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REPORT

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Simona Andreano

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Audiovisual Policies and International Trade: The Case of Italy

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Abstract

This paper reviews Italian audiovisual policies, in order to assess their impact on the international position of domestic cinema and television producers.

Italian audiovisual policies are characterised by a rich set of institutions, regulations and support tools, whose complexity sometimes causes problems of overlapping jurisdictions among different authorities and agencies. Their degree of market access restrictiveness appears to be relatively high, especially considering the discrimination between European and non-European producers.

The economic performance of the Italian audiovisual sector has been relatively weak in the nineties, particularly for what concerns the competition with foreign producers.

On the other hand, the econometric exercise presented in section 5 seems to show that, at least in the cinema sector, public subsidies have a positive impact on the domestic market share of Italian producers.

This preliminary conclusion is however not enough to justify a positive assessment of Italian audiovisual policies. Many important issues require further investigations. The problems and the data presented in this paper seem to confirm the need to reform the strategy and the tools of public intervention in the audiovisual sector.

1. Introduction

Market integration policies that have been characterising international economic relations in the last decades are raising difficult challenges to national policy-makers in several sectors of social life. As the dismantling of trade and investment ‘border’ barriers proceeds, the external spill-over effects of measures originally devised for domestic purposes becomes more evident, calling for an adjustment in the global governance system.

The audiovisual sector is a notable example. Given its great cultural, political and economic importance, national governments carry out complex support policies, aimed at fostering its growth and competitiveness, as well as at promoting political pluralism and cultural diversity. From an economic standpoint, the effects of the protective measures used by such policies do not differ markedly from those adopted in other sectors. A considerable amount of public resources is spent to sustain national producers, and regulations are forged in order to shelter the incumbents from potential competitors, especially from abroad. The resulting tensions in international economic relations played a prominent role in the past rounds of trade negotiations, notably in the final phase of the Uruguay Round (Footer and Graber, 2000), and are going to surface again in the current round of trade in services negotiations, in the context of the World Trade Organization (WTO) ‘Doha Development Agenda’.

The political sensitivity of the trade-off between the benefits of international economic integration and the social values pursued through national audiovisual policies is very high. As usual in similar cases, the strong social pressure in favour of exempting audiovisual policies from WTO jurisdiction, genuinely motivated by worries concerning political pluralism and cultural diversity, interacts with – and can be ‘captured’ by – the lobbying action of vested interest groups. In the meanwhile, economic and technological changes leading to the ‘convergence’ among various information and communication sectors seem to weaken both the need and the effectiveness of audiovisual policies.

However, there are compelling economic arguments justifying some form of protective policy in the audiovisual sector. Motta and Polo (1997) show that the need for public intervention in the television sector is not diminished by the current wave of technological innovations, although its tools must be adapted to the new circumstances. Competition policies are still important in order to mitigate market concentration, and specific regulations are essential to pursue the public objective

of pluralism. According to Sauvé and Steinfatt (2000, p. 329), “a credible case can be made to support the claim that the special features of markets in cultural goods and services can cause markets to fail to provide consumers with appropriate production and distribution of cultural products. Such features include the nature of competition in products with substantial public goods aspects; economies of scale in the production and distribution of cultural goods and services; the impact of externalities on the pricing of cultural products; as well as collective action problems. Because each of these problems arises in the context of international trade, there are strong grounds to believe that free trade in cultural goods and services is unlikely to yield efficient or welfare-maximising outcomes.”

Saying that public intervention in the audiovisual sector is warranted does not mean that any kind of protective policies can be justified. The inconsistencies and the dubious results of the policies that have actually been adopted have been forcefully shown by Acheson and Maule (1999) in the case of Canada, as well as by Messerlin and Cocq (1999) for the European Union.

This paper is part of a research project aimed at assessing the effectiveness of national audiovisual policies in pursuing their cultural and economic targets, as well as their impact on international trade and investment transactions. We study the case of Italy, that is one of the most active countries in supporting the current European Commission’s stance in favour of strong audiovisual policies, sheltered from the jurisdiction of WTO rules.

The next section will present the set of institutions, regulations and support tools that form Italian audiovisual policies, considering together the cinema and television sectors. In section 3 we will try to estimate the aggregate degree of trade restrictiveness of Italian audiovisual policies, by means of a simple index approach, based on a subjective evaluation of each measure’s potential impact on market access. Section 4 will be devoted to a descriptive analysis of the economic performance of the Italian audiovisual sector, with particular reference to international trade. Section 5 will present an econometric exercise, aimed at estimating the impact of cinema subsidies on the domestic market share of Italian films. Some tentative concluding remarks will close the paper.

2. Audiovisual policies in Italy

In this section we will present a survey of the main policies currently adopted in Italy to sustain the audiovisual sector. Emphasis will be placed particularly on the measures which can exert restrictive effects on international trade and investment.

We will consider together the television and cinema industries, because many of the provisions for film production refer also to television programmes, and the system of broadcasting and investment quotas imposed on television companies is actually targeted at supporting the cinema industry.

The first sub-section will describe the institutional framework in which audiovisual policies are carried out, underlining the problems created by the multiplicity of decision-makers. In section 2.2 we will sketch out the complex set of regulations governing the audiovisual sector, with particular reference to market access restrictions and other regulations that can hinder international transactions. The following sub-sections will deal respectively with the wide range of subsidies available for audiovisual firms, and with the role played by the Italian state through its direct presence in this important sector.

2.1 Institutions

The regulatory powers for the audiovisual sector in Italy are spread among various institutions, with some problems of overlapping jurisdictions.

The main authority for the television sector is the *Communications Regulatory Authority* (AGCOM), which was established in 1997, in compliance with the directives of the European Union, and replaced a former ‘guarantee authority for the media and the publishing sector’. Recognizing the technological and economic convergence among different information and communication services, the Parliament endowed the new authority with wider competences, encompassing also the telecommunications sector. The driving idea was the need to harness the ongoing processes of liberalization and privatization to a proper system of rules and controls, in order to ensure a larger diffusion of their benefits.

AGCOM is defined as an independent authority, accountable to the Parliament. However, notwithstanding the presence of strong rules safeguarding the commissioners’ personal independence during their mandate, the procedures established for their selection have been questioned on their ability to actually preserve such independence.

The objectives of AGCOM in the broadcasting sector include fostering and safeguarding political and cultural pluralism, the protection of citizens’ rights and consumers’ interests, the promotion of technical progress, and the establishment of market conditions conducive to open competition. In this context, the AGCOM pursues also the aim of protecting intellectual property in the audiovisual sector, through a recently established unit against piracy.

AGCOM has a number of regional bodies, called Regional Committees for Communications (Corecom), that replace the former Regional Radio-television Committees. An autonomous National Council of Users advises AGCOM, the Government and the Parliament on matters related to pluralism and consumer protection.

The wide range of tasks assigned to AGCOM implies a complex set of relations with other institutions (Grandinetti, 1997), which sometimes gives rise to an overlapping of competences, weakening the independence and the effectiveness of their regulatory action:

- a parliamentary body, the “Commission for general orientation and supervision on radio-television services”, oversees the operation of the public television company (RAI), in order to ensure an adequate degree of political pluralism in its programmes. After the institution of AGCOM, the need for a separate parliamentary control over the public television company does not seem to be warranted, but the great political sensitivity of pluralism protection in broadcasting services explains why the Commission has not been abolished;
- the Ministry of Communications keeps in its hands important regulatory and administrative powers, which have recently been extended so as to include the task of issuing licences and authorizations for digital broadcasting¹. The Ministry adopts the National Frequency Distribution Plan, which is the technical basis for the Frequency Assignment Plan for Radio-Television Broadcasting, approved by AGCOM. Moreover the Ministry defines the service contract with the public television company. The sharing of competences between the Ministry and the AGCOM does not seem to follow a clear-cut criterion (Libertini, 2001);
- with the establishment of AGCOM, the competition policy responsibilities on the audiovisual sector, which pertained until then to the former guarantee authority for the media and the publishing sector, were transferred to the Antitrust Authority, that is the general competition authority for the Italian economic system. In the communications sector the Antitrust Authority is due to heed the AGCOM’s advice, but is not bound to follow it.

¹ Law 66/2001, art. 2 bis.

However, the competences of AGCOM include a direct role in the control of concentration processes in the communications sector, namely the application of antitrust rules and inquiries on dominant positions. In carrying out this task, AGCOM refers to criteria and parameters that are more stringent than general competition standards. Therefore, the promotion of pluralism, which is the main target of AGCOM's action on this field, ends up replacing and absorbing the objectives of competition policy;

- another area of possible overlapping is the protection of intellectual property rights, where the supervisory powers granted to AGCOM by the recent “anti-piracy” law have to be exerted in strict co-ordination with the SIAE, the Italian collecting society for intellectual property.

The Ministry of Cultural Heritage and Activities has currently the main competences concerning cinematographic policies in Italy. In particular, the Directorate-General for Cinema is responsible for the administration of subsidies to the film industry. Its decisions are based, however, on the views of various external commissions, while the financial management of the support funds is handled by a specialized section of a private bank, the Banca Nazionale del Lavoro (BNL). The BNL “Film and Theatre Loans Section” operates also with its own funds and administers the specific European Investment Bank's credit facilities for the cinema industry.

National audiovisual policy is complemented by the activities of regional and local authorities, that operate mainly in the support of cinema circuits and in the promotion of audiovisual culture. Regional funding amounts to approximately 6 per cent of the total value of public expenditure for the film industry (European Investment Bank, 2001). In some areas the so-called *Film Commissions* are targeted at offering attractive locations for film production.

In addition to the abovementioned regulatory and administrative bodies, Italy's audiovisual policy is characterised by an important direct intervention of the State in a wide range of audiovisual services, which will be outlined in section 2.4 below.

2.2 Regulations

Market access restrictions

The above-mentioned Frequency Assignment Plan for Radio-Television Broadcasting is the most important instrument used to manage the ‘spectrum constraint’ and allocate terrestrial frequencies among broadcasters. It was approved by AGCOM in 1998 in order to rationalize the use of radio-electric resources, after two decades of unruly development of the private initiative in this field, leading to a chaotic growth of terrestrial broadcasting networks, while cable and satellite television remained relatively underdeveloped. One of its main objectives is creating the conditions for a rapid and swift transition from analogical to digital broadcasting systems in view of the deadline of December 31st 2006, which has been set for the completion of the process².

