diversify, starting with international operations in water and waste management, construction, and energy and transport services. CGE also invested in telecommunications and media. In 1983 CGE participated in the creation of Canal+, the first PAY-TV channel in France and the starting point of a successful group that will be discussed later in this chapter. In 1987, CGE created SFR, bringing the mobile phone GSM network into service in 1992 which also saw the creation of film production division Générale d'Images.

Between 1997 and 2001, the CGE group's global strategy changed, beginning with the sale of all traditional property and construction businesses. Ever since then, investments have been concentrated in multimedia business, namely telecoms, Internet, pay TV and publishing.

In 1996, to handle all telecommunications activities CGE created Cegetel, which then became the second largest operator in the French market. That year also saw the roll-out of the first digital set-top boxes and the launch of the digital CanalSatellite - France's first digital TV offer - an activity that would spread in the following years to other countries like Spain, Italy, Belgium, Poland, Scandinavia and the Netherlands.

CGE then acquired NetHold, a Dutch set-top box manufacturer, which constituted a major step in the successful globalisation of Canal+. Finally, the Group acquired 30% interest in Havas and an industrial partnership agreement between CGE/Vivendi and Havas was made.

In 1998, Vivendi acquired a 55% controlling stake in AOL France through Cegetel and Canal+. Many acquisitions were made that year: Cendant Software (entertainment /

educational software - USA), Doyma (medical journals - Spain) and Anaya (Spain's 2nd largest education and multimedia publisher). Acquisitions continued in 1999, with the acquisition of 100% of MediMedia, Barbour Index and Le Vidal. 1999 also witnessed the creation of Vivendi Net.

In 2000 Vivendi, as a member of the XFERA consortium, won a Spanish licence for UMTS, third generation mobile telecommunications standards. Also in 2000, Vivendi Universal acquired a 35% stake in Maroc Telecom and became the United States' leading provider of consumer health information. Finally, the Group reached an agreement with Vodafone AirTouch to establish an Internet and telecoms alliance, which enabled the launch of Vizzavi (a multi-access portal) in France in June 2000.

LEADING EUROPEAN MULTIMEDIA GROUPS

Some of the most important multimedia groups in Europe are the following:

THE RTL GROUP (Germany-UK)

Each day, millions of viewers in Europe watch TV channels operated by The RTL Group: RTL, RTL II, Super RTL and VOX in Germany, M6 in France, Channel 5 in Great Britain, RTL 4 in the Netherlands, RTL TVI in Belgium and RTL Klub in Hungary. Apart from these and another 15 TV channels, the group controls 18 radio stations.

On April 7, 2000, Bertelsmann, GBL/Electrafina and Pearson announced they had agreed to merge CLT-UFA and Pearson Television into Audiofina. After approval of the merger by the European Commission and its acceptance by the UK listing authority, the new group was renamed RTL Group.

CLT is Luxembourg's biggest multimedia holding and one of the largest in Europe. Its main activities include television, radio, newspapers and magazines and the production and distribution of films. Its main subsidiaries are situated in Luxembourg and France, although it also has interests in other European countries, as well as the USA and Canada. In addition it maintains holdings in pay television companies such as TPS (40%) and Premiere (50%). The fusion of CLT and Hamburg-based UFA Film-und Fernseh-GmbH in early 1997 brought together two major players in the areas of broadcasting, programme production and rights acquisition.

CLT-UFA and Kirch reached an agreement to develop together digital television in Germany through DF1 and Premiere. Also, the group reached a distribution agreement with Deutsche Telecom.

The combination of CLT-UFA and Pearson Television pursued their integration into a pan-European company with successful business operations spanning television and radio broadcasting content and online activities. The directors believed that a shared position at two key points on the value chain - distribution and content - would better place RTL Group to achieve greater revenue and benefit from consolidation in the world's television market. Pearson Television would provide content to enrich RTL Group's broadcast channels, while CLT-UFA's broadcast channels would provide expanded routes to the market for Pearson Television's content.

CANAL+ FRANCE (FRANCE)

This group's main activity is the broadcasting of television programmes through pay television channels managed directly by Canal+. The group also manufactures and sells a wide variety of television receivers and decoders, and produces French films for television and cinema through STUDIO CANAL.

Canal+ offers its subscribers the first screening of majors' films on television as well as key sporting events. Most of the programmes are encoded, but during certain hours per day "free to air" programmes are broadcast, available to the general public.

As well as providing coverage to more than 3 million French homes, the group has created pay channels in Germany, Spain, Italy, the Netherlands, Poland and Belgium; and offers programmes specifically designed for the French-speaking African audience through its channel "Canal Horizons", currently broadcast in Senegal, Tunisia, the Ivory Coast and Gabon.

PRISA (SPAIN)

Prisa is the leading communications holding company in Spain, both in the press sector and audiovisual field. It is the only Spanish company with significant interests in European communication companies.

The group's interests range from daily newspapers, economic publications, book publishing and newspaper distribution to radio stations, television, movie and video production, as well as the negotiation of audiovisual rights.

The TIMON Group, whose chairman is Jesús De Polanco, controls the holding company. The main companies in the press division are Diario El País (100%), Diario El País México (86%), Le Monde (28%) and G.M.I. (A consolidated group of local newspapers, 100%). As for the printing business, the main company is PRISAPRINT (100%), which is a holding of interests in many local printing stations.

The main companies in the radio division are Cadena Ser (100%), Unión Radio (80%), Grupo Caracol Colombia (19%), Radio Latina (100%), Inversiones Godó (49%), and Presa. As for the local television business, the main company is Pretesa. (100%)

The music division is structured around the GRAN VIA MUSICAL Group of companies (owned 100% by PRISA) and its expansion with the recent acquisitions of Horus, Lyrics and El Diablo Records.

In the book publishing business, the main group is the Santillana Group (100%), with holdings in Spain and Latin America, and is one of the leading publishers in Spain. In April 2001 the Company acquired an interest in Argentinean Publishing group MODERNA. The main companies in the Internet market are Prisacom (100%), Extrasoftware (63%) and Inicia Comunicaciones (100%).

The following are the most important of the many other companies in the group, along with their main activity: FirstMark Comunicaciones (data transportation), Mateu Cromo

Inmobiliaria (real estate), Prisa Investment (holding company), Agencia Informativa de Noticias (news agency).

FININVEST (ITALY)

Fininvest is a holding established in Italy in 1978. Its main business was originally in real estate, but it subsequently diversified in order to penetrate sectors such as private television networks, publications (newspapers and magazines), insurance, distribution, movie theatres, sports equipment, etc.

Currently, Fininvest has holdings in more than 300 companies. Of these, the most important in the media sector are Mediaset and S.B. Holding Editore (owner of the Mondadori Group), which operate in the television and publications sectors respectively. The Fininvest Group is wholly owned by Silvio Berlusconi and his family.

In 1978 Telemilano, a local TV network, was created. Two years later, this was transformed into Canale 5, a network constituted by a series of broadcasters owned by the Fininvest Group. Canale 5 began broadcasting throughout all of Italy in 1980, up against a television market dominated by state broadcasters. In 1982 the group acquired Italia 1 and in 1984 Retequattro, expanding its TV business. In successive years, the group integrated itself with the creation of Mediaset, whose main strategic objective was the growth of the group's activity in the media business by the participation of different companies in the film production and distribution industries. Between 1994 and 1995 Mediaset acquired controlling holdings in advertising agency Publitalia '80, broadcaster R.T.I., Videotime, RTI Music and Elettronica Industriale, an Italian TV signal carrier.

