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THE SOUTH AFRICAN FEATURE FILM INDUSTRY:
A COMPARATIVE ANALYSIS

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Although South Africa has the required competency to become a significant player in the international film market, the industry faces a number of obstacles and few South African films enjoy commercial success. It is worth considering what kind of film industry would be most beneficial for South Africa and how government and other stakeholders can help achieve this outcome. The United States and the United Kingdom have embarked on different development paths, with varying degrees of success. It is useful to analyse these industry benchmarks and uncover lessons that could help plot a course for South African film. Although the South African government has recently proved willing to support and accommodate the sector, this paper argues that a shift in emphasis may be necessary if long-term sustainability is to be achieved. Without negating the importance the cultural aspects of film, policy makers should also consider encouraging the production of commercially viable films through distribution promotion and audience development.

1. Introduction

The film industry, from pre-production to distribution, plays an important role in the South African economy. It is estimated to generate over R5.5 billion in economic activity annually and is an important employment creator, directly affecting companies involved in production, post production, casting, crewing, equipment-hire, set design and property supply. Current employment estimates stand in the region of 30 000, though further jobs are stimulated in the transport, catering and hospitality industries. Internationally, an employment multiplier of 1.7 is the generally accepted norm for the film sector. (Tuomi, 2005) Moreover, film brings in valuable foreign exchange and acts as an important means through which technology is transferred and the South African skills base is upgraded. It has further social and political implications through the role it plays in communicating ideas, providing information and engendering debate.

South Africa enjoys a number of advantages in the area of film production and as such, has the potential to become more involved in the international film market. The local industry retains both a world-class skills base in the area of film production as well as superior distribution and exhibition infrastructure. South Africa is naturally endowed with an extensive variety of locations and 14 hours of sunlight during the summer months, the quality of which is excellent for filming. These benefits are complemented by copyright protection of international standards and the recognition of the economic importance of film by various government departments.

These advantages may not be sufficient to overcome the challenges currently facing the industry, however. On a global scale, film has been characterised by increased levels of merger activity and a concentration of ownership. This has resulted in higher entry barriers for smaller independents, many of whom lack the access to distribution networks available to the big entertainment companies. The sector is also threatened by the secondary pricing system evident in some developed countries, especially the United States. Under this system, producers recoup most of their costs distributing to their large domestic market and are able to sell their films and programs at a discounted price to other countries. As a result, locally produced products in countries with small domestic markets are at a constant cost-disadvantage when competing with foreign offerings. Furthermore, most governments compete aggressively to attract filming activity through the provision of financial incentives and tax breaks. This has led to the situation where countries are forced to offer incentives in order to compete on par with subsidised competition. (See Appendix)

The industry faces internal constraints as well.[1] There is general industry consensus that access to training, funding, and distribution facilities is limited, especially for previously disadvantaged filmmakers. This is compounded by the small domestic market, rising support industry prices and inadequate audience development.[2] Other perceived impediments to growth can be ascribed to governmental policies. The South African Revenue Service and the Department of Labour have recently 'tightened up' on the enforcement of certain tax and working condition strictures. The film industry has traditionally been seasonal, with long hours worked during the summer months, often by 'independent contractors' as opposed to formal employees. Most industry participants feel that local competitiveness will be seriously compromised by the recent 'hard-line' approach.

It appears that the South Africa film industry is at a proverbial 'crossroads'. With a supportive policy environment, it can capitalize on its assets and facilitation experience and focus on the production of a wide variety of productions with audience appeal, boosting the economic sustainability of the sector. This needs to be done without sacrificing cultural integrity. Alternatively, the industry can focus its energies a few heavily subsidised 'art' or 'cultural' films catering to a niche market. Retaining government financial support in an increasingly competitive environment will become progressively harder however. In order to determine and travel the first path, the path of sustainable development, it is necessary to examine four pertinent questions:

1. How have other countries with successful film sectors achieved this outcome?
2. What is the current state of the industry?
3. What kind of film industry would be most beneficial for South Africa?

[1] Very little formal statistical research has been conducted on South African film and the industry is both unfamiliar with and reluctant to participate in surveys. Therefore the following observations were the result of a process whereby available data was analysed, checked for accuracy and amalgamated with opinions from individual interviews. Interviewed stakeholders included numerous production companies, directors and film schools, the South African Association of Stills Producers, the Commercial Producer's Association, the Independent Producers Organisation and most public bodies with film related programs.

[2] The previous weak exchange rates both inflated the cost of imported production equipment and allowed companies to charge high service fees, especially for budgets denoted in foreign currency. An escalation in location, supply and crewing expenses was observed, remaining relatively high even in the face of a stronger Rand. From 1998-2004 for instance, accommodation has seen an average real price increase of 131%, location fees have risen by 55%, air flights by 50%, and crew fees by 39%. (Alexander and McKenzie, 2004)

4. How can government and other stakeholders help achieve this outcome?

These issues are addressed below. It is useful to start with an analysis of the emergence of film in a sample of other countries, focusing on how those countries with successful film industries achieved their current status.

2. Emergence of Film Industries in other Countries

Numerous other countries have film sectors, each in various stages of maturation. Countries such as Canada, Australia, Russia, Nigeria, China, Argentina and India have all used industrial policy to bolster their film industries, with varying degrees of success. Film industries in Europe (especially in France, Ireland, Italy, and Spain) also enjoy quite a high degree of state support. In the majority of these countries, the regulatory framework makes it mandatory for broadcasters to support their national film industries, which plays a vital role in maintaining indigenous film industries. (British Film Council, 2003). Canada in particular has enjoyed Federal government support (in the form of capital cost allowances, Feature Film and Feature Film Distribution Funding and Tax Credits.) Unfortunately, the close proximity to the United States and the North American Free Trade Agreement (NAFTA) have dampened the stimulatory effect of these measures. Canadian talent often find that working in the US allows them to both earn more and reach a larger audience. Moreover, the shared border means that the Canadian market quickly becomes saturated with US film and television products, each of which is accompanied by substantial marketing outlay and promotional material. As such, the local competitiveness is diminished and valuable box office revenue flows out the country. In fact, less than 5% of films watched by Canadians are made by Canadians. (About Canada Publication Series, 2005)

Australia is an active player in the international film industry and in fact produced the first fictional feature film ever made in 1906.[3] The industry was initially quite small, producing a limited number of more 'artistic' films watched by niche markets around the world. During the early 1970s, in an attempt to stimulate the industry, the government started to offer direct assistance and funding support. This included funding agencies, incentives and training assistance. Direct assistance is provided through federal agencies such as the Australian Film Finance Corporation, Film Australia, the Australian Film, Television and Radio School, the

[3] It was called '*The Story of the Kelly Gang'* and was loosely adapted from a play about their legendary renegade bush ranger.