However, the “transitory” derogations envisaged for the broadcasting stations currently exceeding the concentration parameters (see below) hinder the actual enforcement of the plan. There is the distinct risk that the time available before the switch to digital technologies will not be enough to see any substantial effect from the plan.

The assignment of television concessions is also governed by a set of rules defining the individual requisites of broadcasters. One of them has a discriminatory character, stipulating that concessions for terrestrial transmissions may be requested only by subjects who are citizen of – or

² This deadline has recently been called into question by the Ministry of Communications and could be delayed.

resident in – the European Economic Space³. Similar limitations concern the nationality of the subjects that may apply for authorizations to produce contents for digital television transmissions.

Another AGCOM ruling sets the conditions to obtain concessions for satellite television and pay-TV broadcasting. Foreign companies established in the European Economic Area or in member countries of the Strasbourg Transfrontier Television Convention do not need to apply for an authorization.

Discriminatory restrictions concern also foreign partnership. Non-EU control of an Italian broadcasting company is allowed only if a reciprocal treatment is granted in the country concerned. This requirement is protected by a specific MFN-exemption under the GATS.

A regulation has recently been approved by AGCOM, in order to prepare the transition to digital technologies. The regulation emphasizes the distinction between network operators and contents providers, and is based on the assumption that the introduction of digital technologies – if accompanied by a proper set of rules – can intensify competition in the television market, by reducing its degree of vertical integration and fostering the emergence of new operators, so as to widen the range of choices for the consumers and promote the integration with other communication sectors. For the purpose of facilitating this process, the regulation defines the conditions for the transition from a regime of concessions to vertically integrated broadcasting companies, towards a system of licences to network operators and authorizations to contents providers. Digital TV licences and authorizations will be issued by the Ministry of Communications in compliance with the AGCOM's regulation.

Competition rules

Competition rules in the audiovisual industry are more stringent than in other sectors of the economy. In particular, the general ban on *abuses* of dominant position is replaced, in the broadcasting sector, by a more demanding prohibition of “any act or behaviour having as its objective or as its effect the *creation* or the *maintenance* of a dominant position by a single subject including controlled or affiliated subjects”⁴.

In principle, a single subject may not receive terrestrial broadcasting licences that result into a higher than 20 per cent share of analogical networks or digital programmes, but derogations are possible. Moreover, a threshold of 30 per cent is envisaged for a single subject's share of the television sector's resources, including the public service fee and advertising revenues. Similar resource thresholds apply to the radio sector, as well as to cable and satellite television.

Further restrictions concern cross ownership between the television and the printed media sectors. Subjects participating in both sectors should not reach a global resource share higher than 20 per cent, computed on all possible revenue sources. Revenue shares are also imposed upon advertising concessionaires, in order to curb the sector's concentration degree.

Specific limitations are envisaged on the number of concessions for encrypted transmissions: in principle no subject may hold more than one national concession, but temporary exemptions from this rule are also allowed⁵.

AGCOM adopts the necessary measures for the elimination or prevention of dominant positions, or of positions which are in any way harmful to pluralism. An example is given by the AGCOM's decision to impose the switch from analogical to digital technologies on two private television stations (Rete 4 and Tele+), as well as to oblige RAI 3 (the third channel of the public television company) to hand over advertising revenues. However, this decision has not been enforced yet and the current deadline (December 2003) will probably be postponed once more. In fact, the above quoted concentration standards are not binding, if their violation stems from “the

³ Law 249/1997, art. 3 c.2.

⁴ Law 249/1997, art. 2.

⁵ Law 249/1997, art. 3 c. 11.

spontaneous development of the company which does not produce a dominant position or eliminate or compromise pluralism and competition”⁶. This clause has been used to justify AGCOM’s rather lenient stance on the current duopolistic concentration of the Italian television market.

A derogation from concentration standards is also envisaged in order to ease the setting up of a single platform for the digital satellite or cable transmissions and for encrypted analogue transmissions on terrestrial networks.

Technical standards may have an important impact on a market’s degree of competition and on consumer protection. An AGCOM ruling concerning the introduction of a single decoder for pay-TV transmissions was aimed at strengthening competition in this sector, by allowing consumers to switch more easily between alternative channels. However, before the ruling was actually implemented, the two incumbent competitors decided to merge.

Intellectual property protection

Intellectual property is protected through the SIAE (Italian Society of Authors and Editors), a collecting society that has been recognized as a public body since 1941 and redistributes among its associates the revenues generated by the sale of copyrights. Its jurisdiction applies also out of the national territory, thanks to agreements with similar bodies abroad.

In 1996 the protection granted by the SIAE has been explicitly extended to cable and satellite broadcasts, in compliance with the Directive 83/89 of the European Council.

As mentioned in section 2.1, a supervisory role in intellectual property protection has been assigned also to AGCOM, who must operate in co-ordination with the SIAE.

Notwithstanding the recent strengthening of this protection, Italy remains in the intellectual property “watch list” of the United States Trade Representative (USTR), because of the wide-spread use of counterfeited audiovisual products, as well as of the stickering obligations imposed to foreign owners in order to obtain protection (USTR, 2002).

Broadcasting quotas

In compliance with EU directives, the Italian authorities have introduced a series of rules, aimed at promoting the circulation of European (and national) works through television broadcasting.

The *Television without Frontiers* (TWF) Directive (89/552/EEC), amended in 1997 by the European Parliament and the Council Directive 97/36/EC, sets the basic rules for the functioning of the single market in the audio-visual sector, in order to ensure the free circulation of broadcasts and related services. The Community is assigned the task of co-ordinating national legislation in the following areas: law applicable to television broadcasts; promoting the production and distribution of European works and of works by independent producers; access of the public to major events; television advertising and sponsorship; protection of minors and public order; right of reply. Member States are not allowed to restrict the free circulation of European broadcasts for any reason falling in those areas. Moreover they are due to ensure that their citizens actually have access to socially relevant broadcasts and, in this respect, they have to notify the Commission about any measure concerning the exercise of exclusive broadcasting rights.

One of the most important and controversial measures of the TWF Directive is contained in its chapter III, which provides for a system of broadcasting quotas in order to promote the distribution and production of European television programmes. The majority of the transmission time of national broadcasting channels⁷ has to be reserved for European works⁸, and a quota of 10

⁶ Law 249/1997, art. 2 c. 9.

⁷ Excluding the time appointed to news, sports events, games, advertising, teletext services and teleshopping.

per cent of their transmission time (or 10 per cent of their programming budget) has to be assigned to European works made by producers who are independent of broadcasters⁹.

Since the Commission has only a co-ordination role in this field, Member States are free to impose on broadcasters subject to their jurisdiction other obligations for the same purpose, which are not intended to implement the TWF Directive, or are more detailed and stricter than those provisions required by the Directive. Examples of those additional measures include regulations on specific types of broadcast contents, such as quotas for educational programmes, language requirements (for the minorities), and investment quotas based on the nature of the programme, or in favour of independent producers¹⁰.

The law 223/1990 contained rules that implemented the European Directive 89/552 EEC. A quota of 51 per cent (40 per cent for the first three years of application) of the broadcasting time was reserved for European works. 50 per cent of that quota was assigned to films of original Italian expression and one fifth of the national quota was reserved for films produced in the last five years.

The adoption of a national quota went beyond what required by the TWF Directive. The law 122/1998 removed that quota and confirmed the obligation to reserve more than half of the total broadcasting time for European works, and at least half of the European quota for works produced in the last five years. In addition the law 122/1998 implemented the provision of the TWF Directive requiring a broadcasting quota of 10 per cent in favour of European works made by independent producers¹¹, and set that quota at 20 per cent for the public television company. Those shares have to be respected also during prime time.

An additional quota has been imposed upon satellite and digital television companies, that are obliged to reserve 20 minutes each week for the promotion and publicity of European works¹². On the contrary, local television companies are exempted from broadcasting quotas, and thematic channels may ask for a derogation.

Monitoring of the rules concerning the promotion of European works is carried out by AGCOM, by means of a complex system of controls administered with the help of external experts and specialized firms. However there are several degrees of flexibility in the application of the rules and no specific sanction is envisaged for television companies that do not comply with broadcasting quotas.

Investment quotas

The above quoted Law 122/98, implementing the new TSF Directive, has established an 'investment quota' on the advertising revenues of broadcasting companies: no less than 10 per cent of the advertising revenues of broadcasting companies must be reserved for the purchase or the production of European audiovisual works, including productions for the children and works made by independent producers. No less than 40 per cent of that quota should be reserved for films.

⁸ As defined by article 6 of the TWF Directive.

⁹ The Commission has launched a public consultation aimed at reviewing the functioning of the TWF Directive, in order to adapt it to current technological and economic changes.

¹⁰ A detailed comparative study of the measures adopted by the Member States and the EEA States in order to incorporate Chapter III of the TWF Directive into their legal systems, as well as of any additional measures introduced for promoting television programmes, has been conducted by Pertzidou (2001) on behalf of the European Commission.

¹¹ According to the Italian legislation (Law 122/1998), a producer can be considered as "independent" when the production company is not controlled by, or affiliated to, holders of concession, licence or authorisation for television broadcasting or, the production company does not supply, for a period of three years, 90 per cent or more of its own production to only one broadcaster.

¹² See AGCOM Decisions n. 127/00/CONS and 435/01/CONS.

A further investment quota has been imposed upon the public television company, in the form of a minimum share of the revenues generated by the public service subscription fee. That share has been set at 20% in the 1999 service contract, and has to be reserved for the production of European works, including those made by independent producers. Part of this share should accrue to the production of children cartoons.

According to Messerlin and Cocq (1999) investment quotas may be seen as a compensation for the monopoly rents granted to certain broadcasters, which reveals the true nature of those monopoly rents: a tax on TV-viewers in order to finance film production.