Mediaset went public in July 1996. That same year, the group acquired a controlling stake in Albacom (fixed telephony), with partners such as British Telecom and Banca Nazionale del Lavoro.

In 1997, Mediaset acquired 25% of Spanish broadcaster Telecinco. Then in 1998 Mediaset created Happy Channel, the first satellite specialty channel dedicated to comedy and shown in Canal + Group's digital platform Telepiù.

In 1999 Mediaset went online with the vertical portal MOL. That same year, it reached a strategic alliance with German KirchMedia KGaA, a subholding of the Kirch Group for trading sporting rights, through joint venture EPSILON. Also that year, the group joined Blu S.p.A., which held a license for exploiting Mobile Telephony together with Autostrade, British Telecom, Distacom, Edizioni Holding (Benetton Group), Banca Nazionale del Lavoro, Italgas and Roma Ovest Costruzioni Edilizie. In June Mediaset acquired total control of Spanish Telecinco and 15% of Publiespaña.

In the new millennium, the group is focusing on new media (by creating Mediadigit S.r.l., dedicated to the production of specialty channels such as Class Financial Network, Comedy Life and Duel) and continues expanding its Internet division: in January 2001 the group created stream digital platform MTChannel and started up TGC.COM, an Internet news channel. In July 2001 Mediaset acquired online portal Jumpy S.p.A.

2.2. AUDIOVISUAL MARKETS: FEATURES AND STATISTICS

2.2.1. Film

Production

General trends show that film production in the European Union (EU) has increased significantly in recent years, with all key territories either increasing or consolidating production activity. American production, on the contrary, has been waning slightly, as the US production sector is increasingly suffering from ‘runaway’ productions. Asian and Far Eastern movie production is on the rise again, after the economic crisis that affected the region at the end of the 90s.

Among the top 10 most prolific feature film producing nations, India is usually number one, a rare case in movie industry statistics. The other members are split into three different regions: USA, Western Europe (France, Italy and Spain), the Far East (Japan, Philippines and Hong-Kong) and lastly, China.

Although France’s production level has remained relatively consistent, it is still the largest film producing country in Europe, accounting for roughly 25% of all EU production. Production investment in this country has dropped slightly, implying a drop in the average movie budget. Meanwhile, Italy is experiencing a promising growth phase, with new producers entering the market. Italian production has jumped over 15% while production investment remains constant. Spain is displaying even stronger growth in the number and quality (investment) of film productions, thanks to public initiatives aimed at diverting broadcaster investment into the film industry and the emergence of several film rights buying operations. In Germany, movie production is also on the rise thanks to the entry of post-production companies to the sector. Finally, the United Kingdom is a special case, where investments and budgets have been rising due to the influx of outside finance.

Figure 1: Top 10 Most Prolific Film Producing Countries (1997-2000)

No.	Country	No. Films
1.	India	787
2.	USA	709
3.	Japan	274
4.	France	174
5.	Philippines	157
6.	Hong-Kong	139
7.	Italy	97
8.	United Kingdom	94
9.	Spain	90
10.	China*	85

Source: Elaborated from Screen Digest data

* 1997-99 average

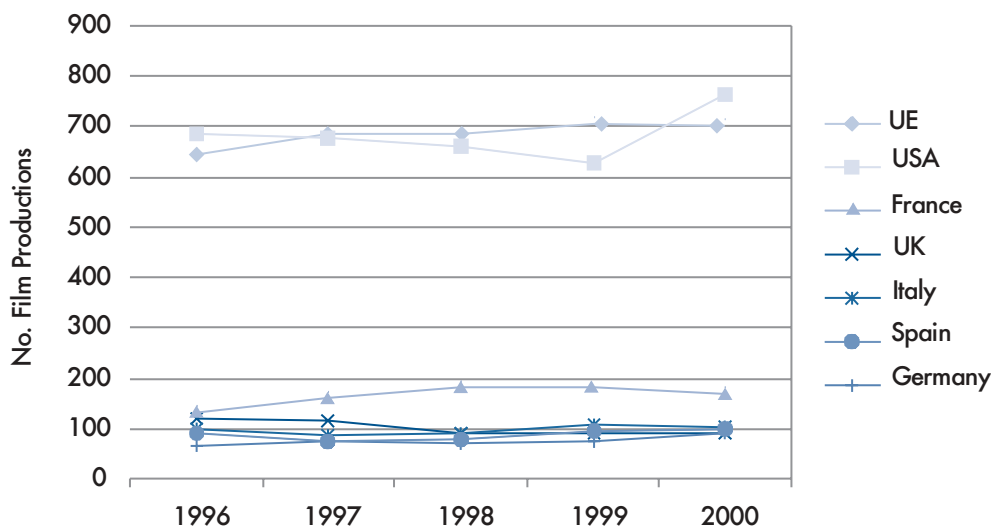
A closer look at territories reveals that the whole of Europe accounts for 26% of worldwide film production (the EU responsible for 77% of that amount, or 20% of the total), followed by the Far East with 21% and the US at 20%. These are the three major markets (again, with the exception of India, which reports for a quantitative but non-qualitative significant 21%).

Figure 2: Main Film Producing Regions (1997-2000)

No. Films	%	
Europe	835	24.77%
EU	672	19.93%
USA	685	20.31%
Far East	654	19.39%
World Total	3,372	100.00%

Source: Elaborated from Screen Digest data

Figure 3: Film Production by Year: Europe vs. US (1996-2000)



Source: Elaborated from Screen Digest data

Nevertheless, from the film investment standpoint the ranking is quite different. The top film investment countries (average from 1996 to 2000) are headed by the US, followed by Japan, UK and France. It is remarkable that half of the top ten are five Western European countries and India does not appear.

Figure 4: Top 10 Film Investment Countries (1996-2000)

No.	Country	\$ mill.
1.	USA	9,765.29
2.	Japan	1,098.59
3.	UK	804.89
4.	France	746.47
5.	Germany	349.61
6.	Italy	203.05
7.	Canada	176.02
8.	Spain	158.69
9.	Argentina	115.05
10.	Hong Kong	92.66
11.	Korea, Rep.	75.79

Source: Elaborated from Screen Digest data

On a broader focus by territories, the US spends more on film production (around 10% of worldwide investment), followed by Europe (3%) and the Far East (1,3%).

Figure 5: Main Film Investment Regions (average 1998-2000)

Region	\$ mill.	%
Europe ¹	2,615.67	18.09%
EU2	2,505.93	17.33%
USA	9,447.00	65.33%
Far East ³	1,197.40	8.28%
World Total ⁴	14,460.63	100.00%

Source: Elaboration on Screen Digest data

¹ Data on Bulgaria, Romania and Russia Fed. For 2000 N/A

² Data on Sweden fr 2000 N/A.