Australian Film Commission and ScreenSound Australia, as well as the various film agencies associated with state and territory governments. Average film agency income amounts to about $107 million per year for federal agencies and $27 million for state agencies. About 80% of this went to production and development assistance. $3.75 million a year (about 8%) went to 'screen culture' and $5.2 million went to project/ script development. Their 10BA and 10B tax concessions, whereby investors who acquire interest in the copyright of new, qualifying productions receive a 100% tax concession, have proved particularly stimulatory[4]. By the 1980s and 1990s, Australia managed to produce a few television programs and feature films with global appeal (such as 'Neighbours' and 'Crocodile Dundee'). Furthermore, many Australian actors and directors have achieved international fame (both in local and Hollywood productions) and Australia has recently participated in a large number of successful US-Australian co-productions. Australian share in the film box office is now around 8% in 2001. (Australian Film Commission, 2005)

There are surprising similarities between Russia and South Africa with respect to film challenges. In the last few years, Russia has had fewer film-goers than any other European country. Cinema returns from the Russian-made film releases have been shrinking and exports and right sales to Russian television and video have been negligible. This can be attributed to a number of reasons including the dismantling of the nationwide distribution system at the end of the Soviet Union, a physical decline in screening venues, and a drop in audience attendance commensurate with the rise of the video market, and a flood of low quality foreign films. (Pittsburgh Russian Film Symposium, 2004) During the late 1990s, the small returns to distributors prevented any money from being spent on publicity. (Dondurei, 2005) In an attempt to reverse this decline however, a Committee on Cinematography was created in 2000 under the Ministry of Culture. Adopting a US style approach to industrial development, this new Committee no longer underwrites the entire cost of any film project but instead provides a form of competitive seed funding, disbursements of which are subject to periodic review. Film studios are now forced to package their film products both in terms of their 'social (or artistic) merits' and their projected ability to return capital investments to the studios. The refocus may be working, evidenced by a recent increase in cinema attendance where Russian films now account for 15% of the market. Sobolevskaya (2005) attributes this to three factors: "the Russian blockbusters of 2005, advertising, and distribution companies."

[4] In its original form the concession was 150% and allowed investors to pay tax on only half the income. After suspicions of abuse and the production of a number of low quality films, the concession was amended to its current form.

(Sobolevskaya, 2005: 2) Many producers have started spending substantial amounts of film budgets on distribution and large-scale advertising campaigns and focus groups to determine audience impressions of films during production.

The rest of Africa offers few other notable case studies. Some of the smaller West African countries (such as the Ivory Coast, Burkino Faso and Senegal) have managed to produce a number of well-respected films, mostly in co-production with France. Although relatively successful, none have managed to generate sufficient revenue to allow re-investment in further films. Nigeria has a substantial 'home-video' production industry, second only to India in quantity. These are generally low-budget productions, and are aimed at the local market.

In terms of quantity of output, the Chinese and Indian industries are remarkably prolific, bolstered by substantial domestic markets and government involvement. In fact, the Indian film industry is considered to be the largest in the world in terms of number of films produced, and tickets sold.

Despite the similarities between all these countries and South Africa, there are a number of differences that may prevent the development of their film industries from being useful case-studies. For instance, Bollywood films are quite culturally-distinct, enjoy broad domestic audience support and are rarely marketed globally. Furthermore, the majority of these countries have governance structures that allow for relatively heavy state involvement in industry. It is unlikely that this could be replicated locally.

Leaving aside the issues of culture and aesthetics, like other industries in this era of globalisation, the film industry is a global industry and is internationally driven. Hence one cannot adopt a purely national perspective in seeking to analyse and formulate policy to develop a country's film industry. The historical and current global drivers of the film industry are the United States and Europe, particularly the United Kingdom. They set the standards for what constitutes success in film through the institutions, distribution channels and processes that define the industry. Furthermore, the South African industry has historically been linked to these two film powers since its inception. The majority of films watched in South Africa are of US or UK origin. As such, they represent both the direct competition and possibility for launching locally produced films[5] onto the global stage.

It might be argued that the US and UK have sizable domestic markets and therefore are unsuitable case studies for a country like South Africa with its 'limited' domestic market. In fact, some perceive the South African 'market' to be too small to even warrant a film sector. This observation is incorrect for a number of reasons. The market for local film is not only constrained to South Africa, indeed the US and the UK are South Africa's largest offshore distribution channels. On a purely domestic front, the current lack of cinema culture is a result of South Africa's history and previous economic reality. By no means does this negate the potential for an increase in viewership. For instance, local South African drama series such as *Zone 14*[6] are watched by over 1.5 million people daily (Walker, 2006). Furthermore, recent films such as the Oscar winning *Tsotsi*[7] have managed to break into international markets. Clearly there *is* a market for South African product. The central policy problem is how to expand its scope, and with the various audience development initiatives discussed later, this resource can be tapped into by feature films. Furthermore, rising incomes have also led to rapid growth in DVD culture, which are now viewed widely in homes and shebeens. The average DVD sells 4000 units (with some like *Finding Nemo* selling over 70 000 units.) This again indicates an audience pool sufficient to support a sustainable film sector. The examples of Russia and Australia provide further evidence that initial market size need not be preclusive.