Rules of origin and international co-productions

Public support to the film industry depends in each country on the nationality of a film, as quotas, subsidies and other protective measures are reserved for national films and films assimilated to national films.

In Italy subsidies are targeted to national films, whilst quotas and other regulations usually refer to European works, and the definition of 'European' varies with the type of measure.

Moreover, provided that certain conditions hold, international co-productions can be assimilated to national films and are eligible for subsidies. This preferential treatment is protected by a specific exemption from the most-favoured-nation principle, which has been tabled by the European Communities in the GATS.

The co-production agreement with France allows for 'financial co-productions', i.e. joint-ventures without any requirement concerning the nationality of technical and artistic contributions. They are eligible for support measures in both countries, subject to a reciprocity clause, which requires a matching between French and Italian majority co-productions.

Other regulations

General rules concerning the contents of television programmes are set by AGCOM and some of them are embedded in the conditions for the assignment of broadcasting concessions. They refer to issues such as programmes quality, protection of minors, advertising, information duties, right of reply etc.. AGCOM administers rules fostering equal access to the media and political pluralism. Further regulations concern the public service obligations, and particularly access of the public to major events.

Some important restrictions are associated to the so-called *release windows*. New films cannot be broadcast by television companies for the first 24 months since their first theatrical release. This period is reduced to 12 months for films which are at least 20 per cent co-produced by the TV channel, as well as for pay-TV's, and to 8 months for the release of video-cassettes.

2.3 Subsidies

Subsidies to the cinema industry are financed through a national fund, which is called *Fondo Unico per lo Spettacolo* (FUS), and covers also music, opera, dance, theatre and other performing arts. The FUS was established in 1985¹³, but subsidies to the cinema industry had been granted since the Thirties¹⁴ and the foundations of the current system were laid down in 1965¹⁵.

¹³ Law 163.

¹⁴ The automatic funding system was established in 1938.

¹⁵ Law 1263.

Cinema absorbs approximately 19 per cent of the total allocation to the FUS, which amounts to about 450 million euro yearly. The 15 per cent of this sum is assigned to the public body that carries out direct production and distribution activities (Cinecittà Holding, see section 2.4 below). The FUS subsidises the production, distribution and export of films, as well as the related technical industries.

The FUS draws its resources mainly from the public budget, although a significant share (8 per cent, which is however one of the lowest in Europe) comes also from a specific tax on the sale of cinema tickets (see below, under ‘automatic funding’) and a levy on blank cassettes has recently been devised.

The two main forms of film subsidies, namely automatic and selective funding, are both present in the Italian system of support. The first one, being based on box-office revenues, can be considered as a tool for sustaining the economic performance of the cinema industry. On the other hand, selective subsidies are usually more explicitly targeted to cultural aims.

This duality of targets can be traced even in the organization of the funding system and in the procedures that have to be followed in order to obtain the subsidies. Two different commissions assist the Ministry of Cultural Heritage and Activities in allocating the funds: the Consultative Film Commission selects films that deserve support for cultural reasons, while the Film Loan Commission evaluates the financial soundness of production projects.

There are three main types of financial support - grants, subsidised loans and public guarantee - with several variants:

a) *grants*:

- *automatic funding*: a system of grants to film producers, based on box office revenues and financed with a levy on the ticket price; it is aimed at reinforcing the economic performance of the cinema industry, by relating the amount of the subsidy to the success of the films; in principle¹⁶, these grants must be reinvested within two years in the production of new movies;
- *quality award*: an *ex-post* subsidy granted to a maximum of 20 full-length films; it is the only kind of support which is also available for short films;
- the special fund for the strengthening and development of cinematographic activities (art. 45):
 - subsidies to film industry events, public institutions, professional associations, and European initiatives;
 - conservation of archives and publications;
 - screenplay awards.

b) *subsidised loans*:

- soft loans based on the FUS and offered through the “Film and Theatre Loans Section” of the BNL¹⁷:
 - project credit from the intervention fund; criteria of application refer to the number of films already made by the same producer, and the proportion of filming which is carried out in Italy and/or EU;
 - credit from the intervention fund for companies facing financial problems; this type of credit is offered also to the exploitation sector;
 - credit from the intervention fund for the distribution and export of a film, provided it has already obtained a credit for production;
 - specific fund for films produced with a minimum 30 per cent financial participation of the filming team;
- interest grants (up to 6 per cent) on ordinary loans received by banks, including those awarded by the BNL in addition to the FUS loans; they refer to the production of Italian films, but also to international co-productions, as well as to the restructuring of cinema theatres;

¹⁶ If the amount does not allow new productions, grants can be used to redeem loans.

¹⁷ In principle since 1998 banks other than BNL can also manage the FUS loans.

- c) a *guarantee fund* to cover the loans with the BNL was created in 1994 and is considered one of the most important support tools for the Italian cinema. It is reserved for films that have been defined of “national cultural interest”, and can be used when box-office receipts are not sufficient to repay the loans. It covers up to 70 per cent of the total loan.

A peculiar feature of the Italian system is the strong predominance of loans (87 per cent of the total). Spain, for example, uses mainly grants, while the United Kingdom prefers public/private co-productions (CNC and EAO, 1999).

Some selective subsidies are explicitly, although perhaps vaguely, targeted at cultural objectives. This is certainly true for the quality awards, but also for subsidised loans, and namely for the ‘specific fund’.

With the exception of a few instruments, such as the credit for consolidating firms with financial problems, the subsidies are targeted to cinematographic works, rather than to companies¹⁸. The production sector is the main beneficiary, with minor amounts going to distribution, exports and exploitation. The share of pre-production activities was less than 1 per cent in 1995, one of the lowest in the EU (the maximum was reached in Luxembourg, 16 per cent).

Italy is one of the few countries that provide no subsidies for the production of television programmes. Only the ordinary credit awarded by the BNL, which is not based on the FUS, applies also to television films, which therefore can benefit only from interest grants.

On the other hand, the television industry contributes in various ways to the support of the cinema industry, for example through its purchases from independent producers, pre-production agreements, co-productions, sometimes in compliance with investment quotas (see above). Since this is particularly true for the public television company, it can be considered as an indirect form of subsidisation.

A wide range of *fiscal incentives* has also been devised in order to support the Italian cinema, although some of them have not been fully implemented. They include a tax shelter on reinvested profits, rebates on box-office taxes, and tax allowances for the purchase or the restructuring of cinema theatres, as well as for facilitating the transition from analogical to digital terrestrial broadcasting.

An indirect form of support is also provided by *production and post-production services* made available by Cinecittà Studios to private firms at rates lower than market prices.

In addition, Italian producers can benefit from *European support programmes*, such as MEDIA, Eureka Audiovisual and Eurimages.

2.4 Public ownership and participation

The audiovisual sector in Italy is characterised by a strong direct presence of the State in both the television and the cinema branches.

The public television company (RAI) is still one of the two dominant players in this sector. It is responsible for the general public service obligations envisaged by its concession, which justify their rewarding through a compulsory fee. However, it holds also a strong presence in the advertising market. Besides its radio and television channels, RAI plays also an important role in the cinema sector, producing and distributing films.

A public cinema sector has been existing for many decades in Italy. The main agency is now called *Cinecittà Holding*, and was founded in 1958 under the denomination of *Ente Autonomo di Gestione per il Cinema*. It is controlled by the Ministry for Cultural Heritage and Activities. Cinecittà Holding incorporates the Istituto Luce and controls Cinecittà Studios and Italia Cinema.

¹⁸ However companies can obviously benefit from general support policies, e.g. for SMEs.

The *Istituto Luce* carries out production and distribution activities, also using its chain of cinema theatres. Its activities are concentrated on 'experimental' films, whether Italian or foreign. Its intervention in the production activity must be carried out together with the private sector. The public participation amounts to 30-50 per cent of the total production budget, and to 50-100 per cent of distribution costs. It owns important photographic and cinematographic archives.

Cinecittà Studios is one of the largest production studios in Europe, offering a wide range of intermediate services for the cinema industry. A privatization scheme for this agency has been approved but not implemented.

Italia Cinema is an agency for the promotion of the Italian cinema and audiovisual industry, aimed at fostering its performance, particularly on foreign markets, where it interacts with the Italian Trade Commission.

Public institutions, such as the *Scuola Nazionale per il Cinema*, play an important role also in training and educational services for the audiovisual sector.

3. The trade restrictiveness of Italian audiovisual policies

Whatever their effectiveness in achieving their cultural targets, national audiovisual policies can affect international trade and investment flows by sustaining artificially the competitiveness of domestic producers and limiting competition from foreign sources.

The Uruguay Round of trade negotiations was characterised by a hard confrontation between the United States, who asked for a complete liberalisation of trade in audiovisual services, and the European Community, backed by other important member countries, who wanted to preserve their autonomy in carrying out protective audiovisual policies. The final compromise included the audiovisual sector in the GATS framework, leaving aside the proposals for a 'cultural exemption', but allowed the European Community and its member countries to undertake no market access and national treatment commitments in this sector (Falkenberg, 1995).

The lack of a GATS schedule of specific commitments for audiovisual services does not allow to use the method proposed by Hoekman (1996) in order to measure 'tariff equivalents' of barriers to trade in services. A simple alternative is offered by the approach of the 'trade restrictiveness indexes', used in Australia by the Productivity Commission for several services sectors (Hardin and Holmes, 1997; Kalirajan, 2000; Nguyen-Hong, 2000). The distinctive feature of this method is that it can be used even when reliable price and quantity data on trade and investment flows are not available, as in our case.

In this section we try to assess the restrictive impact of Italian policies on trade in audiovisual services, building a simple variant of the trade restrictiveness index. Following the GATS approach, the term 'trade' refers to all the four modes of international delivery of services, including the so-called 'commercial presence', which implies foreign direct investment.

Starting from the set of audiovisual policy tools described in section 2, we have chosen those measures that appear able to generate restrictive effects on market access. We have grouped them into two categories, barriers to establishment and barriers to ongoing operations. The former includes measures that can affect the decision of a new domestic or foreign firm to enter the Italian audiovisual market. With reference to the GATS classification of trade in services by mode of supply, they could be defined as restrictions to commercial presence (mode 3). In the latter category we have placed measures that can influence the behaviour of already established firms, independently of their mode of supply.

