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Competition, cultural variety and global governance: The case of the Egyptian audiovisual system

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Competition, Cultural Variety and Global Governance: The Case of the Egyptian Audiovisual System

Ahmed Farouk Ghoneim

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INTRODUCTION

The aim of the present study is to explore the economics underlying the audio-visual sector in Egypt by examining both cinema and television. The first part provides an overview of the market structure of these two audio-visual industries. The second part describes the principal regulatory measures and the main policies involved. The third part evaluates the performance of both industries separately by drawing links with various policy measures in an effort, firstly, to assess whether these measures have created any form of discrimination against foreign films and programs and, secondly, to investigate the effectiveness of any protectionist measures. The final part of the present study will provide some general remarks on policy implications.

1. MARKET STRUCTURE

A. Cinema in Egypt²

All areas of cinema in Egypt are characterized by a high degree of concentration. The industry has five main areas: (1) production, (2) distribution, (3) filming, (4) printing and film development, and (5) cinema exploitation.³ In theory, when a firm is registered by law as one involved in the cinema industry, it can become involved in any of the five main areas listed above or any other activities specified by law.⁴ In practice, however, firms have traditionally chosen to specialize in one or two of these areas. Recently, this preference for specialization has witnessed some changes as a result of a process of vertical integration which is overcoming the segmentation of the different areas and increasing the level of concentration throughout the industry.⁵ According to the Chamber of Cinema Industry, for example, the number of firms registering their involvement in various industry activities exceeds 450. Yet 50 per cent of all films were produced in 1992 by five firms, with the top one responsible for more than 27 per cent. The remaining 50 per cent were produced by 29 firms (Hassenin 1995, p. 112). Over the last five years, only three to four firms have been consistently active in production. Distribution activity is analogous here, with five firms controlling 75 per cent of the market. There is a similar picture in cinema ownership, where a newly established firm has bought a large number (nearly 28 per cent) of the 175 cinemas currently in working order in Egypt.⁶ Nevertheless, sole proprietors and family businesses are still important in cinema ownership in Egypt. As far as laboratories and studios are concerned, market structure is once again characterized by a few firms. While the market here may be classified as an oligopoly, a lack of collusion among existing firms does not ensure all the features of oligopoly. Moreover, there is a geographical concentration of cinemas in

Greater Cairo and Alexandria, exceeding 90 per cent of screening houses in Egypt (Council of Cultural Castles 2001; Hassenin 1995, p. 16).⁷

The Egyptian state has been retreating from various activities in the cinema industry. It ceased producing feature films in 1971 (Hassenin 1995, p. 110) and has been selling the cinemas it used to own since the early 1970s.⁸ While studio ownership has remained in the hands of the state, it has leased two of the five existing major studios in the country to the private sector. As such, a general trend is evident with regard to a diminishing role of direct state involvement in the cinema industry. There is, however, some indication of a possible backlash, with the state recently having become engaged in the production of feature films through the establishment of a new body in 2001, in response to mergers and acquisitions in the private sector. This new trend is based on a fear of private-sector dominance and it is thought that state involvement here can provide greater balance in the market. The objective of this new, independent body for production and distribution (in which the state owns the majority of the capital) is to promote the cinema industry, especially in the wake of the less active role played by state agencies in the past (see Note 7).

The government of Egypt is a major producer of short documentary films that are not highly profit oriented. Private-sector involvement here (approximately ten firms) is mainly dependent on selling historical documentary films abroad.

Foreign presence in the Egyptian cinema industry, although permitted by law and encouraged by recent laws and regulations, is minimal. Foreign participation is concentrated in the distribution of American films, which is controlled by a few representatives of US firms. Table 7.1 summarizes the various market structure indicators of the cinema industry in Egypt.

Table 1: Market structure indicators in the cinema industry in Egypt

<i>Indicator</i>	<i>Assessment</i>
Vertical integration	Increasing rapidly
Market concentration	High
Geographical concentration of cinemas	High
Direct state involvement	Low, but recently increasing
Foreign capital participation in production	Low

Source: Ghoneim (2002a).

B. Television in Egypt

There are both public and private television (TV) stations in Egypt and both broadcast free and pay-TV. Transmission and broadcasting is either by satellite or terrestrial equipment; cable TV does not exist in Egypt.

The Egyptian television industry is much the same as the television industries of other countries, with strong state control over most of the various production and transmission stages (see, for example, Motta and Polo 1997). It is also worth noting here that government control is higher in developing countries than in developed countries (Djankov et al. 2001, p. 19). In Egypt, the Union of Radio and Television (URT) is dominant in TV production and domestic-channel terrestrial transmission and broadcasting. Generally speaking, there are nine free public channels (three national and six local), 11 specialist channels requiring a receiver and decoder (two of which are pay channels), and two public satellite channels (one that can be received by a decoder or receiver while the other is a pay-TV channel if broadcast outside Egypt). There are also five free private channels which did not start transmission until 2000; they require either a decoder or a receiver to be watched by viewers.⁹

Two complementary firms are engaged in the satellite broadcasting and transmission of domestic free and pay-TV channels; these two firms are essentially one operator, the capital of which is 60 per cent Egyptian (shared jointly by the state and the private sector) and 40 per cent South African and Panamanian. They have exclusive rights to the satellite transmission and broadcasting of TV channels beamed from Egypt.¹⁰ More than 40 channels are broadcast via the pay-TV system, compiled mainly in two packages (First Net and Showtime). Other pay-TV channels are not included in these packages. Rather, they are broadcast from abroad, requiring a decoder and having to be contracted separately with their representatives in Egypt. They use either one of the two Egyptian satellites (Nile Sat 1 or Nile Sat 2) or the Arab-owned satellite (Arab Sat), as in the case of Orbit, which contains a number of Arab pay-TV channels.

Table 7.2 shows the average broadcasting time of the nine public channels, including Nile TV, which is the only channel transmitting programs in Arabic, English, and French (with a new half-hour Hebrew slot).

Table 2: Average hours of broadcasting and launch date of Egypt's nine public channels

<i>Channel</i>	<i>Average daily broadcast</i>	<i>Launch date</i>
1	23 h 11 min	21 July 1960
2	23 h 5 min	21 July 1961
3	19 h 13 min	6 October 1985
4	16 h 28 min	6 October 1988
5	17 h 12 min	12 December 1990
6	16 h 1 min	29 May 1994
7	15 h 35 min	29 July 1994
8	14 h 46 min	31 May 1996
Nile TV	14 h	31 May 1994

Source: URT 2000/2001, p. 97.