2.1. United States

The US has been the principal player in the film industry since the beginning of the century, when European competition was destroyed by the outbreak of the First World War. The current strength of the US industry has certainly been fostered by previous fiscal and regulatory interventions by US administrations. For instance, the extension of the Investment Tax Credit to the US film industry in 1971 enabled many bankrupt studios to recapitalise. Currently numerous states offer production subsidies and the Export-Import Bank of the United States guarantees financing support for the production of independent US films. The

[5] It should be noted that although the term 'film industry' often incorporates everything from commercial facilitation to television program creation, the focus here will be on long form (feature films).
[6] Zone 7 is a local drama series, located in a typical township setting, focusing on the daily lives of two families, the Sibiyas and the Molois.
[7] *Tsotsi* is a story about a young gangster who hijacks a car only to find a baby in the back seat. Through his attempts to care for the baby, he learns important lessons about love, life and dignity.

US further benefits from a film permit subsidy programme which subsidises production costs. (British Film Council, 2003)

Even without the government support, the distribution-led nature of the US industry ensures sustainability. Distribution earnings far exceed production outlay, and the balance is used to help finance the production of more films. Kerrigan and Culkin (1999) emphasize the importance of this ‘distribution-focus’. These authors hold that US domination is due to a mindset that considers film an ‘industry’, and views feature films as ‘commercial products’. They claim that Europe’s stagnation is due to its refusal to acknowledge that there is “no natural separation between commerce and art.” (Kerrigan and Culkin, 2000: 1) The authors attribute the different success rates to a number of factors including the divergent attitudes to filmmaking in Europe and the US, technical developments, and the impact of industrial organisation and market awareness. They highlight the debate around whether film should be classified as an ‘industry’ or an ‘art form’. Historically, the debate has divided filmmakers into two camps: Americans who approach film from a commercial perspective and the Europeans who feel that applying industrial models to film would result in the sacrifice of the necessary artistic values of true filmmaking. (Kerrigan and Culkin, 2000)

The unique US perspective has been evident since the beginning of cinema and was shaped by early industrial developments. In particular, the creation of the ‘Trust’ in 1909 helped entrench a number of current practices. The Trust, officially the Motion Picture Patents Company, was an association formed to restrict other players in the American motion picture industry. As a survival strategy in this cartel environment, the independent sector began to establish vertical distribution links, setting the standard for the contemporary industrial forms of the large studios.

The US industry ‘boomed’ during the First World War and continued to expand thereafter, achieving significant economies of scale through the production, distribution and exhibition processes. Releases were coordinated so that they made maximum impact in different territories at the same time. (Grey, 1999) US firms began to mitigate their investment risk through vertical distribution networks. To reduce exposure and shorten the payback period, studios ensured the pre-selling of video rights, new licensing rights and television output deals. Film development began to grow in importance. Certainly contemporary US producers consider it vital to commercial success. They often spend up to 7% of a film’s budget on development, as opposed to more conservative European outlay of 1-2%. (Finney, 1996) This schism has helped the US maintain dominance. It appears that most European producers are reluctant to become involved in the script development stage of a project and prefer to adopt 'completed' products. There is very little European money available for market research at the early stages of script development and this 'commercial interference' in the artistic process is not highly regarded. As such, European films are often at a disadvantage when competing with US films which receive market direction from an early stage. (Finney, 1996)

Kerrigan and Culkin (1999) do note however that "The Europeans are at last acknowledging that they must make money to survive in all sectors and that while there is a place for artistic and sensitive films which do not achieve major box office success, these must be subsidised by blockbusters." (Kerrigan and Culkin, 2000: 22) Despite this, there is still insufficient attention paid to marketing and distribution. Failure to secure a distribution deal with the major US distributors means that a large scale film has a much smaller chance of the widespread exhibition necessary for financial success. (Smaller films often achieve profitable returns working with specialist and independent distributors.) The distribution hurdle is compounded by the fact that European producers are normally suspicious of distributors, especially as distributors often require certain changes be made to the film product. (Kerrigan and Culkin, 2000)

2.2 United Kingdom

The current state of British film has certainly been shaped by public policy, not all of it beneficial. With respect to public service television in the UK, past policies and regulatory regimes failed to sufficiently engage film. Although current government intervention in production is relatively minor (the main subsidised sources being British Screen Finance and the British Film Institute), this laissez fair attitude is fairly recent. From 1950 until 1984, the Eady Levy offered significant production support. It was introduced as a mechanism to circumvent subsidy restrictions under the terms of the General Agreement of Tariffs and Trade (GATT). Under the Levy, a proportion of film ticket prices were pooled, with half retained by exhibitors (effectively a rebate on the tax) and half divided among qualifying 'British' films in proportion to local box office revenue.

The UK film industry also suffers to an extent from the mainland European malaise of being relatively 'production-led'. The majority of films are financed through supply-side measures, such as production subsidies and sales to UK terrestrial broadcasters. In some instances ‘ad hoc’ packages of intellectual property rights are ‘pre-sold’ through sales agents. (British Film Council, 2003) Again, policy has helped contribute to this outcome, especially through broad funding instruments such as the National Lottery. The Arts Council, which disburses the funds, has traditionally been unprepared. This has resulted in a situation where the majority of support has gone to amateur films “made in a vacuum completely disconnected from distribution.” (Parker, 2002: 5)

This is in direct contrast to the US method, where films are spearheaded by a single distributor or sales agent with global reach. In the UK, even when distributors have shown interest in a film, they do not deal with a producer directly, but work through a sales agent covering many territories. As noted by the British Film Council, this results in “the linkage between the production base and the cycle of market exploitation (cinema, DVD/video, pay/free TV, secondary markets) [being] structurally weak. In the majority of cases, revenues generated by a film are not recycled directly back into UK production, but instead reside with off-shore distributors who have no direct relationship at all with the UK production base.” (British Film Council, 2003: 22)

It is evident that the United States and the United Kingdom have followed different development paths, with different degrees of success. In order to determine how the South African Industry compares, it is useful to examine its recent history and current status.