Both categories contain measures that do not discriminate between domestic and foreign producers, as well as measures that are not consistent with the criteria of national treatment or most-favoured-nation treatment.

Each measure will receive a score, ranging from 0 to 1, proportional to our subjective assessment of its restrictive effects on business behaviour. The scores will be differentiated between

domestic, European and non-European producers, in order to take into account the possible discriminatory nature of each measure. Three aggregate trade restrictiveness indexes will then be built by computing the weighted averages of the scores obtained by the measures referred to each category of producers. The weights used are based on our subjective evaluation of the relative importance of each measure in the Italian audiovisual market. The differences between the three aggregate indexes measure the degree of protection of domestic producers with respect to foreign competition.

Table 1 lists the measures we have selected and their weight in the construction of the indexes¹⁹.

Table 2 shows our assessment of Italian audiovisual policies, based on a set of assumptions and arguments, which are to some extent arbitrary and will now be discussed.

The presence of public-owned enterprises in the production of audiovisual services is included in the list of barriers to establishment, because it implies distortions in competitive behaviours, reducing the size of the markets than can be contested by private firms. In Italy the coexistence of private and public companies in both the television and the film markets accounts for the score of 0.5 recorded under 'public ownership'.

Restrictions on the absolute number of licences for television broadcasting are a consequence of the limited availability of frequencies on the radio spectrum. They are defined in the national plan for frequency assignment and in the regulations concerning limits to concentration, where they appear in the form of a maximum share of programmes which can be licensed to a single subject.

On the other hand, restrictions on the concentration of resources such as advertising and public fee revenues can play an important role in preventing the emergence of dominant positions and in facilitating market access for new entrants. In this case, therefore, the trade restrictiveness score is given by the maximum share of television resources that can be controlled by a single company (30 per cent). This score underestimates the actual degree of concentration, because it neglects the fact that resource limits are currently not enforced, as a result of several derogations included in the rulings, as well as of questionable decisions of AGCOM.

A similar role could be played at first sight by restrictions on cross ownership, which are expressed as well in terms of resource shares. However in this case the main effect of the restriction lies in limiting the possibility of media publishers to enter the broadcasting market (and vice versa). This explains why we have chosen to consider the presence of this measure as trade restrictive.

Limitations to foreign partnership apply only to non-European producers, who cannot acquire the control of an Italian television company, unless there is an agreement granting reciprocity in favour of Italian investors.

Most of the barriers we have included among the restrictions on ongoing operations have also a discriminatory character. The one exception is intellectual property protection. We have assumed that a weaker enforcement of intellectual property rights represents a barrier to the growth of transactions in audiovisual services. Anecdotal evidence points to a high share of counterfeited products circulated in Italy, which has a non-discriminatory negative effect on the development of the sector. Moreover, following Kalirajan 2000, we have also assumed that the presence of Italy in the United States Trade Representative (USTR) intellectual property *watch list* confirms the existence of problems in the protection of intellectual property (USTR, 2002). Since these problems relate to the obligation to apply to the Italian collecting society (SIAE) in order to obtain protection, and hurt particularly foreign producers, we have differentiated our scores according to the nationality of producers.

Broadcast and investment quotas, based on the *Television without Frontiers* Directive, have clear discriminatory effects against non-European producers, which are proportional to the level of

¹⁹ Unlike the papers of the Productivity Commission, we use the same set of weights for the domestic and the foreign indexes, so that the sum of weights is equal to 1 in both cases. Given the presence of discriminatory measures, the foreign index will anyhow result higher than the domestic one.

the quotas. Investment quotas have been judged as more important than broadcasting quotas, as they affect the growth prospects of television companies.

Table 1 – **Specific scores and weights used for the trade restrictiveness index**

<i>Restriction categories</i>	<i>Specific scores</i>	<i>Weights</i>
Barriers to establishment		
Public ownership:		0.10
– absent	0	
– competition between private and public producers	0.5	
– public monopoly	1	
Number of licences:		0.12
– No restriction	0	
– Some form of control on licences	0.5	
– Limit in the number of licences	1	
Concentration of resources	equal to the concentration threshold	0.08
Restrictions on cross-ownership		0.08
– no restriction	0	
– some limitations on cross ownership	0.5	
– cross ownership forbidden	1	
Foreign ownership/investment		0.12
– domestic producers	0	
– foreign producers	equal to the allowable share of foreign capital	
Barriers to ongoing operations		
Intellectual property protection		0.10
– absent from USTR lists	0	
– present in the USTR watch list	0.5	
– present in the USTR priority watch list	1	
Broadcasting quotas	equal to the quota	0.10
Investment quotas	equal to the quota	0.15
Subsidies, fiscal incentives and indirect support	equal to the ratio between subsidies and production costs	0.15
Total		1.00

Direct and indirect subsidies affect international trade in services by giving an artificial competitive advantage to domestic film producers. Our measure of their trade restrictive effect is given by the ratio between the total value of subsidies to the cinema industry and the total costs of production for Italian films (around 40 per cent on average in the last years). However European producers have some possibility of accessing the subsidies, provided they enter into co-production agreements with Italian firms. The share of co-produced films on the total number of films produced in Italy has been on average 20 per cent in the last four years. We have reduced accordingly the score given to subsidies in the index for European producers.

Table 2 – Trade restrictiveness index of Italian audiovisual policies

<i>Restriction categories</i>	<i>Domestic</i>	<i>European</i>	<i>Non-European</i>	<i>Weights</i>
Barriers to establishment				
Public ownership	0.5	0.5	0.5	0.10
Number of licences	1	1	1	0.12
Concentration of resources	0.3	0.3	0.3	0.08
Restrictions on cross-ownership	0.5	0.5	0.5	0.08
Foreign ownership/investment	0	0	0.5	0.12
Barriers to ongoing operations				
Intellectual property protection	0.25	0.5	0.5	0.10
Broadcasting quotas	0	0	0.51	0.10
Investment quotas	0	0	0.1	0.15
Subsidies, fiscal incentives and indirect support	0	0.32	0.4	0.15
Total	0.259	0.332	0.47	1.00

The total results of table 2 show clearly a strong protective effect of Italian audiovisual policies against foreign – and particularly non-European – competition, as measured by the differences among the three trade restrictiveness indexes. However, they must be used with caution, given the huge amount of subjective assumptions incorporated in the choice of policy instruments, as well as in the assignment of scores and weights.

In order to better assess these results, we should compare the Italian audiovisual sector to other countries and/or sectors, which is not yet possible at this stage of our research. However some preliminary insights can be drawn from the estimates published by Hardin and Holmes (1997), who measure the foreign direct investment restrictiveness of audiovisual policies in 15 APEC countries. The simple average of their indexes is equal to 0.43, ranging from 0.18 for the United States to 1 for China, but the average falls to 0.298 considering only Australia, Canada, Japan, New Zealand and the United States.

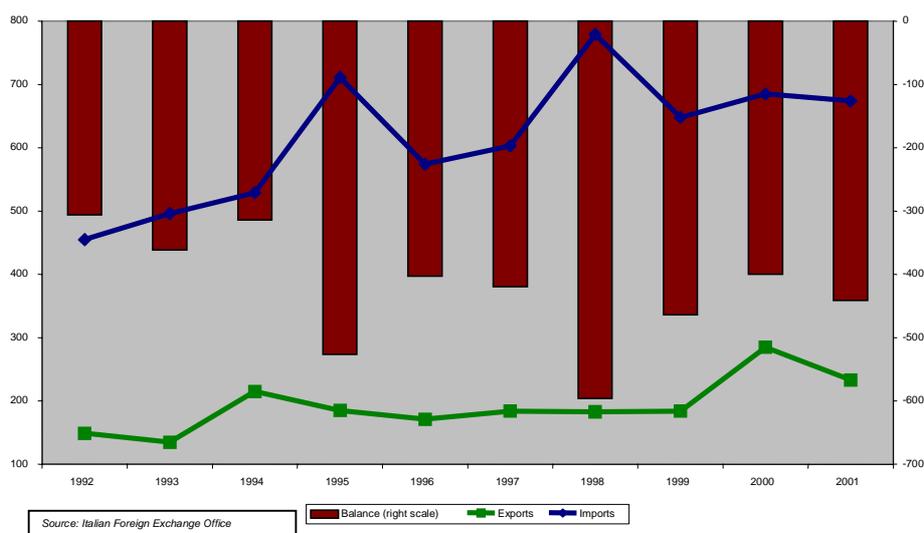
Further research is needed in order to refine the index, to explore its sensitivity to changes in the assumptions, as well as to perform reliable international comparisons.

4. The international performance of the Italian audiovisual industry

Balance-of-payments data on trade in services, although giving only a partial view of international transactions, are a useful starting point to analyze a country's external performance in the audiovisual sector.

Italy's trade in audiovisual services has been strongly unbalanced in the last decade, with exports covering less than one third of imports on average (figure 1). The size of the disequilibrium has remained quite stable, as both flows have been growing at similar rates (4,6 and 4 per cent respectively for exports and imports between 1992 and 2001 in current euros).