2. REGULATORY MEASURES AND POLICIES

A. Cinema

A.1. The legislative and regulatory framework

There are no provisions in Egyptian laws or regulations to discriminate against foreign firms registering for any of the activities in the cinema industry. Hence it can safely be argued that anything related to commercial presence – mode 3 of the General Agreement on Trade in Services (GATS) – faces no discriminatory measures. In fact, there is a tendency at the moment to encourage foreign direct investment (FDI) and to welcome foreign capital. Investment Law No. 8/1997 facilitated the engagement of foreign capital in the cinema industry by providing equal treatment to foreign and domestic investors and introducing generous tax breaks.¹¹ Yet response here has been slow, largely due to limited market size and the bureaucracy faced by foreign and domestic investors alike. In addition, financial aspects specific to the industry (a lack of transparency engendered by a desire to evade taxes) have made foreign investors and banks reluctant to become involved in the industry.

The picture is altogether different as far as cross-border supply (mode 1 of the GATS) is concerned, given a number of restrictions related to the domestic broadcast of foreign films in Egypt. The minister of culture has discretionary powers to determine the maximum number of foreign films to be distributed by a domestic firm concurrently involved in the production of Egyptian films. This ‘magic number’ has serious repercussions on funding available to Egyptian producers, who use the profits from the distribution of foreign films to finance the production of Egyptian films. The ratio was originally set at 1:5, whereby a producer of an Egyptian film received the right to

distribute five foreign films (with a maximum of five copies each). This regulation has been the subject of endless debate in Egypt, with some producers asking for an increase in the ratio and others concerned about its cultural and social implications for domestic cinema. The ratio was changed by the minister to 1:8, with the number of copies remaining the same. It was then reverted back to 1:5. There is no economic logic to the ratio; it has at its root weak economic interests disguised in cultural format and has never been applied to firms only involved in the distribution of foreign films. There is a discrimination in tax treatment between foreign and domestic films (as explained below), which infringes the national treatment principle. As far as screen quotas are concerned, Egypt only applies them in a very marginal way at exceptional events, and has a non-binding import quota (see below).

There are a number of discriminatory measures affecting the movement of natural persons (mode 4 of the GATS) as regards foreign films being shot in Egypt. For instance, when foreigners request permission to shoot a film in Egypt, they must contend with cumbersome procedures, related to taxes and surcharges on the equipment to be used in the shoot. There is also what is known as a 'local content' requirement: if the staff involved in the filming (technicians, actors, etc.) are foreign, the foreign firm must pay a surcharge of \$750 per head per week. This surcharge is waived if workers from Egypt are employed (Safar 2002). These procedures have had the effect of deterring foreign firms from filming in Egypt and the regulations behind the procedures contravene the principles of the GATS.

The cinema industry in Egypt is subject to a great swathe of rules and regulations, beginning with the registration process and affecting all areas and activities. Yet many of these rules and regulations are not enforced and are ineffective. Evidence here is anecdotal, but telling. For example, there is a law which stipulates that any cinema in Egypt closed down must be replaced by a new one. Although this law has been on the books since the 1960s, the number of cinemas in working order has nevertheless decreased from about 450 in the 1950s to around 175 in 2000. No one has ever been penalized for breaking this particular law.¹² Another law, similarly not enforced, requires cinemas to present short documentary films before showing their feature films. Ad hoc changes and a failure to observe the regulations are the norm in the cinema industry in Egypt. Cinema ticket prices provide yet a further example here. In theory, ticket prices are to be set by a committee made up of representatives from various state organizations. Yet the story is very different in practice. First, a ceiling had been set by the government on the price of cinema tickets, but this price ceiling was ignored from the mid-1990s, when there was a move towards modernizing cinemas. As a result, both the modernized and the antiquated cinemas started to exercise autonomy in the setting

of ticket prices. Second, a decision was taken by the prime minister in the late 1990s to reduce the sales tax on cinema tickets for both domestic and foreign films; he did so without consulting the committee responsible here.¹³

Intellectual property rights (IPRs) in the cinema industry are weak and not properly enforced, a problem that has received much attention in recent times. A law was passed in 1992 to protect copyrights, but it has created many problems, given the lack of efficient enforcement mechanisms.¹⁴ Piracy rates in the industry are high, both domestically (with regard to Egyptian and foreign films) and abroad (with regard to Egyptian films) (Ghoneim 2002b). A comprehensive IPR law in line with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) has been initially approved by the Egyptian parliament but it is not yet in force.¹⁵

The problem of IPRs in general, whether domestic or foreign, is a major concern of specialists in the cinema industry. They argue that Egyptian films are poorly protected abroad, with foreign distributors being the major culprits here. Others counter this argument, contending that the fragile and poor funding system for film production in Egypt compels Egyptian producers to sell their rights abroad very cheaply.

There is still no competition law in Egypt. A bill was drafted between 1995 and 1997, but it is still awaiting parliamentary approval. The lack of specific competition legislation had not seriously affected the cinema industry in Egypt until recently, when a large firm was established and began to engage in some anti-competitive practices, controlling a large number of cinemas and merging some of the existing firms.

In summary, the laws and regulations conceived to promote and/or protect the cinema industry in Egypt have been neither effective nor enforced. What this indicates to the careful observer is that the industry has suffered from not being a government priority.

A.2.Subsidies and taxes

To a large extent, Egypt is exceptional in not providing substantial support to its cinema industry (for a summary of measures provided in various countries around the world, see SAGIT 1999, pp. 14-15). There has been a steep decline in the amount of direct state support for the industry, with indirect support (in terms of favorable rules and regulations) being ineffective.¹⁶ This is certainly surprising, given that some of the literature has specifically identified Egypt as one of the major countries providing subsidies to its domestic cinema industry.¹⁷

The state does not provide any form of direct grant or subsidy for the production of feature films. There is a bill to introduce such a measure, but it is still at a very early, preliminary state and not expected to be adopted in the near future. Yet there is a new semi-governmental body, as already mentioned in Section 1, charged with producing

cinema films. This new body only started to operate in 2002, producing only a couple of films and hence it would be premature to attempt to assess its role at this early stage. Its main objective is to promote the cinema industry, especially in light of its funding problems. The only form of direct subsidy to the cinema industry comes in the form of prizes won at fairs, which cannot by any stretch of the imagination be regarded as a normal procedure for acquiring subsidies on a regular basis.