³ Data on Taiwan for 2000 N/A

⁴ on 45 key countries from the Five Continents

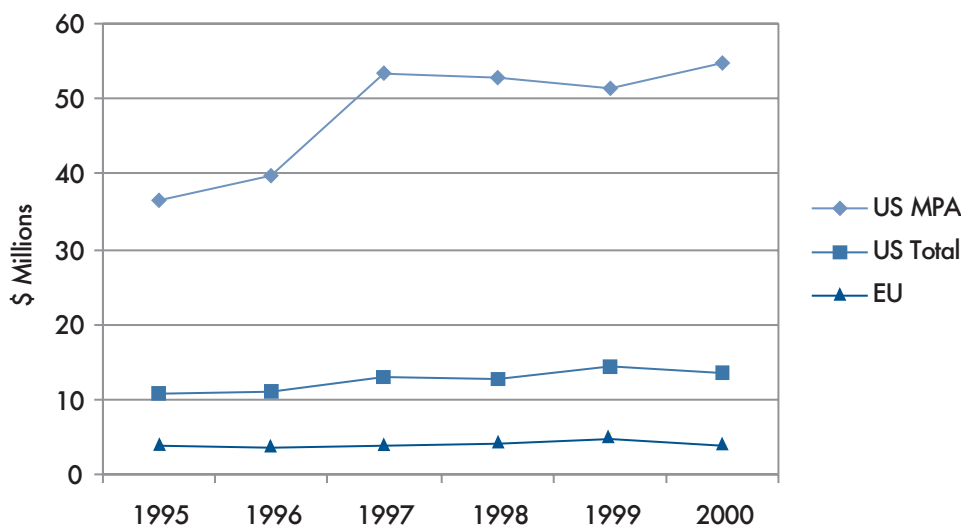
Despite its prominent position, US production investment is decreasing as is the number of films being produced there. A significant share of the increased production level worldwide is at the expense of US producers (runaway productions). The promotional role played by film commissions all over the world as well as some countries' tax incentives to attract money and resources explain this filmmaking trend. A substantial portion of the filmmaking process - shooting and post-production - takes place outside the US, under tight cost control.

Increasing Movie Budgets

The competitiveness of the film market has led producers to increase movie budgets to improve production values and enter the 'blockbuster' category. This is a common phenomenon, both in the US and Europe. The average cost of motion pictures has practically doubled in the last decade. In Europe, it has gone from 2 million dollars in the early 1990s to 4 million by the end of the decade. In the US, considering only MPA members (Hollywood majors and other key companies), the average movie cost has skyrocketed, from 25 million dollars to over 50 million in the same period. These figures are

substantially reduced when non-MPA members are taken into account. In this sense, the increase would be from 8 million to 14 million. Movie budgets in Europe are one third that of US films and a mere fraction of Hollywood studio production costs. Nevertheless, a sense of 'hitting the ceiling', combined with difficulty recouping such huge investments are leading film producers to scale down average budgets and practise tight cost control.

Figure 6: Average Film Budgets (1996-2000)



Source: Screen Digest, Media Salles and MPA

Distribution

The distribution sector has been very dynamic recently, due to the arrival of newcomers as well as the appearance of alliances and acquisitions by existing distributors. The number of active distributors in key territories has increased slightly.

Generally speaking, distributor rental revenues are increasing. Film distribution in Europe is a newly emerging business, where obsolete distribution structures are being updated and local competition is forming to rival the powerful US majors. New and powerful alliances are trying to create European distribution networks.

For some, distribution is considered a key strategic sector. While some independent distributors are turning to exhibition to build a platform for their product, many distributors and sales agents are moving into production to guarantee product.

Exhibition

Over the last decade the expansion plans of several powerful cinema chains all over the world have led to screen building on a massive scale. The 'rush for multiplexes' will probably now start to cool off. There were record-breaking increases in several countries like the U.S. and Japan, as well as Western Europe, with an 8% to 12% rate of annual growth. Overall, the global count has reached approximately 84,000 screens (excluding India, China and Russia).

However, an increased presence of screens has little impact unless accompanied by a similar increase in the number and quality of ‘blockbuster’ products. Market trends show that not a single market worldwide experiences such balanced increases, and in many markets admissions fell despite the increase of product on offer.

Regarding the Film Market as a whole, some key features must be pointed out:

Market Saturation and Tough Competition

Approximately 3,200 feature films are produced annually worldwide, but less than 70% manage to achieve theatrical release. This means that the relationship between offer and supply is far from balanced. The film market is the most appealing and potentially profitable, but also the most risky and competitive.

Figure 7: National Productions vs. National Releases

Country	1998		1999		2000	
	P	R	P	R	P	R
France	180	173	181	209	171	219
Italy	92	66	88	93	103	86
UK	88	72	100	99	98	91
Spain	65	63	82	74	98	92
Germany	50	70	74	88	66	94
EU	687	565	706	626	702	:
USA	661	509	677	461	677	478

Source: Elaborated from Screen Digest, National Cinema Institutes and MPA data

Of course, Figure 7 must be viewed as a general indication, since a film produced in one year will probably be distributed in the following. Nevertheless, the negative difference accumulated every year is significant and reflects that not all the films produced in one country find distribution and exhibition, but go directly to the video and television windows instead.

In some ways, this shows that the film market is no longer in danger of disappearing, but is an established audience favourite. Cinema admissions are constantly growing thanks to the improvement of exhibition chains as well as the regularity of spectacular movie releases.

Increasing Admissions

After a non-stop decline in cinema admissions since the coming of television in the 50s, movie audiences started to show signs of recovery at the beginning of the 90s. The appearance of multiplexes and the standardisation of the ‘blockbuster’ helped attract people to theatres all over the world. According to the European Audiovisual Observatory, the number of admissions in Europe hit 844 million in 2000, the highest figure since 1983.

Both the number of admissions and the annual frequency of cinema visits per capita are generally increasing, although a slight decline in the last two years reveals a levelling off. In Europe, Spain shows proportionally the largest increase in recent years, though the European countries with a consistently higher rate of annual visits per capita are Iceland, Ireland and Luxembourg.

Figure 8: Admissions by Year: 2000-2001

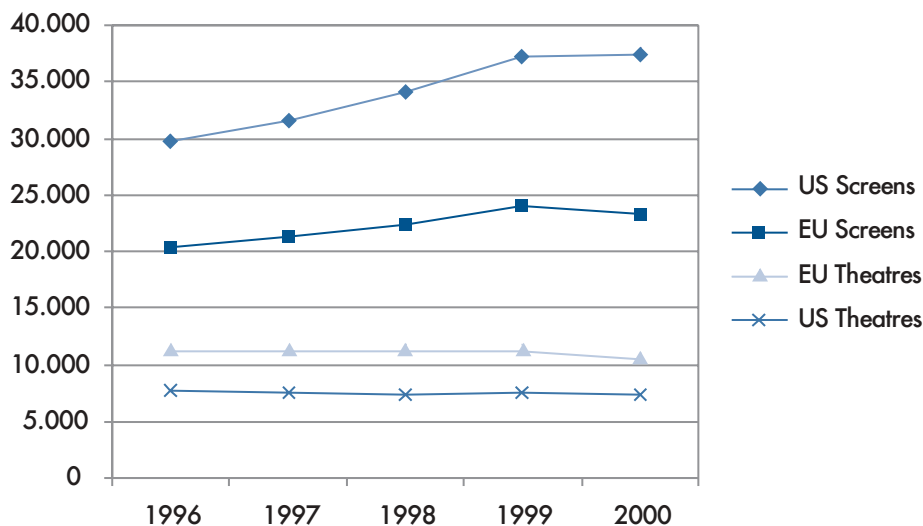
Millions of Admissions in Euro			
	1999	2000	2001
Denmark	10.9	10.7	12.0
Italy	105.0	109.8	120.1
UK	140.3	142.5	156.0
France	155.5	163.0	185.0
Spain	131.3	131.5	145.0
Germany	149.0	152.5	163.0
US	1,465.0	1,440.0	1,480.0