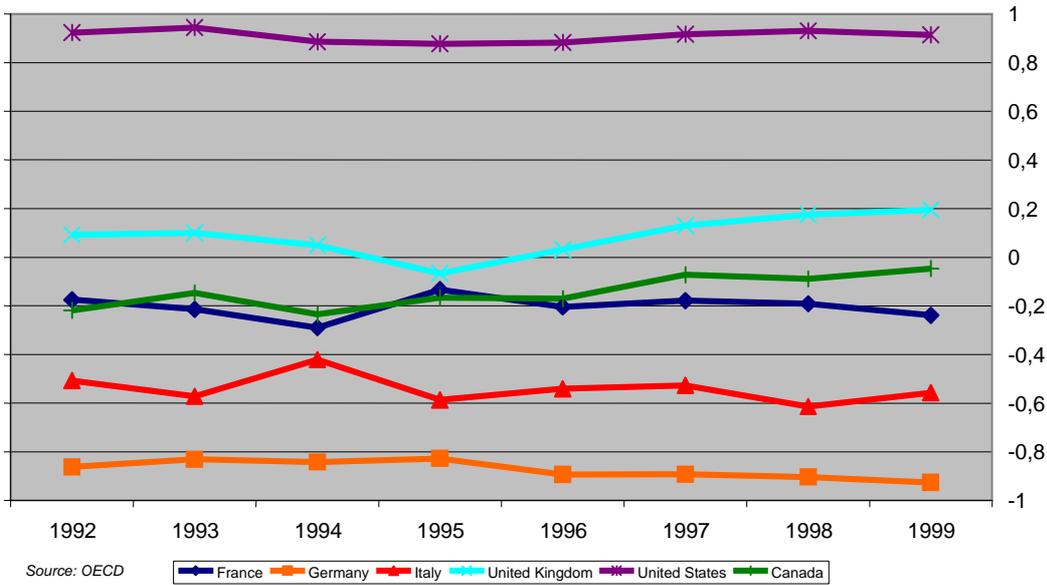
Fig. 1- Italy's trade in audiovisual services (million euro)



International comparisons are possible only for the 1992-1999 period, thanks to the OECD Trade in Services database. A simple measure of the trade balance which is not distorted by differences in country size can be obtained through dividing the difference between exports and imports by their sum. The resulting *normalized* trade balance (NTB) ranges between -1 (no exports) and +1 (no imports) and allows unbiased comparisons across countries, sectors and periods. Italy's NTB in audiovisual services was -0,54 on average in the 1992-99 period, and displayed a moderately decreasing trend, especially after 1994²⁰. Figure 2 compares the NTBs of the largest OECD countries (in terms of exports plus imports) and shows that their ranking did not change in the nineties. The US are characterised by a very high positive NTB, whilst almost all European countries exhibit strong negative imbalances, with the partial exception of the United Kingdom, whose NTB has been rapidly improving in the second half of the nineties. Italy ranks weakly even among European countries, although the lowest NTB belongs to Germany.

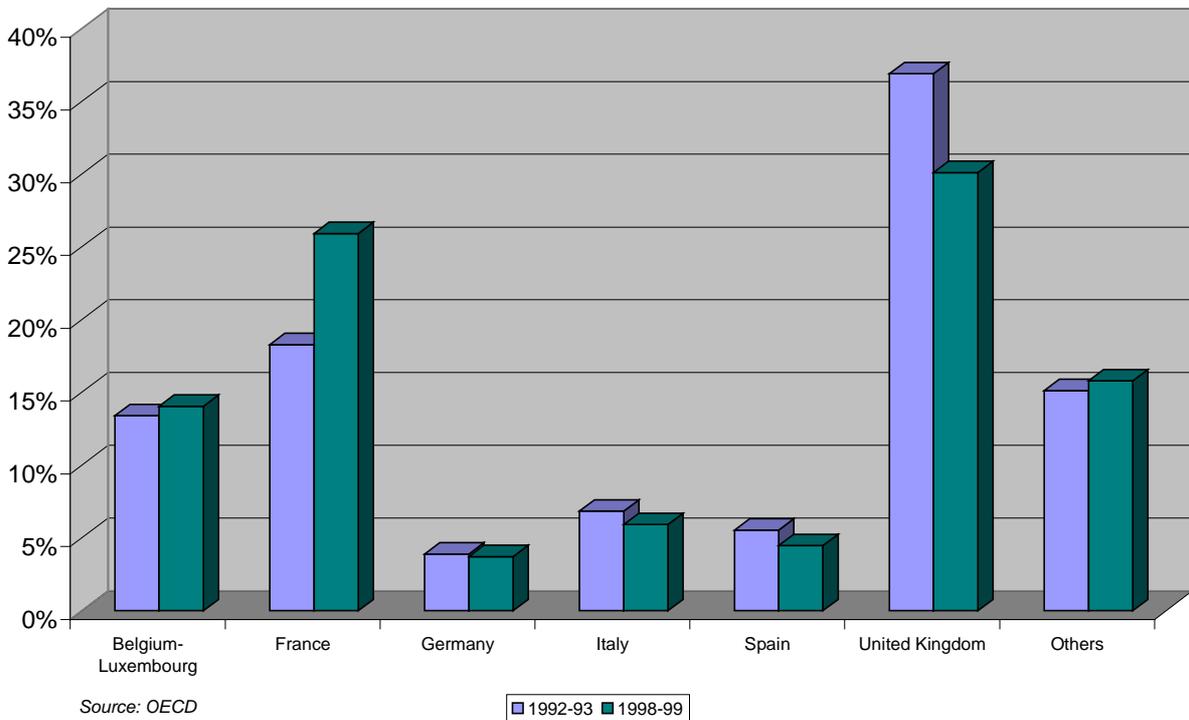
²⁰ However data for 2000 and 2001, which are available only for Italy, show better results: the NTB was respectively -41 and -49 per cent.

Fig. 2 - Audiovisual services - Normalized trade balances



The OECD Trade in Services database can also be used for analyzing export performances in the audiovisual sector. Figure 3 shows the distribution of European Union's (EU) audiovisual exports by country of origin, which is dominated by the United Kingdom and France. The last decade has been characterised by a huge increase in the French share of EU exports, largely at the expense of the United Kingdom. Italy's comparative disadvantage in this sector is confirmed by the low level of its share, which moreover decreased during the nineties.

Fig. 3 - Shares of European Union's audiovisual exports



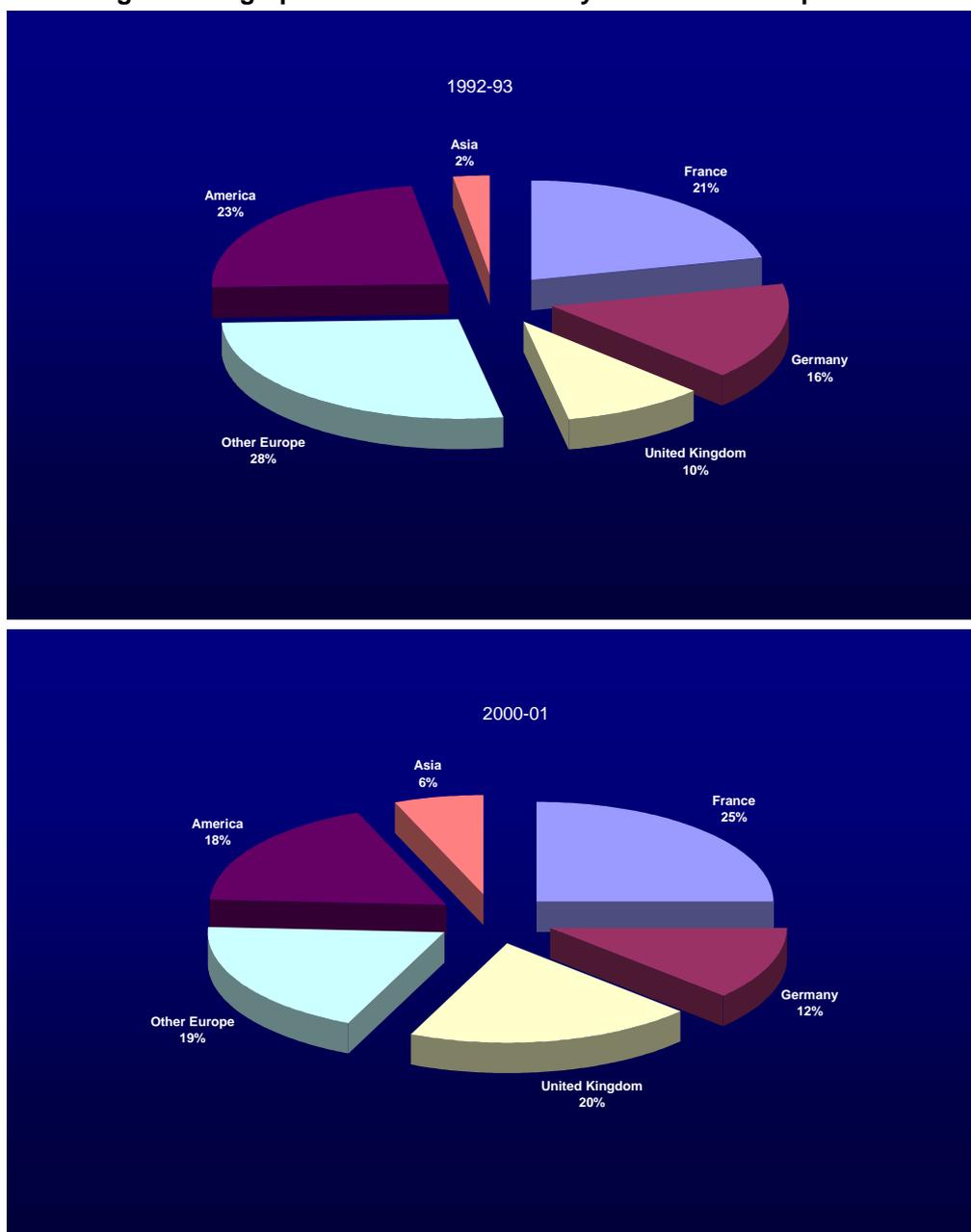
However export performance was generally weak in all EU countries: the average annual growth rate of EU exports from 1992 to 1999 was about 1 per cent, which compares with 15 per

cent for the United States and 17 per cent for Canada (in current dollars). Even French exports, whose relative share in the EU increased considerably, grew at an annual rate of less than 4 per cent.

Italy's trade deficit in audiovisual services is the result of negative balances with both other European countries and the United States. However the bilateral NTB with Europe improved from -51 per cent in 1992-93 to -32 per cent in 2000-01, whilst the NTB with the United States fell from -62 per cent to -71 per cent in the same period.

Figure 4 shows the geographical distribution of Italian audiovisual exports in 1992-93 and in 2000-01. The overall share of European countries remained stable at about 75 per cent, but single countries' weights changed considerably, with an increase in the importance of France and the United Kingdom, offset by a fall of Germany and other European countries. Among the other areas, the share of Asia increased at the expense of America.