There is a Cultural Development Fund in Egypt which, in principle, is a cinema tax-subsidy scheme whereby part of the taxes levied on the price of cinema tickets is channeled back into the industry to help it develop, in general, and to aid in the production of films, in particular. Yet the money that this fund dispenses has seldom been used for these purposes and is subject to discretionary allocations by the minister for culture.¹⁸ Moreover, Egyptian-produced films suffer from additional surcharges and bureaucracy. There are shooting surcharges, control fees, etc. In the early 1990s, for example, the owner of a cinema was burdened with 14 different types of taxes and fees (Hassenin 1995, p. 257). Nowadays, such burdens have been reduced, but they still remain substantial in comparison with other countries. The only form of direct fiscal support, albeit ineffective, is in the provision of tax breaks under Investment Law No. 8/1997. This legislation was enacted to grant large production firms — with capital exceeding 200 million Egyptian pounds in the cinema industry — certain tax breaks and exemptions.¹⁹ The main intention behind this particular provision of the law was to promote firms with large capital in film production, in order to improve the quality of films produced and to enjoy economies of scale.

This is in stark contrast to the production of short documentary films, which receive a substantial amount of direct subsidies, although there is no exact or regular procedure here. In addition to the availability of aid for the production of short films, there is another form of subsidy provided on an occasional basis. This applies to organizations involved in the development of the cinema industry, such as the Institute of Cinema and the National Center for Cinema, where grants for training are provided. Only in rare cases are some forms of grants provided for training abroad, within the context of cultural agreements between the government of Egypt and foreign governments.

As regards indirect tax treatment, there is explicit discrimination between foreign and domestic films. The sales tax on foreign films is 10 per cent, compared to 5 per cent on domestic films (the former was reduced from 40 per cent in the mid-1990s and the latter from 20 per cent). Moreover, there are additional surcharges on foreign films broadcast that are not imposed on domestic films. These aspects notwithstanding, the general trend is towards less discrimination. The sales tax gap has been narrowed and the surcharge discrimination effect declines with the rise in prices due to its specific nature

(i.e. surcharges are fixed in terms of value regardless of the ticket price, whether between different cinemas or over time). Currently, the surcharge difference is, on average, less than 1 per cent (10 piaster for police service for an average ticket price of 10 Egyptian pounds). Although these measures contravene the national treatment principle, Egyptian cinemas do not benefit substantially from their discriminatory effects. The benefit from the lower tax imposed on Egyptian films is offset by the fact that the share of revenues accruing to cinemas when they screen an Egyptian film (50 per cent) is lower than the share received when screening foreign films (60 per cent). Nevertheless, the system of tax discrimination and the different revenue-sharing mechanisms provide domestic distributors with a greater incentive to concentrate on Egyptian rather than foreign film distribution. In the case of Egyptian films, the domestic distributor receives 50 per cent of the revenue, half of which must be shared with the producer, whereas in the case of foreign films, the domestic distributor receives only 40 per cent of the revenue, of which two thirds goes to the owner or the foreign distributor of the film. These shares are based principally on ministerial decrees that refer to Law 13/1973, giving the minister of culture discretionary powers to determine them.

Hence indirect tax discrimination, despite its protectionist aims, by no means represents an explicit form of subsidy. Instead, the subsidy here is implicit, since the system of revenue and profit allocation for distributors, when combined with discrimination in tax treatment, creates incentives favoring the distribution of domestic films.

A.3.Quotas

The cinema industry enjoys rather minimal protective measures, at least in practice, when compared to the cinema industry in the EU or in other OECD countries. There are no effective screen quotas.²⁰ While there has been an import quota of 300 foreign films per year since 1973 (Ministerial Decree No. 459/1973), this has never been binding. In 2000, the number of American films presented in cinemas was 113 (National Center of Cinema 2001). This means that if other, non-American films were imported in the same amount (indeed, an unlikely scenario) and one took into account a further roughly 30 per cent of films imported for video-use only, the total number of films imported would still be fewer than 300. Data available from international sources confirm this observation (see Table 7.7). Another form of restriction was announced by a ministerial decree in 1973. It envisions a bilateral compensation, where the imports of karate-type films and films of Indian origin have to be matched by exports of Egyptian films to the country producing them, contravening the MFN principle (Ministerial Decree No.

459/1973). However, in practice, this form of imposed discriminatory quota has never been enforced. As far as the Egyptian cinema industry is concerned, quotas take other forms, such as a ceiling on the number of copies of imported films (five copies) and a minimum ratio of domestic to foreign films that a producer of Egyptian films is allowed to distribute (1:5). Table 7.3 summarizes the policies and regulations in the Egyptian cinema industry.

Table 3: Policies and regulations in the Egyptian cinema industry

<i>Policies and regulations</i>	<i>Assessment</i>
Direct government support (subsidies)	Very weak, except for short documentary films
Laws and regulations (institutions)	Ineffective, lack of transparency and poor enforcement
Protection of intellectual property rights	Facing problems
Indirect tax support	Yes (discrimination between domestic and foreign films)
Import and screen quotas	Import quotas exist in theory but are not binding in practice, screen quotas are marginal and ineffective