3. A Brief History of South African Film

By 1896, early projection devices were screening short films in the Johannesburg gold fields. The real ‘birth’ of the South African film industry came in 1910 however, with the creation of the film company African Film Productions (AFP) and the production of South Africa’s first narrative film “The Great Kimberley Diamond Robbery.” The owner of AFP, Isadore William Schlesinger, also owned a distribution company called African Consolidated Films (ACF) and exhibition venues under African Consolidated theatres. These were bought out by 20th Century Fox in 1956, marking the beginning of US pursuit of South African market share. (Cultural Industry Growth Strategy, 1998) In the early 1970s, Fox was bought out by the South African Theatre Interests Ltd. (SATBEL), who operated the independent exhibition group Ster Films. They renamed Fox’s interests Kinekor, and the two groups later merged to form Ster-Kinekor, South Africa’s premier distribution and exhibition conglomerate, which distributes products from Fox, Orion, Disney and Avco-Embassy. The other overseas interests realigned to form CIC-Warner group, later the Nu-Metro Organisation, Ster-Kinekor's major competitor. (Shepperson & Tomaselli, 2002)

AFP made 43 movies between 1913 and 1956, most during the period 1913-1922 when the First World War resulted in a rapid rise in the cost of imported films. As the US industry began to grow however, its South African counterpart went into decline. This slump was partially reversed when Jamie Uys (maker of the famous "Gods Must be Crazy" films[8]) helped establish independent production backed by Afrikaner–dominated capital. He helped persuade the government to instigate a subsidy scheme that allowed producers to write off their investment within the year of production and claim 80% of the investment back. (Botha, 2002) Although the scheme's official criteria included audience attendance rates, in practice only registration with the Department of Home Affairs and compliance with censorship legislation were necessary. By the time the scheme was revoked in 1992, R2 billion in government funding had gone to over 800 feature films. The majority of these were in Afrikaans, had a conservative political agenda, and were only ever sold in South Africa. (Cultural Industry Growth Strategy, 1998) As noted by Botha, these films "dealt in an idealist way with Afrikaner reality and beliefs….characterised by an attachment to the past, to ideals of linguistic and racial purity and to religious and moral norms." (Botha, 2005: 2)

In 1974, a secondary funding scheme (Subsidy B Scheme) was introduced to encourage the production of white-made films for black audiences ('Bantu Films'). The subsidies that went to these and to English-language films were considerably lower than those given to Afrikaans ones. (Cultural Industry Growth Strategy, 1998) Like the Afrikaans films, these films tended to ignore the social and political environment of the time, depicted rural rustic 'black' communities as the ideal and did little to promote upward mobility among the targeted audience. (Botha, 2005)

Although these heavily censored products were the predominant local staple, a number of independent filmmakers did start to make anti-apartheid political and social documentaries. These were generally funded by international agencies and rarely screened in South Africa.

[8] *The Gods Must be Crazy* is a comedy about a Kalahari Bushmen on a quest to 'return' a found coco-cola bottle to the gods. It was released in the US in the 1984 and became the highest grossing foreign film in American history

Furthermore, the heavy political oppression meant that few *feature* films of this nature were made.

In the 1980s, producers began to exploit a loophole in Section 11 (Exporters Compensation Allowances and Credits) of the Income Tax Act. This section was aimed at stimulating exports through tax allowances for marketing expenses. The loophole enabled exporters to deduct between 150% and 200% of the original marketing expense - an effective double deduction. Foreign moviemakers were therefore able to make movies in South Africa, while attracting domestic investors to pay for the local production costs. Since the movie was viewed as an export, advantage could be taken of the loophole. (Cultural Industry Growth Strategy, 1998) This situation meant that investors were less cautious about evaluating the potential success of films. As a result many were produced just to make money off the tax incentive and were not exhibited. During the late 1980s, the government reduced export incentives, effectively quashing the scheme. The actions of producers and investors during this period did little to build a sustainable industry and made both government and the public suspicious of film incentive and subsidy schemes.

Despite this scepticism, a turnaround in government policy was effected in the early 1990s. In 1994, the Human Sciences Research Council (HSRC) completed a study into the restructuring of the entire South African film industry. (Botha et al., 1994) This was forwarded to the then Department of Arts, Culture, Science and Technology (DACST) who in 1998 adopted the Cultural Industries Growth Strategy. The policy included initiatives to stimulate growth in the television and film industry. DACST published the Film Development Strategy in 1996, which recognized both the high-risk nature of film and the fact that in many countries it enjoys state support. As a result DACST established the National Film and Video Foundation (NFVF), officially launched in 1999, to help develop and promote the industry. (In the intervening period an Interim Film Fund was established, which allocated about R20 million to 206 film projects.)

4. The Current State of the Feature Film Sector

As will be shown later, few South African films are commercially successful. The state of the features sector is a direct product of the internal and external factors already presented. Its relatively poor performance is compounded by the fact that local producers tend to exhibit the European ‘production-led’ view. Historically all focus has been placed on the production of the film, and the distribution and commercial elements have been effectively ignored. The few South African films that do make money generally only recoup their outlay after a substantial time lag. Some films only start making a return after 15 years, though a few 'successful' ones can potentially generate profits after 3 years. Moreover, the extended period between production and return can mean that many films lose money on interest rate and exchange rate swings (as has happened with the recent Rand strengthening.) (Kriedemann, 2005)

An analysis of the South African distribution chain is useful in determining the division of income. Most films debut at the local box office. Distributors (Ster Kinekor and to a lesser extent Nu Metro and United Independent Pictures) buy films from independent producers either by bidding for them at markets, or by private solicitation. They usually also purchase the rights to theatrical release, home video, and pay/free television. The distributor has to pay an upfront non-refundable minimum guarantee and is also liable for all advertising and print costs. Although the risks related to an independent production are therefore greater than for a major contractual release, the distributor can potentially enjoy a greater percentage of the movie's income. Distributors may also conduct a limited screening to the public to assess their reaction. About 5-10% of the movies bought from independents go straight to video, although occasionally the distributor may still screen these at cinemas in order to boost video sales. (Cultural Industry Growth Strategy, 1998) As noted, the distributor pays the print and advertising costs of local films. A print normally costs R10 000, although subtitled prints can cost about R30 000. Advertising expenses often account for another 10-15% of the expected income. Poor box office patronage, compounded by a recent cinema ticket price-war has meant that most South African films net large distribution losses. (For instance, a recent release, *Max and Mona*[9] opened on 32 subtitled prints, costing about R960 000. Advertising costs would have taken this total up to at least R1 000 000. Since the film only made R319 000, Ster-Kinekor's 60% 'take' translates into a loss of about R681 000.) (Kriedemann, 2005)