Source: Screen Digest

The Standardisation of the 'Multiplex'

During the late 80s, exhibitors decided to transform their old one-screen theatres into multi-screen cinemas, building large multiplexes close to residential neighbourhoods. As a result, the number of exhibition chains has been reduced, but the number of screens has grown proportionally. One of the immediate effects was that audiences had access to a bigger and better offer per cinema, as well as an improvement in screening conditions (quality and comfort).

Figure 9: Increase in Multiplexes: Europe vs. US (1996-2000)



Source: Media Salles and Screen Digest

The 'Blockbuster' Era

Thanks to films like *Jaws* (1975) and *Star Wars* (1977), in the mid-seventies the concept of the blockbuster movie (a big budget, high concept film with huge production values, which becomes an international box office hit,) began to appear as a common product. From then on, every studio in Hollywood has been struggling to get at least one 'blockbuster' title annually. This phenomenon, on a smaller scale, is also seen in Europe, with films like *The Fifth Element*, *Michael Collins* or *Enemy at the Gates*.

From the box office point of view, blockbusters have created a series of commercial bars (level of grosses), which in the US are millions of dollars (movies that surpass the 100 million

dollar mark at the box office, and reach 200 million, 300 million...even 800 million, including the international market). Again, this scaling up in box office grosses has been seen everywhere, though the total amount varies substantially according to the domestic market size.

In the last five years, between 15 and 17 films in the US surpassed annually the 100 million-dollar barrier. In Europe, during the same period, only between 3 and 7 films each year have managed to exceed the figure of 100 million Euro.

Figure 10: US Box Office Blockbusters (in US\$ M)

N°	2000	Distr.	b.o.	2001	Distr.	b.o.
1	The Grinch*	U	255.3	Harry Potter and the Sorcerer's Stone*	WB	294.4
2	Mission Impossible 2*	Par	215.4	Shrek	DW	267.6
3	Gladiator	DW / U	186.7	Monsters, Inc.	BV	240.7
4	The Perfect Storm	WB	182.6	Rush Hour 2	NL	226.1
5	Meet the Parents	DW / U	161.5	The Mummy Returns	U	202.0
6	X-Men	Fox	157.3	Pearl Harbor	BV	198.5
7	Scary Movie	Miram	157.0	The Lord of the Rings: The Fellowship*	NL	182.5
8	What Lies Beneath	DW	155.3	Jurassic Park III	U	181.1
9	Dinosaur	BV	137.7	Planet of the Apes	Fox	179.7
10	Erin Brokovich	U	125.6	Hannibal	WB	165.0

Source Variety. * Continues following year

Figure 11: European Box Office Blockbusters (in Eur M)

N°	2000	Country	b.o. ¹	2001	Country	b.o. ²
1	Gladiator	USA	149.3	Harry Potter**	UK/USA	228.5
2	Toy Story II	USA	143.9	The Lord of the Rings: The Fellowship**	NZ/USA	112.2
3	American Beauty	USA	129.7	Bridget Jones's Diary	UK/USA	111.1
4	Mission: Impossible II	USA	123.5	What Women Want	USA	104.9
5	The Sixth Sense*	USA	114.7	Shrek	USA	100.1
6	Scary Movie*	USA	85.5	Hannibal	USA	91.4
7	Dinosaur	USA	83.3	Pearl Harbor	USA	82.5
8	Erin Brokovich	USA	75.5	American Pie 2	USA	80.7
9	Stuart Little	USA	75.0	The Planet of the Apes	USA	77.5
10	Chicken Run	UK/USA	73.2	Cast Away	USA	76.3

Source: On European Audiovisual Observatory data

¹ = Admissions x Average ticket price

* Released the previous year

Source: Screen Digest and ICAA

² UK, France, Germany, Italy and Spain

** Continues the following year

As a result, a diminishing number of titles are responsible for a growing proportion of the box office, and this explains why exhibitors rely more and more on blockbusters and avoid other kind of movies.

Market Internationalisation

Between 50% and 60% of Hollywood's total box office grosses comes from the international market. Approximately 85% of this percentage comes from three key territories - Japan, Western Europe and Canada - that represent near 20% of the total world population.

Of the 10 top grossing films in the US in recent years, for instance, at least 50% of them obtained more revenues overseas than in the home market, except during 2000 which was a slump at the worldwide box office.

Figure 12: US Films' Market Internationalisation (in US\$ M)

N°	2000	Distr.	USA	%	Foreign	%	Total
1	The Grinch	U	260.3	76.5	80.3	23.5	340.6
2	Cast Away	Fox	233.6	55.1	190.6	44.9	424.2
3	Mission Impossible 2	Par	215.4	39.6	329.4	60.4	544.8
4	Gladiator	DW / U	186.7	41.2	268.6	58.8	456.3
5	The Perfect Storm	WB	182.6	56.0	143.3	44.0	325.9
6	What Women Want	DW / U	182.8	49.1	189.5	50.9	372.3
7	Meet the Parents	Par	166.2	55.3	134.7	44.7	300.9
8	X-Men	Fox	157.3	53.9	134.8	46.1	292.1
9	Scary Movie	Miram	157.0	60.3	103.5	39.7	260.5
10	What Lies Beneath	DW	155.3	56.4	120.2	43.6	275.5

Source: Variety

N°	2001	Distr.	USA	%	Foreign	%	Total
1	Harry Potter and the Sorcerer's Stone*	WB	314.4	33.9	613.6	66.1	928.0
2	The Lord of the Rings: The Fellowship...*	NL	279.7	39.2	434.8	60.8	714.5
3	Shrek	DW	267.7	58.9	187.5	41.1	455.2
4	Monsters, Inc.*	BV	252.0	69.0	113.2	31.0	365.2
5	Rush Hour 2	NL	226.1	73.3	82.6	26.7	308.7
6	The Mummy Returns	U	202.0	47.1	227.2	52.9	429.2
7	Pearl Harbor	BV	198.5	44.1	252.0	55.9	450.5
8	Ocean's Eleven*	WB	181.4	53.5	157.6	46.5	339.0
9	Jurassic Park 3	U	181.2	49.9	182.1	50.1	363.3
10	Planet of the Apes	Fox	180.0	50.2	178.9	49.8	358.9

*Still on release.