B. Television

B.1. The legislative and regulatory framework

The public TV industry is controlled and regulated by the URT, an independent body affiliated to the Ministry of Media and having exclusive monopoly power over terrestrial broadcasting and transmission. Hence all rules and regulations concerning public TV are set by the URT. The minister of media has discretionary powers to alter these rules and regulations. The rules concerning public TV (free or pay) do not impose either screen or broadcast time quotas based on the nationality of the film. Nevertheless, it can be argued that there is some form of *de facto* quota evident in how TV broadcasting functions. On average, the rights to broadcast foreign material are limited to two occasions within a period of 15-18 months (Ministry of Media 1999, p. 73). Despite the fact that the director of each channel has the right to broadcast whatever foreign films that are in the possession of the URT, two constraints put an upper limit on the number of foreign films broadcast. The first one is financial, with funds being insufficient to buy the rights to broadcast foreign films. Film leasing is relatively expensive, given the strong monopolistic powers of foreign firms in distribution, and broadcasting is allowed only once or twice over the leasing period, as specified in the

majority of contracts. As a result, the number of foreign films available for broadcasting would appear minimal. The second constraint is of social and cultural nature. Those responsible for selecting foreign films in the URT have noted that it is difficult to find a foreign film that does not offend the religious and social traditions of Egyptian society and, hence, will be allowed by the Censorship Authority over audio-visual products.²¹ Moreover, given the high rate of illiteracy in Egypt and the use of subtitling instead of dubbing, there seems to be a relative *de facto* 'natural quota' on the foreign films broadcast on public TV.²² As countries become more developed, the level of illiteracy rates declines. Nevertheless, in the case of Egypt, the decline in the illiteracy rate is not likely to affect the protective effect of natural quotas in a significant matter, as social and religious constraints will continue to apply at least in the short to medium term. The evolving trend worldwide, starting from the book *The Clash of Civilization and the Remaking of the World Order* by Huntington in 1996 and followed by the 9/11 incident, is likely to reinforce such trends of cultural plurality for a while, even though the historical evidence has shown in the past that rising per capita income is likely to weaken social and religious constraints.

There are no barriers against foreigners entering the private TV industry in Egypt. In fact, as noted above, the company with exclusive rights in satellite broadcasting and encryption for pay channels broadcast from Egypt is an international joint venture. These rights were granted on an exclusive basis in order to help the company cover its investment costs. However, as noted by a number of experts, the regulations here need to change to allow more players in the market. Private TV channels can be owned by Egyptians as well as foreigners. There are no provisions in Investment Law No. 8/1997 to prevent a foreigner from owning a private TV channel. The licensing requirements are easily obtained from the Ministry of Media and entail no cumbersome procedures, as stated by the owners of three free private channels (Dream 1, Dream 2 and Al-Mihwar). There are no rules and regulations to prevent the programs broadcast from including any foreign content. According to the interviews conducted with some of the owners and directors of these channels, government intervention in regulating the program content is minimal, only requiring the owners to ensure that the programs broadcast are in line with the social and cultural norms prevailing in Egyptian society (as stated in the licensing agreement between the Ministry of Media and the private channels). The URT Censorship Authority has no control over the films and programs broadcast by private channels.

B.2. Subsidies and taxes

As a public broadcaster, it should be noted that the URT is a non-profit organization. This implies that costs of explicit or implicit subsidies are neither calculated nor recorded in the URT budget. One form of implicit subsidy is the one granted to the films produced by the URT (through a subcontracting system), where the costs of advertising them on the public TV screen is not even considered. This discriminates against the other Egyptian, non-URT produced films, which have to pay for advertising. On the other hand, the private (free and pay) TV channels do not receive any form of subsidy.

As far as taxes are concerned, the Egyptian government does not levy any form of fees for watching public or private free television (in contrast to the German model). Public and private pay-TV channels are subject to the ordinary sales tax, and there is no discrimination in the rate applied to the public versus private pay channels.

3. PERFORMANCE OF THE CINEMA AND TELEVISION INDUSTRIES AND THE MEASURES APPLIED

A. Cinema

There are a number of indicators used to assess the performance of the cinema industry, including, among other measures, the number of films produced and the amount of labor employed. Since such indicators may provide only a crude quantitative estimate, qualitative assessment is needed to reveal hidden facts that statistics fail to show.

The first indicator used to judge the performance of the cinema industry is the number of films produced annually. According to the data available from the Chamber of Cinema Industry, more than 40 films were produced on average annually. (A more detailed breakdown shows an average of 20 films between 1927 and 1945, of 50 films between 1945 and 1990 and of 44 films between 1990 and 2000.) A peak was reached in 1988 with 112 films produced. Since then, there has been a declining trend in the number of films produced, reaching a minimum of 16 in 1998 (see Table 7.4). It is difficult to explain this recent trend as being the result of ineffective policies and regulations, since these have been in operation for some time. Nevertheless, it is important to view the upsurge in the number of films produced in the mid-eighties and the subsequent decline with a degree of caution. Interviews conducted on this revealed that the upsurge was not a reflection of a flourishing industry but rather due to a short-term phenomenon arising from the availability of generously financed advertisements

interrupting the films when distributed on video. This encouraged producers to make low-quality films on a shoestring to profit from their distribution on video (see also Abbas 1996, pp. 30-32). The subsequent quantitative decline reflects the shift of such advertising to satellite and pay-TV channels, in effect robbing producers of this generous finance and forcing the industry to return to its previous position of limited funding.

Table 4: Number of films produced in Egypt by year (1966-1999)

<i>Year</i>	<i>No.</i>	<i>Year</i>	<i>No.</i>	<i>Year</i>	<i>No.</i>
1966	34	1978	51	1990	85
1967	33	1979	29	1991	69
1968	38	1980	34	1992	62
1969	44	1981	50	1993	76
1970	48	1982	55	1994	30
1971	43	1983	60	1995	25
1972	42	1984	74	1996	24
1973	42	1985	106	1997	28
1974	42	1986	77	1998	16
1975	52	1987	85	1999	27
1976	49	1988	112	2000	n.a.
1977	51	1989	95	2001	n.a.

Source: Chamber of Cinema Industry (2001), unpublished data.

Official Egyptian data here are not fully consistent with those supplied by international sources, such as UNESCO (see Table 7.5). The discrepancy is explained in part by the fact that the figures released by Egyptian sources only include those films broadcast and not those produced and awaiting broadcast. Nevertheless, even taking this into account, the margin of difference remains large, indicating that the quality of data collection itself is not particularly high.

The second indicator used to assess the performance of the cinema industry is the level of employment. Current data on the number of people employed in the cinema industry are not available. It is very difficult to calculate the actual level of employment here since most involved have other, private forms of employment or are employed by the URT. People work in the cinema industry whenever there is a chance to be part of a team producing a film. Nevertheless, data available on cinema employment reveal that the two largest firms in film production have between 30 and 40 employees on their payrolls. Furthermore, some 50 to 60 technicians are hired on an occasional basis for short-term assignments when a film is in production. Yet such figures do not represent the average of all firms in the industry, as these two large producers act rather as outliers. Cinemas employ between 20 and 30 workers each, amounting to some 1 450 to 2 250 workers in all cinemas. Interviews conducted on this underscored that there is no

clear-cut trend in the number of employees in the cinema industry. Interviewees attributed this to the swings of the business cycle and to the instability of film production, which may be a result of the overall environment of the cinema industry (including production problems, poor protection of intellectual property rights and/or competition from TV and video). These problems, combined with the shifting of advertising from video to pay-TV channels, might account for the decline in the number of films produced, possibly leading to a reduction in the number of employees in the cinema industry. However, as interviews conducted with those involved in the cinema industry revealed, the skills of workers have improved due to an increased use of high technology equipment over the past decade.