As yet, the slapstick-humour Schuster films[10] and the Oscar-winning *Tsotsi* are the only local films to command reliable profits. As evident from Table 1, they are also the only films to garner more than R2 million at the box office. Most South African films achieve in the region

[9] *Max and Mona* is a comedy about a village boy with 'mourning skills', who travels to the city of Johannesburg to become a doctor.
[10] Leon Schuster is a South African producer famous for his slapstick comedies about South African life.

of R300 000. After the film has been exhibited in the cinema, the distributor will then sell it to television, taking a 15-30% commission. M-Net, a local pay television station, pays between R100 000 and R400 000 for once-off licensing fees, while the SABC pays between R30 000 and R240 000. Generally the distributor also handles video and DVD sales, taking a 70% commission on average. (Few local films have been in circulation long enough to estimate average sales, but both *Forgiveness* and *Promised Land* [11] have already made more on DVD and video than they did at the box office.) Films can also be sold to airlines, universities, hospitals, military bases, and charity organisations. (Kriedemann, 2005)

It is clear that most South African films do not make a return at the domestic box office. Unfortunately however, the US has a near monopoly on lucrative international sales. The afore-mentioned secondary pricing system, together with the US cultural pervasiveness, means that locally produced products are at a constant disadvantage. Despite this, there are about forty real film buying territories[12], and small sales in a number of these can add up to substantial revenue. (*Stander*[13] has pre-sales and minimum guarantees for about thirty territories and *uCarmen eKhayelitsha*[14] has been sold to fifteen).

As far as international distribution goes, most companies rely on foreign international sales agents (who charge a 10-30% commission), although a few companies are trying to independently handle their international sales. Alternative ways of generating revenue from film (such as product placement) are also starting to appear. For instance, the fast-food franchise Nandos helped fund *uCarmen eKhayelitsha* in return for exposure.

[11] *Forgiveness* tells the story of a white former-policeman who, feeling guilty about the crimes he committed under apartheid, tries to approach the families of his victims. *Promised Land* is a film about young man who was born in South Africa but raised in England, who returns to the country of his birth to scatter his late mother's ashes. It deals with the suspicions of the small-town community he returns to and its struggles to adapt to a post-apartheid South Africa.

[12] The worldwide market for the sale and use of feature motion pictures is divided into "territories" and "media." The territories include areas such as Europe, "AustralAsia”, Latin America, Eastern Europe, Israel, the Middle East, South Africa, Turkey, and North America (excluding Mexico).

[13] *Stander* is a true-story film about the life of a South African policeman-turned-bank robber in the 1970s.

[14] *uCarmen eKhayelitsha* is the South African film version of the opera *Carmen.*

Table 1: South African Box Office Takings

Title	Number of Prints	Gross Ticket Revenue in Rands (life to date)	Year of Release
Mr. Bones	87	33 029 024	2001
O Schucks I'm Gatvol	106	23 484 567	2004
Tsotsi	21	Still on circuit	2006
Stander	50	1 956 593	2003
Yesterday	24	1 550 130	2004
Story of an African Farm	20	602 981	2004
The Flyer	35	403 925	2005
Lumumba	2	348 432	2002
Forgiveness	7	333 792	2004
Max and Mona	32	270 210	2005
Red Dust	15	318 282	2005
Promised Land	5	307 974	2003
Amandla	7	298 522	2003
The Great Dance	1	288 690	2000
Hijack Stories	5	172 019	2003
God is African	4	115 905	2003
Cosmic Africa	5	107 692	2003
Sophiatown	6	90 818	2005
Malunde	10	86 907	2003
The Long Run	16	84 684	2001
Mama Africa	2	31 734	2002
Yellow Card	4	28 672	2002
Born into Struggle	2	13 608	2005
Boesman and Lena	2	8 805	2001

Sources: Nu Metro Film Distribution and Ster Kinekor Film Distribution

5. Government Support for the Industry

The South African government has begun to recognize both the potential inherent in the film industry and the unique challenges that it faces. Despite the adverse historical experience with incentive schemes, the government has recently proved willing to support and accommodate the sector. However, certain legislative and bureaucratic hurdles exist that are damaging the competitiveness of the sector. Furthermore, the focus of government support has tended to promote production at the expense of distribution and audience development, limiting the impact of the films that are made.

With regard to film, the most important piece of legislation is arguably the *Independent Communications Authority of South Africa Act* (2000). Among other issues, it deals with local content quotas.[15] These ensure that even moderately promising local films have a high probability of being purchased by television. The government also provides support through a number of public bodies that deal with or incorporate film-related programs. The most important of these is the National Film and Video Foundation (NFVF). Its duties include helping the industry access funds, promoting incentive schemes that create an environment attractive to international film productions, promoting development of South African film and television audiences, and facilitating the export of South African film and video product talent. (National Film and Video Foundation, 2005) In line with the HSRC report, the NFVF also has an important role to play in redressing past imbalances in the industry, through identification and targeting of problem areas. (Botha, 2005) The NFVF has been working towards these goals since its inception, although progress in their accomplishment has been uneven. Effective implementation will be further constrained by recent funding shortfalls.

In addition to NFVF support, the Department of Arts and Culture (DAC) earmarks a further R20 million annually for industry projects. It provides training grants and assists with production, marketing and distribution costs.

The Industrial Development Corporation (IDC) has R250 million earmarked for the film industry, which is managed by their newly created Media and Motion Pictures Division. In the last four years, they have invested R500 million in the development of South African film, which was used to finance the production of 19 feature films and 16 documentaries. Their assistance usually takes the form of loan finance, by means of equity, quasi-equity, commercial loans, wholesale finance, share warehousing, export/import finance, short-term trade finance, and guarantees. Finance is only made available after a comprehensive risk assessment and there is a minimum commercial/ venture loan value of R1 million. Rates are charged according to the project's risk-return profile and the IDC requires some form of security. The project must be able to secure a significant theatrical release/ television airing, and the IDC requires a back-end profit share commensurate with financial participation. They also expect to share in the copyrights and ancillary rights proportional to its investment.