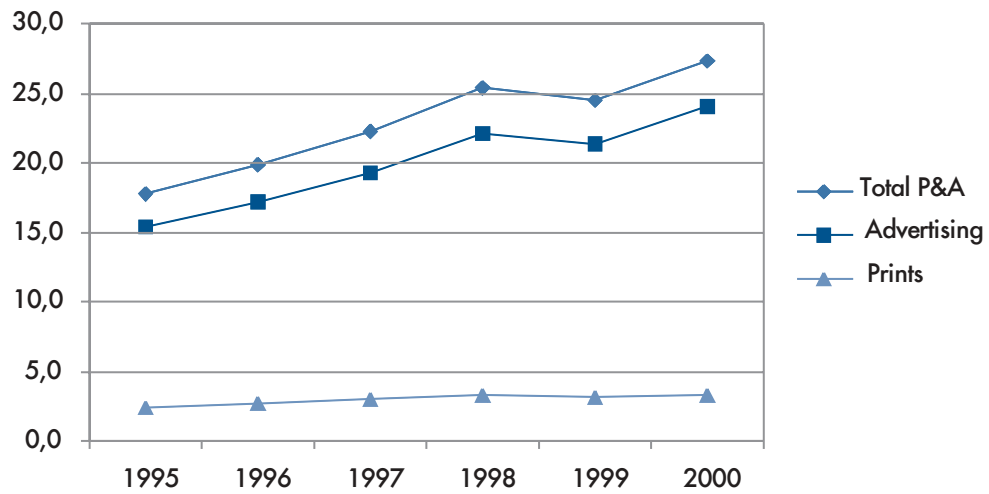
Source: Screen Digest, Media Salles and MPA

Growing Importance of Marketing

As a consequence of the importance of the international market share in total box office grosses, combined with the necessity to amortise rising costs in filmmaking, big production and distribution companies have joined efforts to intensify marketing strategies as well as increment Print & Advertising (P&A) budgets.

Marketing costs have grown from 12 million dollars in 1990 to 27 million in 2000. The significance of this ratio is that the P&A budget is always half the negative cost. In Europe, the tendency is the same, though the figures are logically lower.

Figure 13: US Average Film Marketing Cost (1996-2000)



Source: MPA

US Dominance Worldwide vs. European Market Fragmentation

US dominance in the film market is very difficult to compete with, not only because Hollywood majors control the international distribution business, but also because audience tastes the world over have been irrevocably ‘Americanised’.

US movies account for approximately 70% of box office admissions in the European market and over 90% at home. In contrast, European films take between 1.5 and 3.5% of the US market and less than 20% of the domestic market.

Of the top 10 movies by number of admissions in Europe in the last five years (1997-2001), the vast majority - from 70% to 100% - were US titles (including US-European co-productions).

Figure 14: EU Admissions Breakdown According to Origin of Film (1996-2000)

Nationality of films	1996	1997	1998	1999	2000
US Films	71,6%	65,8%	77,4%	69,1%	73,7%
EU Films in their national market	17,5%	21,4%	14,4%	17,4%	14,9%
EU Films outside their national market	8,3%	10,7%	7,2%	11,5%	7,6%
Others	2,6%	2,0%	1,1%	2,0%	3,8%

Source: European Audiovisual Observatory

Regardless, the differences between countries are overwhelming. The US dominance in the UK and Germany is unquestionable (between 80 and 90%); whereas in France and Italy domestic films have the largest local market share (around 20%). Spain and Italy are the largest consumers in Europe of non-local European films (approx. 8%).

Europe is still a very fragmented market. While some local industries are experiencing a kind of renaissance, European films do not easily cross their own borders. The modest exception to the rule is films from the UK, which achieve a 5% share or greater in main European markets for obvious reasons. Apart from that, co-production appears to be the best strategy to guarantee maximum European distribution.

From an ownership point of view, Hollywood majors' distribution arms control the European market. The American studios' strategy in distribution has gone from creating their own branch in main territories to establishing joint ventures with local distributors. By doing so, not only have they managed to assure theatrical exploitation of their own product in a key territory like Europe, but now they are also in a position to exert pressure tactics on local distributors and exhibitors via *slate distribution or packaging*.

Increasing Relevance of Ancillary Markets

Proportionally, the so-called 'ancillary markets' - video and pay TV - have become key windows from the revenue share point of view. At the end of the 1980s, the video market alone accounted for almost 50% of a movie's total revenue. Today, this percentage is split between video and pay TV, which combined represent a joint share of 65% (the tendency being in favour of pay TV versus the video market). Cinema box office takes have decreased slightly during recent decades, currently being somewhere between 30% and 35% of total revenues. However, it remains a key market, since a successful theatrical release boosts the value of a film in the remaining windows.

2.2.2. Television

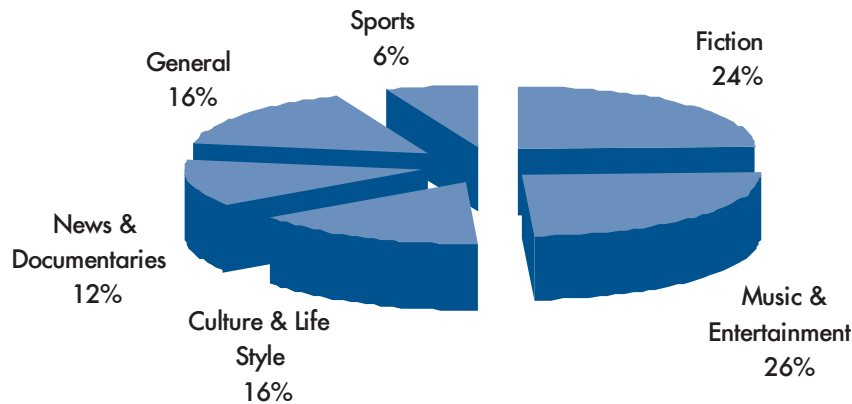
Without a doubt, the TV set is the most popular audiovisual device in households all over the world, reaching a penetration index of 90% of households in developed countries. The estimated average daily viewing per capita exceeds 3 hours in key Western countries, making television the major leisure activity.

Fiction: Key to Successful Programming

Together with sports, fiction programmes are the key content for TV networks. Audiences show a clear preference for films and TV series in the regular ranking of most viewed programmes. In the US, close to 70% of programming is devoted to fiction content, while in Europe this percentage runs from 35% to 40%, depending on countries and the nature of networks (public/commercial, national/regional).

In Europe, the breakdown of TV channels by genre in 2000 revealed music and entertainment (24,8%) at the forefront, followed by fiction and movies (24,3%), general content (16,2%), and lastly life style, culture and education (16%).

Figure 15: TV Channels in Europe: Breakdown by Genre (2000)



Source: Screen Digest

However, ever-rising production costs and the audience's appetite for new entertainment programmes - particularly reality and game shows - show their impact on the production of TV fiction in the year 2000. Although still the key content in TV programming, for the first time since 1996 the number of television fiction programmes in production is declining. In the five main European markets (Germany, the UK, France, Italy and Spain) the hourly volume of TV fiction dropped by 3.9%, from 5.786 hours in 1999 to 5.564 in 2000. The number of new episodes dropped by 4.7%.

European TV Recaptures Market

Although Hollywood movies retain their stronghold when broadcast on TV, favourite soap operas and TV series are no longer American. Former international successes like *Dallas*, *E.R.* and *The X-files* have been substituted by domestic series in most EU countries.