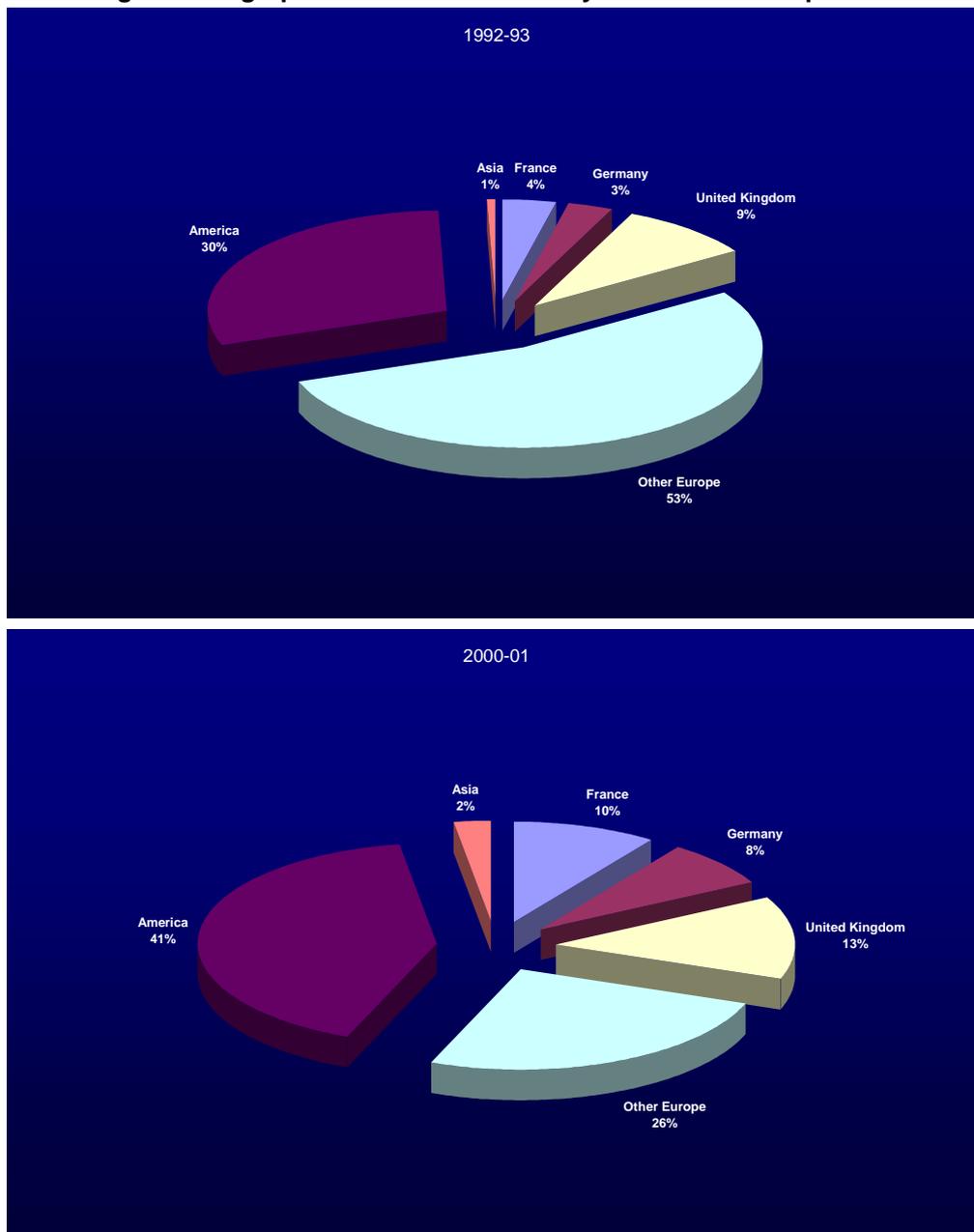
Fig. 4 – Geographical distribution of Italy's audiovisual exports



Source: Italian Foreign Exchange Office

More intense changes affected the geographical distribution of Italy's audiovisual imports (figure 5). The market share of European countries shrank sharply during the nineties, to the advantage of America. However, this reduction did not hurt the major EU countries, whose position on the contrary strengthened, but was entirely borne by other countries and particularly by Malta, whose market share fell from 33 per cent in 1992-93 to less than 1 per cent in 2000-01.

Fig. 5 – Geographical distribution of Italy's audiovisual imports

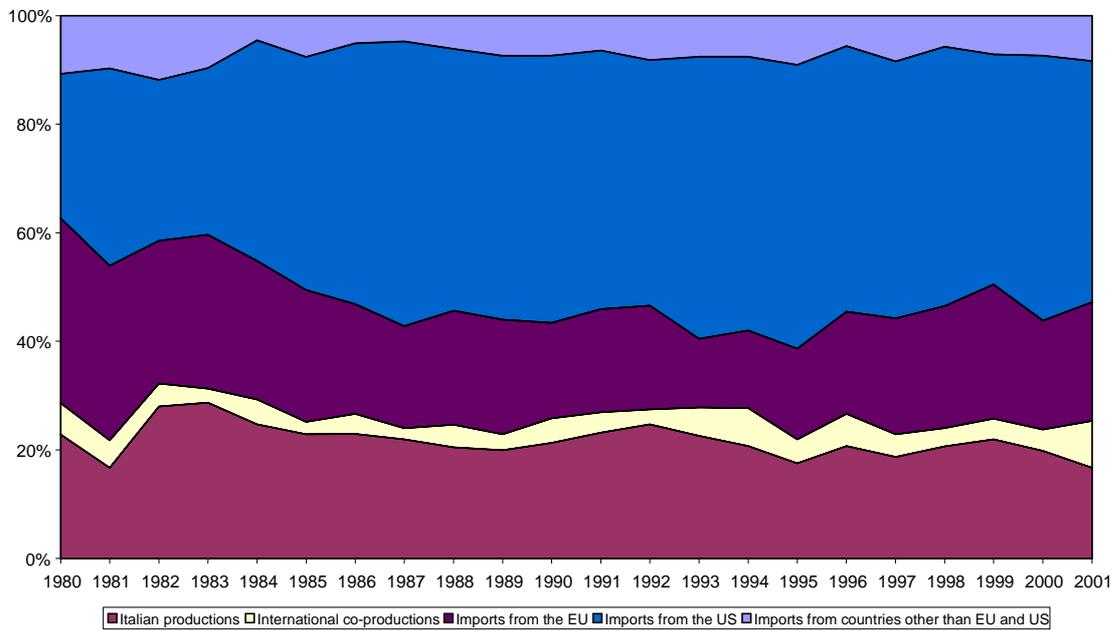


Source: Italian Foreign Exchange Office

Limiting the analysis to the cinema sector, a longer term perspective on the international performance of the Italian industry can be obtained through data on the domestic market. Figure 6 shows the distribution of the number of films released in Italy according to their origin from 1980 to 2001. Although the share of Italian products (including international co-productions) remained quite stable around 26 per cent all over the period, important changes emerged in the country distribution of imports, with the market share of the United States rising from 27 to 52 per cent in the first part

of the eighties, mainly at the expense of European Union films. However, in the second half of the nineties a partial reversal emerged and the EU share rose from 13 to 22 per cent.

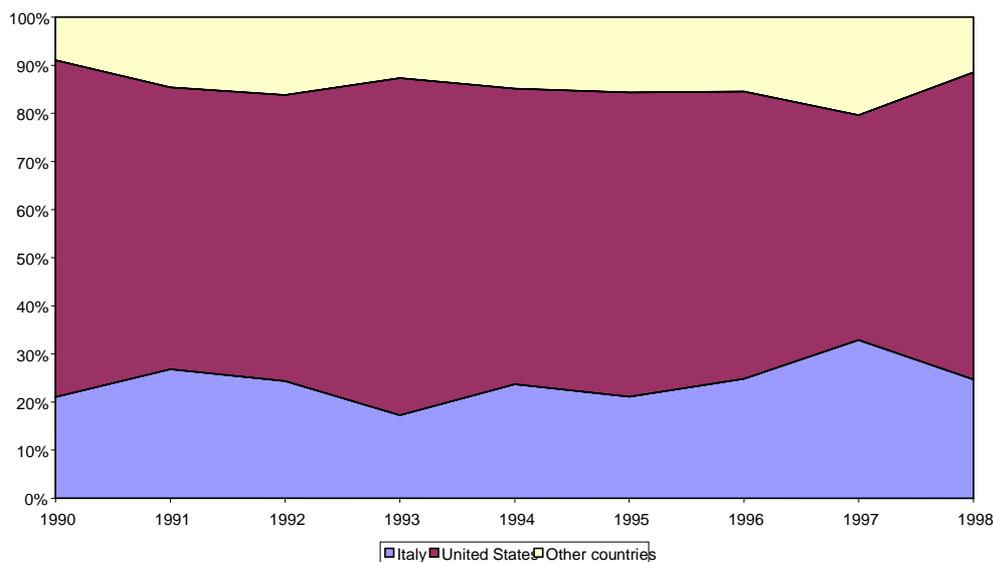
Fig. 6 - Number of films produced and imported in Italy



Source: ANICA

Shares computed on the number of released films are however a very rough indicator of the economic weight of cinema producers. A different picture is given by data on gross receipts, which is unfortunately available only for the 1990-98 period and refer only to films produced in Italy, in the United States, and in the rest of the world, taken as a unique source. Figure 7 shows that market shares based on gross receipts remained quite stable over the nineties. More precisely, a slight decline of the US share in the 1993-97 period was reversed in 1998²¹.