[15] Currently, quotas require 35% local content for private terrestrial channels (40% of this is to be sourced from local producers), 55% for the public broadcaster (with a minimum of 30% per channel and 40% sourced from independent producers), and 8% for terrestrial pay television, with 35% local content for open time.

Lastly, the IDC's investment must only be expensed in South Africa and South African Development Community (SADC) countries. (Industrial Development Corporation, 2004) They have been particularly prolific in the equity and loan financing of large film industry projects.

Through the Department of Trade and Industry (DTI), many exported film products receive subsidies and rebates. The DTI also spearheaded national tax incentives relating to film, including a film and television rebate scheme, and offers a number of incentives to entice investment in local manufacturing projects. Furthermore, a recent report by the DTI clearly recognises the need for a refocus in policy. They note that "the predominance of support at the production level needs to be balanced with greater emphasis at other stages of the value chain, especially closer to the demand side." (Department of Trade and Industry, 2005, p.13) The report also highlights the inadequacy of current export incentives under the DTI, noting that they are neither "film and TV sector friendly" nor "optimised … and sufficient to motivate increased export effort." (Department of Trade and Industry, 2005: 32)

Tax policy is an key area of government facilitation. Together with the film and television rebate scheme, the South African Revenue Service (SARS) offers tax incentives under Section 24F of the Income Tax Act. Although there are some minor ambiguities related to this incentive, it is a useful tool which allows deductions against production and post-production costs.

Government involvement in co-production facilitation has recently intensified. Co-productions are extremely important in overcoming the lack of capital when it comes to South African productions. When a co-production treaty is signed between South Africa and another country, a film that is made here can qualify for the other country's tax breaks and incentive schemes. South Africa currently has co-production agreements with Canada, Italy and Germany, and a Memorandum of Understanding with India and the French film commission, the Centre National De La Cinematographie (CNC). Memorandums of Understanding are being negotiated with Britain and Ireland.

With regard to distribution, a significant role is played by the Section 21 company Sithengi. It is mandated to promote the development of and trade in African and South African film and television products for a global market. It accomplishes this through the hosting of the World

Cinema Festival, which incorporates the Sithengi Film and Television Market. This market provides an opportunity for networking and trading between South African film makers, distributors, exhibitors, broadcasters and international players. Sithengi also has a management contract to administer the R3 million HIVOS/Sithengi Film Fund.

6. Achieving an Optimal Industry Structure in South Africa

As is evident, there are a few avenues of public support for film. The state of the features sector suggests that perhaps the support is not having a pronounced impact. South Africa has the potential to produce successful feature films. In order to determine how this potential can be realized, a number of questions should be asked:

1. Is it important to ensure a capacity to produce local films?
2. Are additional financial resources necessary for successful film production?
3. If so, where should these resources originate from?
4. Does South Africa currently have the capacity to produce quality scripts and films?
5. Is the current government production support for film targeted in the correct area?
6. Is there any way to encourage local audiences to increase their support for local films?

Drawing from the growing public support for film industries in both South Africa and other countries, it would appear that most governments would answer yes to the first question. Film is a powerful medium which influences the way a country views and is viewed by the world. Ensuring capacity to explore and portray local stories is a key creative goal of most civilized nations. Furthermore, most world governments are aware that a thriving film sector often means more tax revenue, economic growth and a reduction in unemployment. They also realize that production is extremely risky. It involves large initial costs, which are often 'sunk' - if the film/ commercial 'flops' or is not released, very little expenditure can be recouped. As noted earlier therefore, many governments support their film industry in a number of ways. Some countries even place specific focus on the cultural preservation aspect of film. For instance, the British Film Council has a Distribution and Exhibition Support Fund which is charged with ensuring that culturally specific UK films are offered more widely to audiences. (British Film Council, 2003) As such, incentives have almost become a requirement for effective competition.

The film industry can also offer an excellent opportunity for South African tourism. A British Tourism Authority report estimated that locations featured in successful films often experience at least a 54% increase in tourists over a four year period. (Cape Film Commission, 2005) With cooperation, planning and marketing initiatives, a feature film or television production can be extremely lucrative to tourism. If the tourism sector works together with the producers of a film to stimulate interest and get involved in film promotion, even mediocre box-office releases can bring large rewards. The Cape Film Commission has noted that in 2003, at least nine films were produced with strong South African storylines and a 'dominant Cape Town backdrop'. This is one of the best forms of 'advertising' available to South Africa.

The second question asked whether additional financial resources are necessary for successful film production. In answering this question, it must be acknowledged that it *is* difficult for small budget films to compete with audiences used to large scale productions. The public has certain expectations concerning film, including at least some star power and quality camera work. (Smith, 2004) This may mean that South Africa, with its limited funding ability, may have to focus on a few medium-scale, well-marketed and constructed films, as opposed to numerous small 'art' films with limited audience appeal.

The answer to the question regarding the optimal source of these resources is more straightforward. With the high-risk nature of film, the increase in foreign government funding and the potential economic spin-off effects of a thriving industry, it is arguable that government support has a significant role to play. In terms of long-run sustainability however, the proportion funded by the private sector should grow steadily. In order for this to happen, producers need to start making commercially viable films.

The fourth question asked whether South Africa has the capacity to produce quality scripts and films. Due to training and funding deficiencies, the quality and quantity of South African scripts has traditionally been quite weak. In the last two years however, various national and regional bodies have recognised and taken measures to counteract this state of affairs and a number of award winning films based on South African scripts have been made.[16] With

[16] *Tsotsi* won the award for Best Foreign Film at the 2006 Academy Awards. *u-Carmen eKhayalitsha* was awarded the Golden Bear for Best Film at the 2005 Berlin Film Festival. *Yesterday* was nominated in the Best Foreign Film Category at the 2005 Academy Awards. *Forgiveness* won Best African Feature at the 2004 Cape Town World Cinema Festival. At the

regard to production, South Africa still has a substantial and underused pool of talent, particularly as facilitation work continues to migrate to other countries. Again however, a sustainable and thriving industry is necessary to retain and develop this talent.