Table 5: Production of feature films in Egypt for various years

<i>Production of feature films</i>				
<i>Year</i>	<i>Length</i>	<i>Definition of data</i>	<i>No.</i>	<i>No. of which were co-productions</i>
1970	2 000	C	47	1
1975	2 000	P	90	-
1986	103	-
1989	59	-
1994	...	C	72	...

Key: P = production completed in the year indicated

C = approved by censor for public screening in the year indicated

Length = minimum length (in meters) which categorizes the film as a 'feature film'

Source: UNESCO.

A third indicator here is the value of production in the cinema industry, estimated to be in the range of 100 million Egyptian pounds in 1999 (about \$25 million or less than 0.002 per cent of GDP). One of the most important facts revealed during interviews is that domestic revenue from films does not cover production costs, hence external distribution in the Arab world is the major source of revenue (see also Hassenin 1995, pp. 275-76). However, the extensive need for capital to cover production costs, and a lack of alternative sources of funding put the producers in a weak market position when they come to sell distribution rights for their films abroad. Foreign distributors make considerable profits, from which those involved in the Egyptian cinema industry (the state, producers, etc.) do not benefit, and in some cases even control the whole production budget. Scarce funding is due to banks being reluctant to finance the business, given the non-transparency of production budgets. Non-transparency here is a common practice to evade the burden of taxes levied on the industry. As a result, self-funding or advance selling to distributors have become customary ways of financing

production in the cinema industry. When production increased, due to the advertisements on video (as explained above), competition among producers forced the prices of Egyptian films down. Since then, prices have been sticky upwards due to the abundance of films already sold, which created some sort of saturation among the Arab video distributors and the satellite channels. Hence, a newly produced film will have to follow the trend of declining prices. There are very few Egyptian firms which have sufficient capital to produce films and look after their external distribution at the same time. Most are dependent on a foreign distributor to provide the necessary funding.

It is difficult to assess the effectiveness of the different policy tools used in the cinema industry. This is because many of the rules and regulations imposed have not been enforced. Explicit subsidies were not provided, indirect taxes had marginal protectionist effects, and quotas were not binding. Moreover, since the reliability of the data is poor, we have to guess estimate trends and compare domestic with international sources. Table 7.6 provides data collected from international sources on the number, seating capacity, annual attendance and box office receipts of Egyptian cinemas.

Based on unpublished data, domestic sources reveal that the number of screens increased from 110 in 1995 to 183 in 2001, where 83 screens were constructed between 1998 and 2001 and 100 screens are currently under construction. The number of functioning cinemas in 2000 was 175 (down from 450 in the 1950s). Hence both national and international sources reveal the same trend: there has been a decline in the number of functioning cinemas. However, according to the domestic data, there is renewed interest in constructing new cinemas and multi-screen complexes, evidence of a revival in the industry. According to interviews conducted with specialists, the number of people attending cinema films was roughly 15 million in 2001. The numbers in Table 7.6 for the years 1970 and 1975 look unreliable, when population figures (33 million in 1970 and 36 million in 1975) are taken into account (World Bank 2001). This would imply, on average, that every single person attended the cinema twice a year. In the opinion of the specialists interviewed, there has been an identifiable increase in the number of people attending cinemas, a recent development evident since the late 1990s, presumably explained by the modernization of a number of cinemas, especially in Cairo.

Table 6: Number, seating capacity, annual attendance and box office receipts of Egyptian cinemas

Year	No. of cinemas	Seating capacity (00)	Annual attendance (000 000)	Seats per 1 000 inhabitants	Annual attendance per inhabitant	Gross box office receipts (in millions of Egyptian pounds)
1970	238	214.8	65.4	6.1	1.9	...
1975	246	213	65.2	5.5	1.7	7
1991	149	126	16.5	2.2	0.3	23
1994	138	106	12.9	1.7	0.2	37

NB. Total number of cinemas includes mobile units for non-commercial exhibitions. Box office receipts exclude taxes.

Source: UNESCO.

It is difficult to calculate box office receipts with any accuracy, given rampant tax evasion, but in the view of experts in the field it is somewhere in the range of 100 to 150 million Egyptian pounds, representing a much larger amount than what international sources reveal. According to national interviews, Egyptian films account for two thirds of receipts here, with the remaining third going to foreign films.

Data on imported films (see Table 7.7) are only available from international sources. Domestic sources do, however, state that the highest number of American films screened between 1990 and 2000 was 113 (National Center for Cinema 2001). Both national and international sources reveal that the import quota is not by any means binding. The data in Table 7.7 indicate a movement toward predominance of American-produced films among all imported films, with the US share almost doubling between the 1970s and 1990s. European-produced and Russian films have suffered a drastic decrease in their share of imported films screened in Egypt over the same period. Indian films maintained their position, screening between one and four films annually, whereas films imported from other countries have enjoyed a substantial increase. Combining the data from Table 7.5 and Table 7.7 (while not being able to control for quality), it results that Egyptian films had a 13 per cent share of total supply (the sum of domestic production and imports) in 1970, reached a peak value in 1975 (31 per cent), but declined in the following years (28 per cent in 1989 and 25 per cent in 1994). The protectionist measures described above were clearly ineffective in preventing the increase in import penetration.

Table 7: Feature film imports to Egypt by country of origin

Year	Defi- nition	Total	United States	India	Russian Fede- ration	Total EU	Japan	China Hong Kong SAR	Others
			%	%	%	%	%	%	%
1970	...	323	48.0	3.4	7.4	35.0	6.2
1975	I	204	37.3	0.5	7.4	45.4	0.5	-	7.4
1984	I	243	38.7	1.2	1.2	39.1	0.8	-	18.9
1989	...	153	65.4	3.9	2.0	12.5	1.3	2.0	13.1
1991	...	146	72.6	4.1	1.4	11.0	0.7	1.4	8.9
1994	C	220	70.9	0.9	-	1.4	-	-	26.8

Key: I = imported in the year indicated

C = approved by censor for public screening in the year indicated

Source: UNESCO.