Only feature films maintain their share dominance, especially those that become box office hits. In 1998, 65% of all feature films broadcast on free TV in Europe were American and only 33% were European. This reflects a breakdown similar to the theatrical window.

'Prime-Time' and Domestic Series

The leading TV programming segment (*prime-time*) is dominated by domestic productions. At the same time, it is significant that the number of hours of domestic fiction programming has been increasing in Europe during the last decade, though 2001 experienced a slight recession.

Cinema's Financial Allies

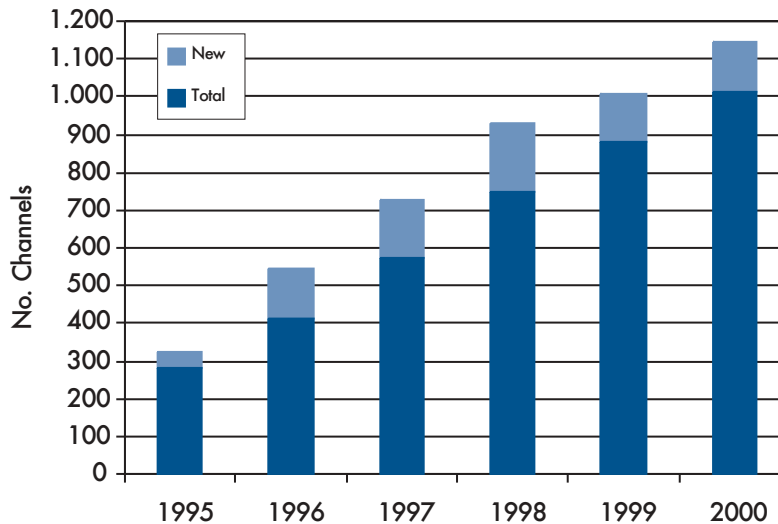
TV pre-sales have become a common financial strategy for film producers. In Europe, most film productions are financially supported by TV networks, thanks to the European regulation directive *Television without Frontiers*, which obliges TV networks to invest at least 5% of their annual revenues in domestic production.

Technological Diversification and Increased Offer

Since the mid 80s, the number of TV channels has continued to increase annually all over the world. In Europe, this growth was particularly spectacular from 1996 to 2000, with 100

new launches each year. Nevertheless, there are signs that the peak has been reached and that the number of TV channels has begun to decrease, having entered the stabilisation phase.

Figure 16: Growing Number of Cable/Satellite Channels in Europe (1996-2000)



Source: Screen Digest

While new satellite platforms may be on the decline, digitalisation continues marching forward and digital terrestrial services and cable companies are expanding across the world. In many cases this has meant the launch of new channel packages and an increasing trend towards pay and premium channel offers, as specialisation of services and content continues. As Figure 17 shows, the forecast of digital TV revenues is optimistic.

Figure 17: Forecast of Digital TV Revenues by Region (in US\$ billion)

2001	2002	2003	2004	2005	
North America	9.6	14.3	21.2	29.0	41.9
Western Europe	6.2	10.7	17.7	27.4	39.5

In addition, new TV experiences, like Interactive TV (iTV), are appearing. (iTV refers to not only interactive services but also so-called enhanced television that offers TV audiences more than a passive viewing experience).

This technology is poised for spectacular growth. According to Strategy Analytics, by 2005 the international set-top box market is predicted to reach 34.2 million units, or a 24% growth, which means that 625 million people around the world will have access to online services through their TV sets. During the same period, TV subscription services, video gaming and TV-based information service revenues will exceed \$ 60 billion and television commerce (t-commerce) revenues will reach \$ 45 billion, according to Ovum Ltd.

2.2.3. Video

With cumulative unit sales to date exceeding 650 million, videocassette recorders (VCRs) have now become a familiar item in homes around the world. In most developed nations,

VCRs are already found in over two-thirds of television households. This has provided an incredibly powerful funding engine for filmmakers, evincing a voracious appetite for entertainment software products of all kinds.

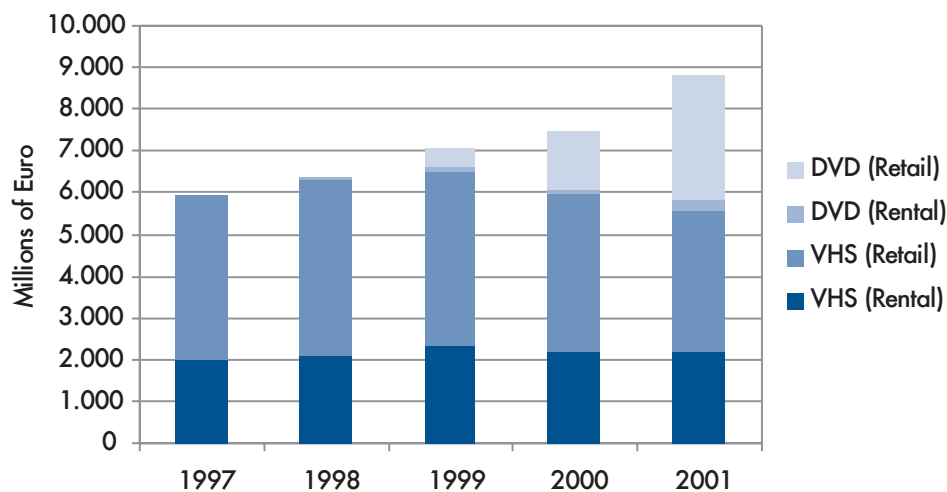
Key Movie Market

Of all the different windows, about 35% of a film's total worldwide revenue comes from the video market, although it is nearing its peak with pay TV fast approaching.

Rental vs. Retail - Videocassettes and DVD

In 2000, consumer spending on the rental and purchase of videocassettes and DVDs in Western Europe exceeded €7 billion, an increase of almost 20% on the previous year's figures, spurred by DVD sales and rentals. Such growth shows that video rental has continued to hold its own despite rival entertainment platforms such as video-on-demand, although it is mainly the result of higher video rental fees. While the market for the digital format has expanded exponentially everywhere, the incumbent tape-based business has shown signs of stagnation and decline.

Figure 18: Consumer Spending on European Video Software in Western Europe (1997-2001)



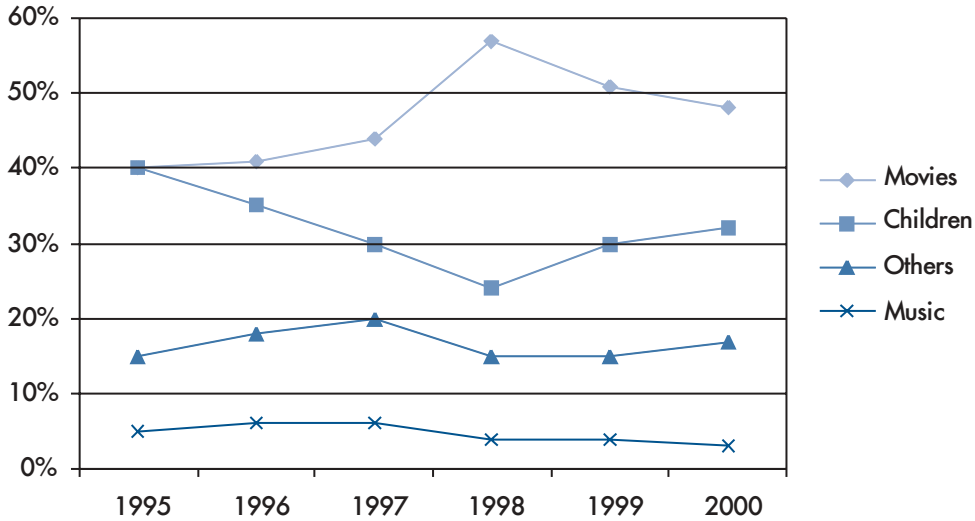
Source: Screen Digest, European Video Yearbook 99/00

North America accounts for 57.2% of the total VHS market, followed by Europe (20.9%) and Asia Pacific (19.2%). In the DVD market, the order is identical though the differences between North America (69.7%) and Europe (17.4%) are greater.