Question five: “Is the current government production support for film targeted in the correct area?” and question six “Is there any way to encourage local audiences to increase their support for local films?” are less easily answered. As noted by Shepperson and Tomaselli (2002), film policy generally focuses on questions concerning content, representation, and profitability. Content and representation are important in fostering culture and restoring balance to an industry skewed by past attempts to entrench racial and class divisions. As noted by Botha, “film is an important domain in any country, but particularly so in South Africa, where social change depends on the *quality* of communication in the society.” (Botha: 1995: 1) The government is making a significant attempt to support these aspects of film. For instance, the mandate of the NFVF places strong emphasis on the need for empowerment and cultural focus.

This paper does not dispute the importance of content and representation, especially with respect to culture. Based on the brief analysis of other countries, it suggests that the profitability element should be weighted more heavily. Film makers need to pay more attention to costs, distribution and audience response. These are vital elements for a thriving film industry. South Africa cannot afford to continually subsidise films that are culturally sound, but whose viewership is so limited that the cultural impact is mitigated. It is suggested that the NFVF should remain a bastion of cultural support. Although as Shepperson and Tomaselli note (2002), this is optimally achieved “not be deciding what films ought to be made, in terms of content, representation or profitability. Instead, its cultural focus will be most adequately achieved by encouraging educators and institutions to provide an environment where young people can explore their endowments in a cinema-rich environment, and where promising endowments are found, having the means for such individuals to develop them into the full range of talents that make up a cinema industry.” (Shepperson and Tomaselli, 2002: 77)

Festival Panafricain du Cinéma et de la Télévision de Ouagadougou (FESPACO), *Drum* won the Gold Yenega for Best Film, *Zulu Love Letter* won the European Union Prize, and *Max and Mona* was awarded honours in the Script Originality category.

In other words, it is held that the emphasis of the policy is slightly misaligned, with too great an emphasis placed on production support. This is compounded by the afore-mentioned legislative and bureaucratic constraints. Analysis of other countries seems to suggest that distribution and exhibition are vital components of film success and thus should command a fair percentage of funding support. Even if this is not possible, production funding should only be granted to films that display substantial evidence of distribution and exhibition interest. Other potential solutions could include:

- Tax incentives for exhibitors who screen local films
- Tax incentives for broadcasters who purchase local films, with a sliding scale of allowance dependent on marketing expenditure and exposure (e.g. during prime time)
- Direct subsidies for exhibitors who charge a lower admission price on local shows
- Incentives for investors who invest in new exhibition technology such as digital cinema
- Incentives for distributors, exhibitors and broadcasters who conduct audience sampling
- A tax break that gives incentives to distributors, both strong independents and American studios, to invest in and acquire local films
- Increased efforts to eradicate piracy, to ensure local producers and financiers recoup invested funds.

Television local content provisions should definitely be retained for the near future. This provides a ‘captive market’ of sorts for previously disadvantaged individuals. It is important however, that this is supplemented by the audience sampling and marketing incentives outlined above. For the South African industry to develop beyond government support, it needs to be demand driven. The general South African film product is too niche orientated and pays too little credence to the idea that film is a form of escapism. The current staple of heavy historical and political films do not appeal to the majority of viewers, especially to the younger (and more lucrative) film market. The incentives to encourage marketing expenditure are essential. Current South African marketing budgets are inadequate. Most range from R30 000 - R80 000, while the average US film touts budgets of R10 million. US, Canadian and Australian producers also supply international distributors with electronic press kits, posters, display stands and other items to help create public awareness of the film, putting local offerings at a further disadvantage. Nu Metro Film Distribution (NMFD) is currently attempting to reverse this trend. Their marketing investment for the recent release of the movie *Drum*[17] was significantly larger than the local average. As the marketing director, Driki van Zyl notes, this was done "to maximize and extend *Drum*'s potential to translate to South African audiences… to showcase this co-production to South African audiences as a step in the direction of embracing films with local elements and content as a viable entertainment option." (van Zyl, 2005) It is vital that this level of marketing intensity becomes the norm for all local film releases. It is also important that these reforms are undertaken in tandem, as quality production needs to keep pace with newly generated demand. For instance, Ster Kinekor has recently committed itself to release a South African production every month, and requires production to match its commitment.

Of all the government-related funding options, the most promising in terms of emphasis is the Media and Motion Pictures Division of the Industrial Development Corporation (IDC). Although its requirements may be too steep for the majority of small South African film initiatives, the IDC is a significant funding opportunity for large scale projects and partnerships. Furthermore, this type of funding is extremely important in achieving a more sustainable 'distribution-led' industry. By forcing applicants to provide evidence of concrete budgeting, public interest and profitability potential, attention is focused on the ingredients necessary for financial success. When a greater number of local movies start paying dividends, private investors will be more willing to contribute. (Silinda, 2005) Taking further steps to encourage private film funding would be useful. As noted earlier, private sector funding is rare. Rand Merchant Bank (RMB) has been particularly active in film finance, although they cap their funding at 30% of the production budget and link ownership and investment to the film negative. However, they have helped develop DV8, a digital video initiative that develops, markets and produces South African digital feature films. This project was started by two producers to help overcome the infrastructure constraints faced by aspirant filmmakers, and is supported by bodies such as the NFVF, the South African Broadcasting Authority (SABC) and Ster- Kinekor.