The intended purpose behind Law No. 8/1997 was not to increase the already high degree of concentration of the cinema industry, but rather to raise the capital of the existing firms, so that they might overcome the financial obstacles hindering their development and enjoy economies of scale. The tax exemption provided by the law for firms with large capital did not encourage mergers (and the constitutionality of the law was challenged in the courts). In fact, the latest wave of mergers took place after the establishment of the aforementioned private firm in 2000, forcing other small and medium-sized firms to integrate in order to face the challenge of competition. The absence of a competition law or sectoral regulation is a major deficiency in the institutional setup. A regulatory body is needed to maintain a balance between the virtues of having large corporations, with the capital size needed to exploit economies of scale, and their negative potential effects, in terms of price distortions, vertical restraints and monopolistic attitudes.

Finally, the encouragement provided by laws and regulations to foreign investment in the cinema industry has proved ineffective, because the limited size of the market deters foreign as well as domestic producers from investing in laboratories and studios. Such an investment would not be profitable since the number of films produced on an annual basis remains low, implying an inability to cover costs.

B. Television

To assess the performance of the television industry in Egypt, the main indicators used are (1) the number of channels transmitted and (2) the level of employment. The huge

increase in the number of channels transmitted, both public and private (free or pay), shows that the television industry has been growing extensively (see the first part of this study). Despite the lack of detailed quantitative information, there is general agreement among interviewees that the production of films, series, and other programs was influenced by two forces driving in opposite directions. On the one hand, the enlargement of the URT (starting from the early 1990s with the creation of new public free and pay-TV channels) resulted in an increase in the number of programs produced, which had a positive impact on the number of employees. On the other hand, the competition arising from the entry of foreign satellite and pay-TV channels, as well as from video cassettes and the modernized cinemas of Cairo and Alexandria, had a negative impact on TV viewing figures. Nevertheless, the first force was stronger than the second, and the television industry has been enjoying an overall increase in the level of both production and employment since the beginning of the 1990s. The number of employees in the URT reached 34 150 in mid-2000 (URT 2000/2001, p. 235), of whom 84 per cent are permanent and 16 per cent are temporary.

Moreover, the skills of TV workers have improved as a result of new technologies being introduced. There has also been a positive development in production quality in the television industry. Digitalization and the introduction of satellites (Nile Sat 1 and 2) have had a pro-competitive effect: the traditional public free channels as well as the pay-TV channels were forced to upgrade the quality of their products to be able to compete with the digital foreign channels. Nevertheless, the upgrading here is not expected to continue at the same pace, as the absorption of new technology is likely to diminish over time and competition from films and series produced by other Arab countries is rather weak at the moment. The Syrian, Lebanese, Tunisian, and Moroccan television firms are the most important potential competitors, but they have not yet started mass production of feature films (a few films have been produced by the Syrian TV firm, which however specializes in series).

The third indicator used to assess the performance of the TV industry is the level of production. In 1979 the URT started to produce feature films that sometimes are screened in cinemas. The films were produced directly or in cooperation with independent Egyptian producers. The number of feature films produced had reached more than 135 by 1998 (*Ahram Eiktsady*, 7 June 1999, p. 25). However, the level and the content of production have varied significantly from year to year (see Table 7.8). In 1999-2000 total production amounted to 257 h 46 min, comprising feature films (mostly sub-contracted), short documentary films, parties, series, cartoons, etc. (URT 2000/2001, pp. 185-90).

Table 8: Production of public TV (various years)

<i>Format</i>	<i>1991-1992</i>	<i>1995-1996</i>	<i>1999-2000</i>
Feature films	12	2	6
Short documentary films	12	7	13

Source: URT Annual Yearbook, several issues.

There is no international data on Egyptian public and private TV. The only available sources are domestic and include the URT itself, along with a number of newspaper and magazine articles. The number of hours broadcast in 2000-2001 was 53 112, with a daily average of 146 hours for the first eight main public free TV channels, as indicated above. Table 7.9 shows the distribution of their broadcasting time by program content, including Nile TV and the information channels as well. American programs constitute the largest share (80 per cent) of broadcast foreign products. The average number of foreign films reaches about 500, of which 300 are American and 50 European films.

Table 9: Percentage of broadcasting time by program content

<i>Type of program</i>	<i>Percentage of total broadcasting time</i>	<i>Average daily</i>
Religious	6.49%	9 h 27 min
General news (news, politics, weather)	15.49%	22 h 32 min
Cultural	7.93%	11 h 32 min
Educational	3.37%	4 h 55 min
Entertainment	40.78%	59 h 21 min
Children	6.18%	9 h
Development and services (health, family, tourism, and social)	9.79%	14 h 15 min
Specific programs (women, youth, police, army, labor, rural)	4.41%	6 h 24 min
Advertising	2.09%	3 h 2 min
Nile TV	1.79%	2 h 37 min
Information channel	1.68%	2 h 26 min

NB. Content distribution varies from channel to channel.

Source: URT 2000/2001, p. 99.

The preferences of the consumers, based on a poll conducted by the URT, are shown in Table 7.10.

Table 10: Consumer viewing preferences

<i>Arabic series</i>	<i>Arabic movies</i>	<i>Entertainment and miscellanies</i>	<i>Foreign movies</i>	<i>Religious programs</i>	<i>News and publicity programs</i>
72.9%	14.3%	8.6%	1.4%	1.4%	1.4%

Source: URT 2000, unpublished data.

The absence of a matching criterion between the broadcast programs and the preferences of consumers does not allow us to conclude whether they correspond to each other. However, it is evident that despite the fact that the broadcasting time for foreign programs on average is 8.4 per cent, the preference of consumers for viewing foreign movies on average is only 1.4 per cent.²³ This reveals that there are no protectionist aims on behalf of the URT, but rather that the preference for domestic versus foreign material arises from consumers, or the supply of foreign products is of a quality that does not suit consumer tastes.