Fig. 7 - Shares of gross receipts in the Italian cinema market by country of origin of the films



Source: SIAE

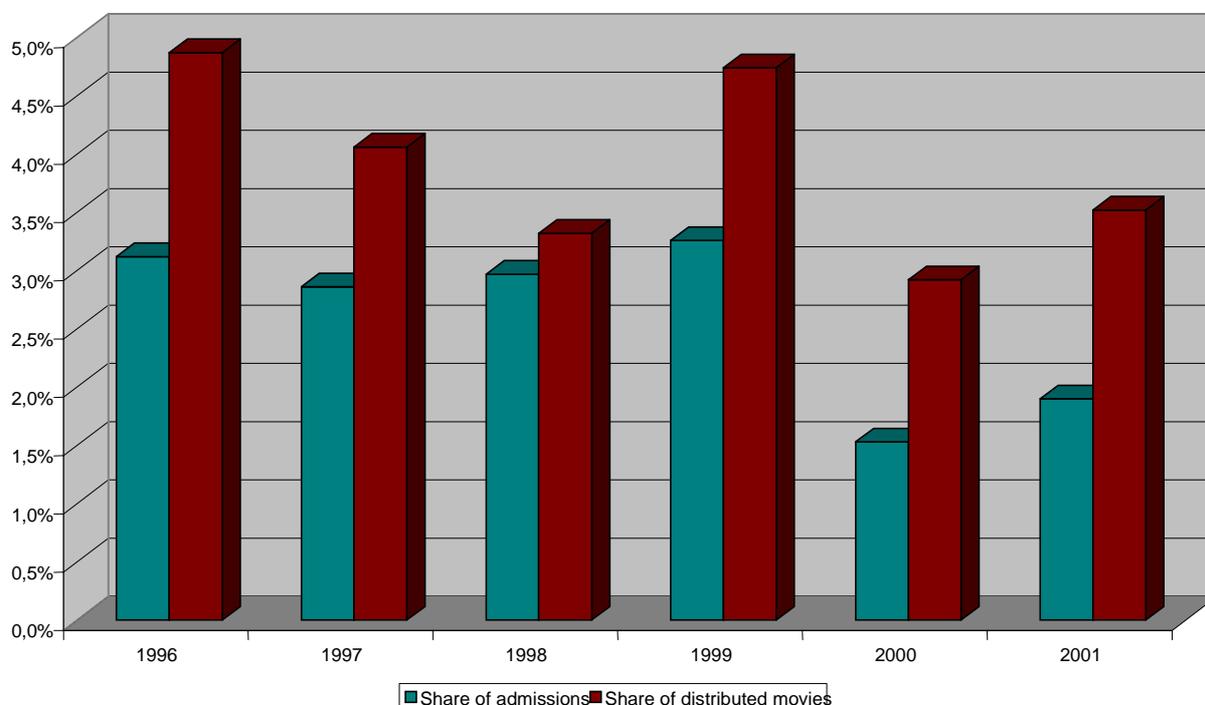
²¹ SIAE (Società Italiana degli Autori ed Editori) data on gross receipts is drawn from Bodo (2001, p. 8). Year-by-year changes are strongly influenced by the performance of single 'blockbusters', such as *Titanic* in 1998.

Comparing figures 6 and 7 shows that the US share is much higher when measured on receipts than on the number of movies, which confirms that US movies are on average more successful than their competitors.

A better understanding of the Italian cinema's performance in Europe can be obtained through the data on admissions, which are regularly collected by the European Audiovisual Observatory in the Lumière database. The data concern the number of admissions to each film, classified by country of production and distribution, from 1996 to 2001.

Figure 8 shows the performance of Italian films on the European market as measured on the supply side by their share of distributed movies, and on the demand side by their share of admissions²². With respect to their average level in the second half of the nineties, both shares fell sharply in the year 2000, but experienced a slight upturn in 2001. The demand share is systematically lower than the supply share, showing that the number of admissions per film is lower than the average on the European market. This result is mainly due to the performance of US movies, whose demand share is 60% higher than their share of supply.

Fig. 8 - Performance of Italian films on the European market

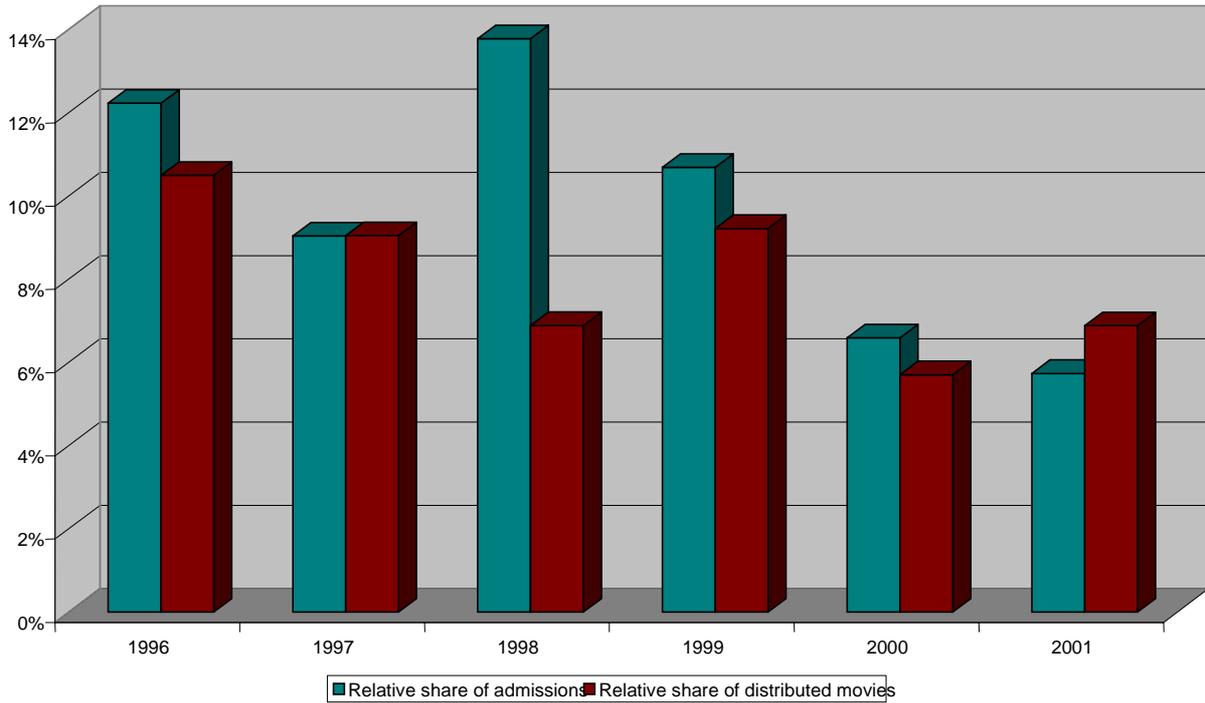


Source: Lumière – European Audiovisual Observatory

Limiting the comparison to European producers, figure 9 confirms the declining trend in the performance of the Italian cinema, which is not reversed by the 2001 data, at least in terms of admissions. However the demand share is generally higher than the share of supply. The coverage ratio between the two shares was 1,2 in the 1996-2001 period, lower than in the United Kingdom and in Germany, but higher than in Spain and in France (figure 10).

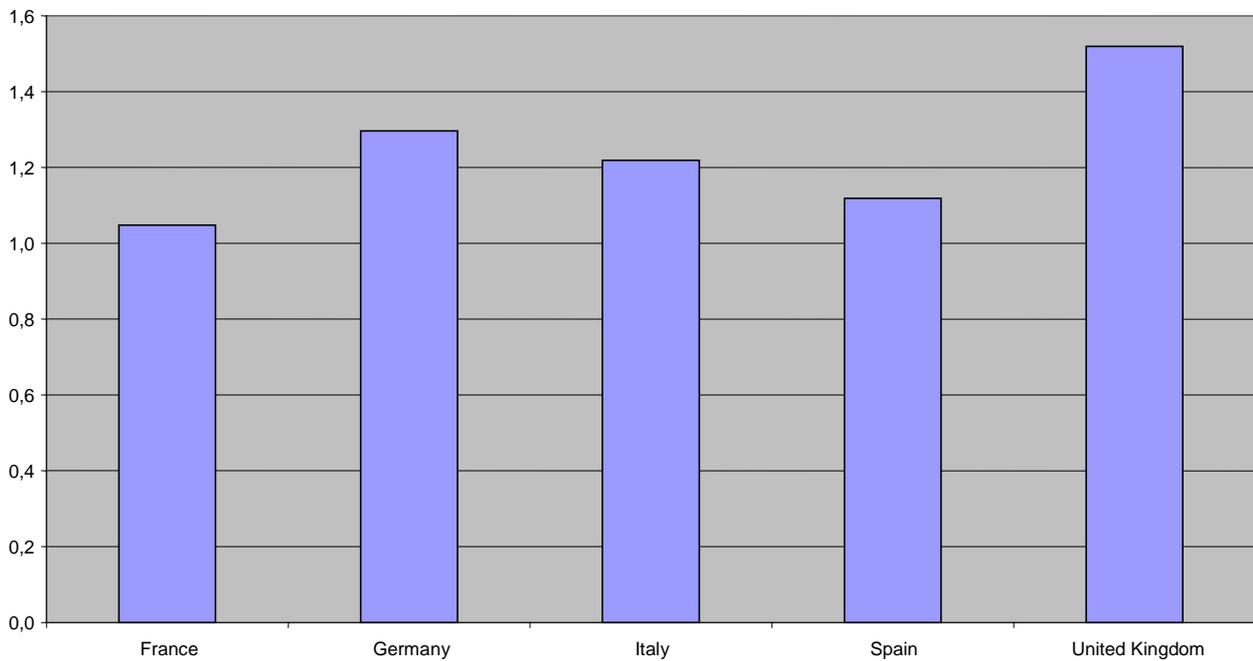
²² Unfortunately the coverage ratio of the Lumière database for the Italian market is sharply lower than for the other major markets (European Audiovisual Observatory, 2000, p. 1). Other things being equal, this coverage gap implies an undervaluation of Italy's share of admissions, since it reduces the relative weight of the domestic market, where Italy's share is obviously higher than elsewhere.