Movies: Key Content in Retail Market

The majority of videocassette consumers' purchases correspond to film and animation, meaning fiction still leads this market.

Figure 19: Video Retail Market Share in Europe: Breakdown by Content (1995 – 2000)



Source: Screen Digest, European Video Yearbook 99/00

American Hegemony

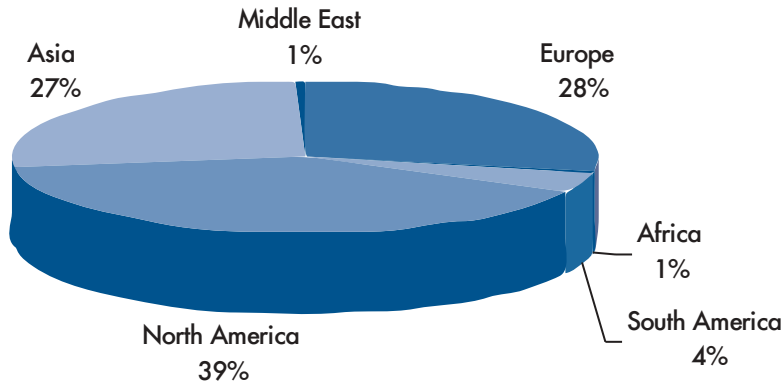
As in the theatrical market, video distribution is dominated by the American majors, accounting for 75% to 80% of the European market share. In addition, the titles dominating the retail and rental markets in any country mimic previous box-office performance.

2.2.4. Multimedia and New Technologies

Rapid Expansion of Multimedia Hardware

The number of households using multimedia products and accessing the Internet is rapidly increasing. An estimated 420 million people were connected to the Internet worldwide by the end of 2000, according to Screen Digest. Despite the problems that have beset the Internet economy over the past two years, Internet growth shows no signs of slowing.

Figure 20: World Online Market Share by Territory (2000)



Source: Screen Digest

In addition, between 25% and 50% of households in North America and Western Europe have some form of multimedia platform installed in the home, ranging from PCs to console-games.

Equal Market Share: US vs. Europe

Market share of the multimedia and Internet markets is clearly balanced between the US and Europe.

North America's earlier dominance of the Internet market is in decline, decreasing from 60% to 40% of the world online market in the past two years. At this pace, in another two years' time, less than 25% of those connected to the Internet will be from North America. European Internet use is also slowing, although it is still growing faster than the worldwide average of 14%. In contrast, Asia and South America show the most significant increase, although still only a fraction of their population (2% to 3%) has Internet access. Currently, Asia surpasses Europe as the second largest online market.

In terms of consumer spending in multimedia software, the US and Europe are nearing the 7 billion dollar figure - two billion ahead of Japan, according to Screen Digest estimates.

New Technologies, New Business Opportunities

In order to address the demand for faster connectivity, many new Internet access technologies have been established, referred to as broadband connections. More specifically, we define a broadband connection as Internet access that reaches data transmission speeds of over 128 Kbps (faster than ISDN).

Broadband greatly facilitates the delivery of a range of services such as video-on-demand, e-commerce, music, e-mail, interactive advertising, online news and information, interactive gaming and videoconferencing.

Figure 21: Broadband Services

Broadband Services
Alert Services
Data Sharing
Distance Learning
Interactive (multiplayer) Gaming
Location Based Services
Streaming Audio / Video
Online Shopping
True Interactive Television
Video Conferencing
Video on Demand
Virtual Office

Source: MB File

The expectations of broadband connectivity are extremely high in Europe. Companies are willing to invest billions in the construction of broadband networks. The recent auction of UMTS licenses (which enables broadband wireless connection) in Germany is a good illustration of this. (Companies were willing to pay a total of 50 billion Euro for the licenses.)

2.3. FUTURE TRENDS IN THE AUDIOVISUAL BUSINESS

New technologies are changing the audiovisual landscape as we know it. The driving force behind this revolution is digitalisation, a process that converts analogue text, sound, and images into binary information capable of being transferred by a common delivery system. Digitalisation is behind the process of convergence and merging of the communications, broadcasting, and computer industries.

The current new media can be divided into two different fields: one related to the communications infrastructure, the other related to the creative content itself. The first, *containers*, refers to how existing media products are encoded/stored or distributed - i.e. cable, satellite, CD-ROM, DVD, or streaming-media. The second field *content* involves distinctive changes in the content itself, for example, non-linear storytelling.

The costs of digital storage and processing capacity are falling due to several new key developments brought about by digitalisation, including: broadband switching equipment; the spread of optical fibre backbone for information networks; new higher-powered satellite transponder capabilities; and development of digital video imaging and compression technologies. Developed societies are also undergoing simultaneous behavioural changes in terms of digital products, from increased familiarity in using keyboards, remote controls and joysticks; greater reliance on the Internet and other forms of telecommunication; to the consumer's acceptance of paying directly for video rentals, pay TV channels, and pay-per-view. This powerful combination will impulse the evolution of new media products and significantly change the way the audiovisual industry and markets operate. The following outlines key changes already being seen in the entertainment sector.¹

2.3.1. Key Aspects of the Digital Revolution

Decreased Distance

It is clear that distance will become increasingly irrelevant as the digital revolution drives down the cost of all forms of communication and information transmission. In turn, many of the cost factors that traditionally favoured the clustering of production activities, and the close proximity of production to the market will be weakened. The role of Hollywood and face-to-face contact for players from all segments of the industry will be reduced.

Reduced Costs

The real cost of acquiring, processing, storing, and transmitting digital information will continue to decline for the foreseeable future with the improvement in compression technologies and the expansion of bandwidth. With network penetration continuing to climb, increasing competition will ensure the benefits are passed on to consumers in the form of lower prices. This will reduce the size of transaction costs relative to other costs in the feature film and television business as well as business in general.

Universal Access vs. Monopoly Power

Whereas governments, rights associations, and industry participants have historically been able to regulate access or maintain geographical market monopolies, this power will disappear with the development of alternative avenues of access to information services. Of course, there will continue to be areas where high infrastructure costs for new entrants will limit competition during

¹ Hoskins, Colin, Stuart McFadyen and Adam Finn, *Global Television and Film: An Introduction to the Economics of the Business*, Oxford University Press, Oxford, 1997.

a transition period, but this will only apply in areas where the ultimate demand is limited. Monopolies will be limited to low income and less educated neighbourhoods.