In private TV, according to the interviews conducted, there is no explicit or implicit regulation on the type of programs, as has been previously mentioned. Moreover, the market is contestable, since there are no restrictions to opening more private channels. A magazine recently conducted a poll to investigate whether the private channels have made a real difference in the role of media in Egypt. According to the sample they used, 82 per cent agreed that private channels have made a real difference, 16 per cent disagreed and 2 per cent were undecided (American Chamber of Commerce in Egypt 2002, p. 60).

In the case of pay-TV broadcasting from Egypt, there is clearly a monopoly by the two complementary firms, but this is the norm in many countries worldwide. The competition is rather between the two packages they offer to consumers (First Net and Showtime).

There is no data available on the number of consumers who prefer or have receivers or decoders in Egypt but, taking into account its stage of development, it can be safely estimated that the number of pay-TV subscribers and/or people who own receivers or decoders does not exceed 10 per cent of the population, mostly concentrated in Cairo, Alexandria, and at resorts. This is in line with what resulted from an interview with the director of a private TV channel, who noted that the total number of households owning receivers or satellites does not exceed 6 per cent of the population, whereas the share of households owning TV sets is about 88 per cent.²⁴

4. CONCLUSIONS AND POLICY IMPLICATIONS

The study traced the different changes in the cinema and television industry (public and private) in Egypt. It described the different characteristics of each industry and the relevant economic policies and regulations. It assessed the impact of such policies and regulations in a qualitative way, given the impossibility of assessing it quantitatively as a result of the paucity of data.

The study revealed that in the case of cinema, the industry is moving rapidly towards mergers and high concentration which could have positive effects (creating economies of scale) as well as negative effects (encouraging anti-competitive behavior). The absence of a competition law or sectoral regulation is a major deficiency here. The domestic film industry is slightly favored in terms of indirect taxes imposed on it compared to imported films, but there is no discrimination when it comes to explicit subsidies, as there are no direct subsidies provided. Other rules and regulations, although discriminatory in some regard, are ineffective with the exception of the system used to provide incentives for the distribution of Egyptian films versus foreign films. This may imply some explicit discrimination against foreign films.

Discriminatory practices against foreign producers who shoot films in Egypt should be abandoned. Moreover, other discriminatory measures against foreign products in terms of quotas and higher sales taxes should be eliminated as they have proved ineffective. A transparent regulatory framework is likely to invite more investment (both domestic and foreign) in those fields.

The cultural plurality issue is highly sensitive in the cinema industry and can be affected if the number of copies of foreign films is allowed to increase and/or if dubbing is used instead of subtitling. However, it can be safely argued that such measures are mainly intended for protectionist aims to aid a domestic industry that faces great challenges in funding, IPRs, competition, etc. Notwithstanding the importance of protecting the Egyptian cultures, it seems that the instruments used, which have been confined to trade restrictions, were not the right choice as they were not supported by any logical economic justification. Moreover, the analysis and the evidence in this study have shown that the trade protectionist tools used by Egypt did not serve their aims and that the perceived threat of industry destruction from imports is magnified. The cure for the ills of the cinema industry actually lies in domestic reforms and not in the use of protectionist tools.

Regulatory reform is desperately needed in the cinema industry, given the proliferation of ineffective rules and regulations. A major reform would be to introduce a comprehensive law providing all the measures needed to enhance the industry, complemented by other effective laws concerning important structural issues, such as

IPRs and competition. The discretionary powers given to ministers of culture should be limited as they create an uncertain environment for investors. The study revealed that neglect of the industry led to several problems and prevented it from flourishing. The scarcity of funding led to non-transparent accounts, inhibiting the banks from entering into this business. Moreover, the need for finance led producers to sell the rights of distribution abroad cheaply, which, when combined with weak IPR enforcement (domestically and abroad), led to a loss of profits over time and, in turn, made new entrants reluctant to enter into this business. Consequently, investment in the field of laboratories and studios was scarce, forcing producers to use the facilities of other neighboring countries (e.g. Greece). The potential investors in those fields argued that the small size of the market (in terms of the number of films produced) did not allow them to come to Egypt. In other words, the industry entered into a vicious circle of lack of funding and investment, weak IPR enforcement, and lack of transparency. The government should take all such aspects into consideration by providing a clear vision with concrete steps to be taken. Necessary measures include ensuring a stable system for funding, that does not encourage the production of low-quality films. This has to be designed prudently to avoid repeating the mistake of other countries in providing generous subsidies that resulted in production of low-quality films (e.g. France, see Messerlin and Cocq 1999).

An effective competition policy is needed to monitor and discipline the behavior of firms in an industry experiencing mergers and vertical integration. There is great need for designing sectoral regulation to ensure fair competition while allowing mergers and acquisitions, as a general competition law is not likely to fit the nature of this industry. The absence of a legal benchmark (whether in the form of a competition law or sectoral regulations) prevents the assessment of firm behavior. The main concern which created the debate on the need for competition policy in the cinema industry relates to distribution and exploitation. These last two stages of the value chain are crucial because, if they are controlled by very few firms, the extent of collusion and market power by such firms can be high, even when the earlier stages are enjoying fierce competition. This is exactly what happens in the Egyptian case, where small producers have limited access to distribution channels and cinemas, which tend to be vertically integrated into few large groups, producing their own films as well.

Public TV has been experiencing a flourishing phase with the introduction of additional channels and a new digital system since the early 1990s. The presence of two satellites owned solely by the government has helped to foster the industry as well.

Private free TV is still in its initial phases of development and has been allowed to perform only since 2000. Its ability to compete with public TV cannot be assessed due

to the absence of a common yardstick and the short time that has elapsed since it started broadcasting. However, the polls undertaken have shown a positive response to its performance. From our point of view, based on the results of the study, government policies toward private TV are moving on the right track. There are no serious restrictions or other forms of impediments that prevent competition from taking place. Moreover, the viewing preferences of TV consumers have shown that there is no anxiety over preserving cultural plurality. What is needed is for public free TV to introduce the concept of commerciality in its calculations. This will prevent the production of low-quality programs and will provide a level playing field with private producers. In particular, the discriminatory practice to provide free advertising time slots for TV produced films, while applying a charge on privately produced films, should be eliminated.