Fig. 9 - Relative performance of Italian films with respect to European films on the European market



Source: Lumière – European Audiovisual Observatory

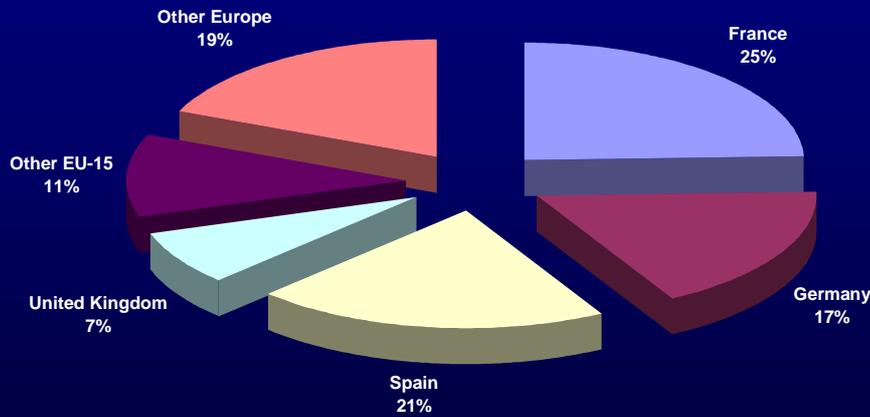
Fig. 10 - Coverage ratio between demand and supply relative shares of the European market (average 1996-2001)



Source: Lumière – European Audiovisual Observatory

The Lumière database can also be used to see the country distribution of the European demand for Italian films. Three quarters of the European admissions to Italian films in 1996-2001 were recorded in Italy. Excluding the national market, figure 11 shows that admission shares were higher in countries such as France and Spain, whose linguistic and cultural links with Italy are tighter than those of other European countries.

Fig. 11 - Admission to Italian films in other European countries (1996-2001)



Source: Lumière – European Audiovisual Observatory

5. Subsidies and the domestic market share of Italian film producers: an empirical analysis

In this section we will present an econometric exercise about the effects of subsidies granted to the Italian cinema on its trade performance, as measured by its share of the domestic market in the 1985-2001 period. Problems of data availability do not allow us to carry out the analysis also on foreign markets. Moreover, we are not trying to build a comprehensive model explaining the performance of Italian films on their domestic market, but we are only interested in verifying statistically the existence of a relation between the intensity of subsidies and the domestic market share of the Italian cinema, leaving aside any other factor that could influence such performance.

The underlying simple idea is that, other things being equal, an increase in the intensity of the public financial support to the cinema industry could lead film producers to increase their supply and strengthen their competitive position, at least on the domestic market.

The market share is obtained through dividing the number of Italian films produced with national capital by the total number of films distributed in Italy (national, co-produced and imported). The lack of adequately long time series does not allow to perform the analysis on the share of admissions and/or box-office receipts. We have also tried to include co-produced films in the numerator of the share, but the results have been less satisfactory, pointing perhaps to a stronger influence of external factors on the decision to co-produce a film. The data are drawn from the ANICA (the national association of film producers) database (ANICA, 2002), and are the same which have been used for the descriptive analysis of the previous section.

The average subsidy rate is measured roughly by the ratio between the total value of cinema subsidies (including the expense for the public bodies, such as Cinecittà Holding, intervening directly in film production and distribution) and the total production costs of films produced in

Italy, both expressed at current prices. Data on subsidies have been downloaded from the Fondo Unico per lo Spettacolo (FUS) statistics, available on the website of the Italian Ministry for Cultural Heritage and Activities²³. Data on production costs are drawn from ANICA (2002).

The analysis is conducted using the recent methodology of the Error Correction Mechanism model (ECM), which allows to capture the short and long run behaviour of the variables. The signs and the values of the estimated coefficients will explain how the domestic market share responds to changes in the subsidy rate, for the 1985-2001 period.

In Figures 12 and 13 we graph the two variables: the domestic market share and the subsidy rate respectively.

Fig. 12 – Domestic market share (DMS) of Italian films

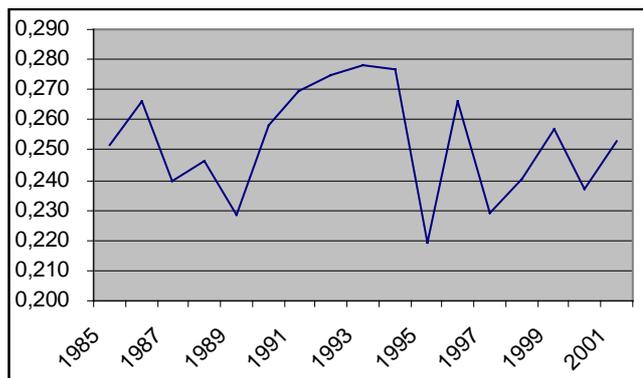
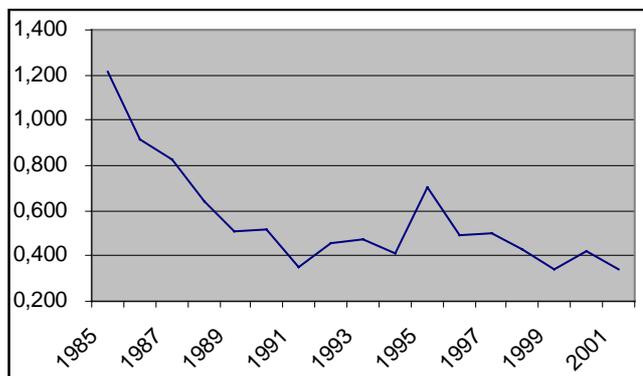


Fig. 13 – Subsidy rate (SR) for the Italian cinema production



²³ See <http://www.cinema.beniculturali.it/finanz.htm>

In Table 3 we report the results of the unit-root tests on the two variables, applying the ADF test; both variables appear I(1), which means that they present a stochastic trend, but are stationary in difference.

Table 3 – Unit roots test

Variable	ADF
DMS	-1.9436
Δ DMS	-3.3475*
SR	-2.7580
Δ SR	-6.817317*

* Null hypothesis of non-stationarity rejected at 5%.

To construct the error correction model, we need to verify if the variables have a common trend, that is if they are cointegrated. To this end, in table 4 we report the results obtained from testing the number of cointegration vectors through the likelihood ratio (LR) test by Johansen (1991). According to the calculated statistics presented in table 4, we can conclude that there is evidence of one cointegrating vector.

Table 4 – Cointegration test

H_0	LR- test	5% c.v.	1% c. v.
$r = 0$	20.620	15.41	20.04
$r \leq 1^*$	0.002	3.76	6.65

The cointegration vector obtained by the Johansen procedure normalized with respect to the domestic market share variable is the following:

$$DMS_t = 0.162433 + 0.169344 (SR)_t$$

(0.05785)

where the value reported in parenthesis is the standard error. From this equation we can say that the long run impact of a unit change in the subsidy rate on the domestic market share of Italian films is around 17%.

Finally, we estimate the ECM model, which explains the short run dynamics of the DMS variable, taking in account also the adjustment to the long run relation. The estimates of the elements of the model, including their t-student values are reported in table 5.

Table 5 – ECM Model of Δ DMS

Variable	Coefficient	T – Student
Const	0.0035	6.91
Δ (SR) _{t-1}	0.1210	2.70
ECM _{t-1}	- 0.2308	-1.92

In the table we report only the significant coefficients. We see that the variation of SR has a delayed (one period) impact on the variation of DMS and that the short run effect is about 12%. The ECM coefficient shows that the adjustment occurs in four years.

The goodness of fit statistics of the estimated model are satisfactory: $R^2 = 0.5843$; F-stat = 5.635597 ($p=0.02$), $N(2) = 0.315846$ ($p=0.85$), ARCH-test = 1.561702, except for the presence of a significative autocorrelation of the residuals, $Q(5) = 12.32$ ($p=0.031$). To deal with this problem, we apply a moving average filter on the residual (MA(3)), which completely eliminates the correlation. The new coefficient estimates obtained after the introduction of the MA(3) term are similar to those reported in table 5, but the (absolute) T-students values are increased.

Summarizing our results, we can say that the estimated model confirms a positive relation between the subsidy rate and the domestic market share, both in the short and in the long run. A change in SR has an effect on DMS with a one period delay. Moreover, the possible disequilibrium will be adjusted in approximately four years, and the negative sign of the ECM coefficient confirms a convergence in this adjustment.

In other words, the intense subsidisation that the Italian government has been granting to the cinema sector appears to have been helpful in sustaining its share of the domestic market, in terms of number of films produced. However, this result does not necessarily imply a positive judgement on the effectiveness of the Italian cinema policy. Many issues require further investigations.

From the economic standpoint, market performance cannot be measured only on the supply side, but requires also the analysis of data on demand. In section 4 we have seen that the Italian cinema's performance in terms of admissions and box-office revenues has not been satisfactory. Moreover the analysis should not be confined to the domestic market, given the great export opportunities created by international integration.

Even considering the cultural objectives of audiovisual policies, the relative dynamics of film production in numeric terms, although important, cannot be considered as an exhaustive indicator of effectiveness. Leaving aside any qualitative consideration, which would lie outside the scope of this paper, one should not forget that the promotion of a country's cultural identity should translate into a higher ability of spreading abroad, generating fruitful exchanges with different traditions, more than into a defense of its predominance at home.

6. Conclusions

Italian audiovisual policies are characterised by a rich set of institutions, regulations and support tools, whose complexity sometimes causes problems of overlapping jurisdictions among different authorities and agencies. Their degree of market access restrictiveness appears to be relatively high, especially considering the discrimination between European and non-European producers.

Regarding the results achieved by those policies, the descriptive analysis presented in section 4 has shown that the Italian audiovisual sector's economic performance has been relatively weak in the nineties, particularly for what concerns the competition with foreign producers.

On the other hand, the econometric exercise presented in section 5 seems to show that, at least in the cinema sector, public subsidies have a positive impact on the domestic market share of Italian producers. This preliminary conclusion is however not enough to justify a positive assessment of Italian audiovisual policies. Many important issues require further investigations and the problems discussed in sections 2 and 3, as well as the data presented in section 4, seem to confirm the need to reform the strategy and the tools of public intervention.

The challenge for policy-makers lies in devising a set of measures and institutions that be able to pursue effectively their cultural and economic targets, without imposing unnecessary restrictions on international trade and investment. On the contrary, international integration should be promoted not only for its possible economic benefits, but also as a powerful instrument to increase the permeability of national borders and enrich cultural plurality.

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