The Search for the 'Killer Basket'

While there is some evidence that television is losing some of its audience to the World Wide Web, there is a deep-seated suspicion that entertainment products alone will never become the so-called 'killer app' - computer industry shorthand to describe an application that drives up computer penetration. A narrow search for the killer app may cause decision-makers to dismiss technologies and applications that may not support the entire infrastructure on their own. But entertainment may prove to be a valuable component of a killer basket of online goods and services, combined with electronic commerce, banking, education, telephony and home security, among others.

The 'Global Individual'

Conventional and new media are competing to define two terms common to both their vocabularies - the individual and global. Both claim to offer the individual considerable sovereignty and both see the global community as a shared space. But for the new media model the shared culture is negotiated collectively from within; for conventional media the shared culture is imposed from without. The entertainment industry sees itself, and is frequently seen by its critics, as the creator of a global culture. A wired world favours the individual and global over the national and local.

Consumer Sovereignty vs. Public Regulation

These perspectives will go head-to-head in areas such as multi-point distribution services (wireless cable), digital compression, interactive television, or technology standards, such as MPEG, encryption and Java. Government regulators should resist the urge to pick winners and losers. Major corporations have invested heavily in video-on-demand field trials to try to find out technology and consumer preferences. The recent rush by companies to merge and join international forces has provided a way for corporations to hedge their bets, by having a stake in many alternatives, in an uncertain environment where a few big wins and many losses are likely to occur.

2.3.2. Effects on the Audiovisual Industry and Markets

Digital technological developments have implications for traditional cultural industries in the areas of production, marketing and distribution, as well as trade and employment.

Production

The arrival of new technology has meant both the capital cost of audiovisual equipment and the number of technicians needed to operate the equipment have begun to decline. Basement-level desktop audio and video are rapidly approaching the quality once only achieved in costly-to-rent professional recording studios and sound stages. There will be a significant reduction in what are referred to as below-the-line costs, namely facility and technical production costs, relative to the above-the-line creative costs of stars, scripts, and directors.

This in turn will weaken the power of production unions as scenes synthetically created by computer are able to replace those built by carpenters, decorators, electricians, and other tradesmen, and production switched to less restrictive labour environments.

Existing stocks of creativity sources will increase sharply in value. The real property of the information economy is 'intellectual property'. Consequences include more sequels and remakes of stories that have been successful in other cultures and languages. There may be even higher payments to stars, although the possibilities of computer-generated 'virtual actors' and the growing use of special effects as the real stars (as in *Twister* and *Volcano*) provide a counterbalance.

Further developments in video cameras and desktop video suggest that technology-based barriers to entry for production are in the process of disappearing. Thus the number of industry participants can be expected to explode.

Marketing

The weakening of the traditional advertising-supported mass media and the advent of new forms of information distribution, expected to follow from falling transaction costs, will result in a reduction in media placement costs relative to creative costs. The most important implication is an increase in the power of established communication and entertainment brands or sources with a distinctive identity or brand equity (such as Disney, the BBC, CNN) relative to participants who lack any strong identity (for example, ITV in the UK, and MCA which is changing to Universal).

Distribution

A widespread network will be created for two-way high speed digital communication to the home. It is not yet known if there will be competition between such networks in every geographical market.

Competition will increase sharply as the media industries move from regional geographical monopolies (cable systems) and oligopolies (city newspapers, cinema exhibition) towards highly competitive market structures, where the only market boundaries are created by language, culture and lifestyle interests.

A sharp increase can be expected in the value of existing libraries, especially those that can be supplied to services targeting narrow market niches.

Transactions

The substantial drop in transaction costs between buyers and sellers who are geographically separated will also possibly lead to a significant decrease in intermediary negotiation, as producers and consumers are more able economically to conduct transactions directly without the intervening role of distributors and exhibitors. Independent film distribution on the Internet is one such possibility. Consumers with strong preferences will be able to seek out the specific products or services they wish to acquire and complete a low-cost economic transaction, reducing the power of the traditional hierarchical distribution channel.

However, new intermediary forms are likely to develop to assist other aspects of the exchange process. These are likely to include search agents, payment agents and copyright collection agents. New forms of retailers may also develop, in competition with traditional exhibitors, to satisfy preferences for social consumption of entertainment programmes, as foreshadowed in the recent enthusiasm for cybercafes.

Employment

Technological changes always bring with them the fear of displacement of workers by machines. Digitalisation and new media, like technological innovations in the past, will both destroy millions of jobs and create millions of new jobs. What individual countries have to be concerned about in terms of the audiovisual sector is the extent to which the new jobs are created at home. Subsidies to domestic-content creators may protect some jobs, but the major concern is that government barriers that merely delay the development of the necessary information infrastructure will severely limit audiovisual job creation, not only in new media-related areas but economy-wide. Any country that does not develop an information highway will no longer be part of the global political and trading arena.

Trade

Digital media developments have implications for the US' dominance in trade as well as international trade disputes in terms of cultural goods and services.

Implications for US Dominance

Factors that will weaken US dominance:

1. The significant reduction in below-the-line costs relative to above-the-line creative costs will lessen the importance of traditional studios and production centres that have major investments in fixed production facilities.
2. Further developments in video cameras and desktop video suggest that technology-based barriers to entry are in the process of disappearing. The number of industry participants can be expected to explode, thus weakening the relative importance of the major players.

Factors tending to maintain US dominance:

1. The expected increase in the value of existing stocks of sources of creativity will benefit the Hollywood majors with their extensive software libraries. The new media create additional links in the chain of exhibition windows, through which the majors are able to exploit these rights. A longer chain of exhibition windows coupled with price discrimination between windows (i.e. less valued venues being priced lower; e.g. video rental is less costly than theatre admission) will permit the majors fully to extract the economic value of their products.
2. Hollywood is the major centre of established creative suppliers - agents, stars, independent producers - and can be expected to benefit from the increase in above-the-line costs relative to below-the-line costs.

Factors that are neutral or indeterminate in terms of US dominance:

1. The expected increase in the value of existing programme libraries which can be supplied to services targeting narrow market niches can be expected to benefit

suppliers such as both Disney in the US, and Anglia, the ITV company in the UK, that has established a reputation for natural history programming.

In conclusion, the forces leading to decentralisation of production and distribution are likely to diminish the US advantage somewhat, but Hollywood will still be in a strong position as the leading concentration of creative talent.

Implications for International Trade Disputes

Trade in cultural products has always been particularly sensitive. Washington has served notice that it intends to revisit the cultural provisions of GATT under the new World Trade Organisation (WTO). One of the most daunting challenges for the WTO will be managing global trade in a digital age. The issue is further complicated when those bits carry cultural significance. Border controls on bits are bound to be problematic.

Problems of copyright and piracy are likely to increase, not only due to the possibility of copying without physical deterioration or quality loss (as occurs in analogue media), but also because the accessibility of the global network makes it possible to distribute copies on a global scale, trespassing frontiers and custom requirements.

However, activity on global networks will in fact also be more readily monitored, and thus disputes will be better publicised. International trade disputes in this area can only grow in complexity and frequency.