Pay-TV started in 1994 and the number of subscribers has increased ever since. Competition is limited due to the structure of the industry, which allows only one operator (composed of two complementary firms) with exclusive rights to perform in the market (the norm in the starting phase of this industry in many developing countries). Hence, it can be conservatively stated that the Egyptian pay-TV operator has been successful but, due to the absence of competitors, it is difficult to assess the degree of this success. The government is invited to allow more participants to enter the market and enact sectoral regulation to ensure consumer protection and fair competition.

NOTES

1. The author would like to thank Lelio Iapadre and Paolo Guerrieri for helpful comments on an earlier version of this paper, and Samir Farid and Dina Kafafy for helping collect the data. Usual disclaimers apply.
2. This part draws heavily on Ghoneim (2002a).
3. The classification here is based on an interview conducted by the author in 2000 with the head of the Chamber of Cinema Industry and other experts in the field. It is non-conventional in the sense that it does not follow international or national guidelines. Nevertheless, it does explain how specialization in various related fields exists in the Egyptian cinema industry.
4. The Higher Council for Culture is responsible for issuing licenses. There are annual fees to be paid separately on each sector of activity. See Ministerial Decree 113/1993 of the Minister of Culture.
5. Recently, a few firms with relatively large capital and 35-40 permanent employees on their payroll have entered the business of production, distribution, and ownership of cinemas, increasing the degree of vertical integration. This occurred mainly through mergers and acquisitions among existing firms.
6. This compares with 140 000 cinemas in China, 25 000 in the United States, and 13 500 in India (WTO 1998, p. 2). In terms of cinemas per inhabitant (1995 population figures), there are 0.000003 cinemas in Egypt, 0.00009 cinemas in the US, 0.00001 cinemas in India, and 0.0001 cinemas in China (World Bank 2001; World Bank 2002).
7. Greater Cairo consists of three governorates: Cairo, Giza, and Qalyobiya. About 20 million inhabitants live in Greater Cairo.
8. Prior to 1952, the government was not involved in the cinema industry. Starting in the Nasser era, the government became heavily involved when a number of governmental organizations were created to promote the cinema industry. These included the Public Company for Arab Cinema Production, the Public Company for Cinema Studios, the Public Company for the Distribution and Presentation of Cinema Films, the Egyptian Public Company for World Cinema Production, the Public Company for Cinemas, and the Cairo Company for Cinema. From 1971, some of these companies have ceased to exist while others have remained. Nevertheless, over time those remaining have reduced their activities.
9. Announced by the Minister of Media in *Akhbar El Yom Newspaper* (9 June 2001; 7 July 2001). Dream 1 and Dream 2 are privately owned free channels with a capital of 30 million Egyptian pounds, Al-Mihwar is jointly owned by the private sector (80%) and the state (20%), Tamima is a free advertising and shopping channel privately owned, and Tourism is a free, private channel that concentrates solely on tourism. All of these channels cannot be received via normal antenna and require a decoder or a receiver to be viewed.
10. The first firm, called Cable Network Egypt (CNE), was established in 1991 and the second one is Nile Cable Network (NCN), established in 1998. The two firms use two systems for the distribution of pay-TV channels: the Rapid Burst Response (RBR) system and the Direct-to-Home (DTH) system.
11. Before this law, there was no comprehensive legislation concerning investment, which had hitherto been subject to various laws (Law 203 on privatization and Law 159 for companies), depending on the legal nature of the firm. In many cases, foreign investors had not been able to enjoy the same benefits as domestic firms, having to limit their share in a joint venture to 49 per cent.
12. According to the Minister of Culture, there are about 118 cinemas that are closed and need to be reopened. The cinemas were closed either due to a lack of profitability or because they needed upgrading or refurbishment to be in working order. See *Akhbar El Yom* (18 August 2001, p. 23).
13. Based on an interview made with the head of the Chamber of Cinema Industry in June 2001.
14. Law No. 38 of 1992 (amendment of Law No. 354 of 1954).

15. The main difference for the cinema industry between the Copyright Law of 1992 and the new IPR Comprehensive Law approved in 2002 is the extension of copyright to the performers and not only the author. It also provides the author with some flexibility to sell his rights to the producer, which was a major loophole in the former law.
16. In 1957 a presidential decree was issued to establish the Institute of Cinema Subsidization. However, over time, this institution was not effective and its role declined. It is now under the umbrella of the Cultural Development Fund.
17. US complaints against countries subsidizing their cinema and television industries during the Tokyo Round were made against 21 countries, including Egypt (see Footer and Graber 2000, p. 118).
18. As explained by an official working with that fund to the author in June 2000, the money allocated to cinemas is spent on fairs and the production of short documentary films but not used to subsidize the production of feature films.
19. In fact, the cinema industry was the only industry allowed to enjoy additional tax exemptions if the capital of the firms established exceeded 200 million Egyptian pounds. According to Law No. 8/1997, any project concerned with constructing and/or renting studios, laboratories, cinemas, and activities related to the shooting, printing, development, broadcasting, producing, and distribution of films with a capital not less than 200 million Egyptian pounds benefits from tax concessions. See General Authority for Investment and Free Zones (1997).
20. There was a law issued in 1956 (Law No. 373) which compelled every cinema to screen an Egyptian film for at least one week per season (with the year divided into three seasons). This law is no longer enforced. Moreover, cinemas have to screen Egyptian films during the two Islamic feasts, totally amounting to only seven days in the whole year.
21. Based on an interview with the director of the Economic Sector of the URT.
22. Dubbing has been forbidden by law since the 1950s as an anti-fascist reaction and, consequently, subtitling has since become the norm. It reflects the regime's objection to the presence of a foreign language being heard on national TV, something which reminds people of the era of colonization and what followed from all the actions of fascism. Subtitling is still dominant, since it is cheaper than dubbing. The law concerning dubbing and subtitling has not been changed, but the majority of the experts interviewed are not aware of it (with the exception of TV and cinema industry historians) and it has lost its enforcement power. Nevertheless, it still applies as a matter of tradition, due to the preference to maintain the status quo and without clear explanations from the experts' interviews.
23. With a simple calculation based on the data obtained from the URT's *Annual Yearbook 2000/2001*, we find that the total number of hours allotted for foreign products amounts to 4 500 hours, representing an average of 12.3 hours daily, or 8.4 per cent of the total broadcasting time of the eight public channels.
24. Interview with Mr Mohamed Gohar, director of the Al-Mihwar TV in June 2001.

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