A coordinated audience development plan is necessary. This should include a commitment to encourage projects like Mamaramba iBioscope and Shout Africa, which are building cinemas in townships across the country. These are particularly essential because they form one of the few initiatives that is legitimately opening up distribution opportunities for local film makers

[17] *Drum* is a movie based on life of Drum Magazine writer Henry Nxumalo, who risked his life exposing the crimes of the South African apartheid regime.

and developing a film culture among previously disadvantaged groups. (Gloster, 2005) In addition, Shout Africa plans to establish a distribution network for local producers, which will include pre-sales and minimum guarantees to help local independent producers secure financing. This is important because movies often have to prove themselves locally, before being considered by international distributors. (Venter, 2005) Increased focus on specific ‘business skills’ training is also vital, especially the need for filmmakers to be aware of their rights and the structure of legal contracts. Stress must be placed on marketing skills and the need to build awareness of films long before they are available for screening. Filmmakers should be trained to think about innovative distribution solutions – such as screenings at clubs, universities and house parties, and the intensive use of DVDs. (Broderick, 2004)

Research efforts need to increase, and these should be made accessible to the public at large. A substantial amount of research has already been carried out by Ster Kinekor, the SABC and other bodies. (Joffe, 2003) This relates mainly to the mainstream cinema-going audience and television viewers. It would be useful to expand on this to include markets not yet reached by these channels. It would be relatively easy to survey ‘captive’ markets like representative high schools in townships, the cost of which would not be preclusive. The provision of strategic information is vital for industry sustainability. Without an adequate understanding of market trends and audience analysis, industry participants will be unable to make effective investment decisions.

Distribution is another area requiring in-depth focus. Despite the obstacles, distribution opportunities *are* opening up for local players. As digital and satellite technology becomes more pervasive, viewers have been exposed to a greater number of distribution channels and therefore more choice over the programs that they watch. This audience fragmentation has meant that filmmakers can either target the mass market or smaller niche markets via avenues such as the internet, satellite television and DVDs. With sufficient training in how to exploit the new distribution channels (e.g. filming in digital format), even small filmmakers can develop sizeable markets. Actively pursuing new co-production treaties and Memorandums of Understanding could provide further benefits and help overcome funding shortfalls.

The suggested answers to the proposed questions should not be surprising. Few recommendations require a large shift in industrial policy. Most require little extra government funding and instead involve simple incentive measures, better coordination of current initiatives, improved information provision and the removal of restrictive bureaucracy.

7. Conclusion

It is evident that the South African film sector faces a unique set of obstacles. The film industry's contribution, at least to regional output and employment, is sizeable. In addition there are developments in the industry which should aid its growth, notably the increasing governmental awareness of the importance of film, the new co-production treaties, and the steady increase in distribution outlets. The structural infrastructure surrounding film has also improved rapidly over the last decade, and numerous public and private bodies exist that focus on development and skills acquisition.

The threats and problems facing the industry are cause for concern. Although there is little that South Africa can do regarding some of the adverse global trends (such as the strengthening Rand and the increasing number of foreign film subsidy schemes), there are a great deal of local policy and structural obstacles that can be effectively dealt with. In particular, there may be room for negotiation regarding recent preclusive legislation and support measures can be reshaped to achieve a greater level of sustainability. Taking lessons from the experience of other countries, it is evident that policy aimed at encouraging the distribution and exhibition of South African film is a way forward. The suggested targeted initiatives could help achieve this goal, increase the level of statistical research and foster audience development.

These measures should allow the industry to achieve a steady growth rate and develop a strong 'indigenous' film capacity. This would prevent potential job losses as the competition against South Africa intensifies, and ensure more continuous work for industry members. With the requisite industry cooperation and public sector support, the local film industry should continue to develop and grow.

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Appendix: Incentives Offered by Other Countries

Country	Incentives
United States	• A bill is currently under discussion that would lower the income tax rate on domestic production activities from a maximum of 35% to 34% through 2006, 33% through 2009, and 32% thereafter. • Companies can write off their entire production cost within a year, provided their budget is below $15 million and they spend 75% of that in the United States. • 41 states offer further incentives. Most offer an 8-10% tax credit on productions and a 15% credit on productions using local labour. Some states also offer "sales and use tax exemption" for production equipment and waive hotel taxes for stays in excess of 30 days. A number of loan guarantee programs also exist.
Canada	• The Federal government offers a tax credit of up to 16% of the value of resident's salary and wages. • Telefilm Canada has an annual budget of $21 million to support feature films. • The provinces offer additional tax credits valued between 11% and 40% of production outlay.
Australia	• $27.6 million in public funding went to the Australian Film Commission to promote local productions and to facilitate international co-productions. • A 12.5% refundable tax offset exists for feature films, telemovies and miniseries. • The Film Finance Association provides investment-matched private funds and receives public funding of $48.5 million.
New Zealand	• Grants of up 12.5% are offered to productions that spend between $15 million and $50 million in New Zealand.
France	• The Centre National De La Cinematographie (CNC) allocates subsidies for the production, distribution and exhibition of films. • Screen quotas for French films amount to about 38% of screen time. • US films are subject to import restrictions.
Italy	• Screen quotas for Italian films amount to about 28% of screen time. • Italian films are eligible for a production subsidy of 10% of gross box office revenue, with an extra 8% if judged to be of artistic merit. • Dubbed imported films are taxed and this revenue is made available for Italian film production at low interest rates.
Germany	• €4 million annually is made available for the production and distribution of smaller, innovative films. • The German Federal Film Board (FFA) has an annual budget of around €76 million and raises additional funds through a film levy from exhibitors and video distributors. From this, funding is made available to producers of feature films, scriptwriters, distributors, exhibitors, training programs, video distributors, film research and development initiatives, and promotional measures. • Sale and leaseback tax incentives are currently being introduced.
United Kingdom	• Limited Government assistance in the form of grants, loans or guarantees is offered to local productions. • A Development Fund with an annual budget of £5 million a year supports commercially attractive screenplays. • A Premiere Fund with an annual budget £10 million facilitates mainstream British films. • A New Cinema Fund with an annual budget of £5 million supports 'radical' filmmakers. • A Training Fund with an annual budget of £1 million supports training initiatives. • European co-production support amounts to about £4.2 million a year. • Lottery funding with an annual budget of £1 million supports low budget short films. • The British government provides £200 000 per annum to Eurimage, the Council of Europe's co-production fund. • Expenditures for the production/ acquisition of film can be written off for tax purposes during the period over which the value of the film is expected to be realized.
Ireland	• Investors can obtain tax deductions equal to 80% of the amount of their investment.
Argentina, Brazil, Korea, Mexico, Portugal and Spain	• Among other incentive measures, all these countries enforce screen quotas for local films.

Sources: Motion Picture Association of America, Country Film Commissions, 'About Canada Publication Series', British Film Council, Terra Media, German Federal Film Board.