THE ECONOMICS OF THE FILM INDUSTRY

Ravi Prasad Herath

The film industry had reached the most decisive and critical stage of its entire history. The steep decline in cinema admissions throughout the country despite the increase in population, the sharp drop in the number of cinemas operating and the absence of Investment in the exhibition segment of the industry are symptomatic of the crisis now faced by the industry. **The return on Investment in the exhibition segment is poor to the point of being almost non-existent when compared to the level of returns in most other fields of business.** Understandably, Exhibitors are very wary of making new investment, which is essential for the industry to servive and cater adequately to the needs of the cinema going public. Many Exhibitors have already gone out of business and many more will have little choice but to opt out of the cinema industry if relief is not urgently provided.

The National film Corporation's (NFC's) viability as an institution is at all times directly dependent on the continued profitability of the film industry as a whole and the continued profitability of cinemas in particular. Being a State monopoly, a major responsibility does rest on the NFC to ensure that cinemas continue to be financially viable and capable of generating returns commensurate with the high capital investment and expenditure incurred in operating cinemas. The NFC can best do that by making available adequate supplies of films with good box office appeal on terms that allow profitable operation.

2

In 1978 the NFC, in keeping with the Government's open economy policy, did away with much of its monopoly status operations but, in terms of the original NFC Act, permitted exhibitors, with the written authority of the Chairman, to source their requirements of English language films from members of the Motion Picture Export Association of America (MPEAA) (who make up the world's largest producer/distributor of English language films) as well as from other independent distributors. (The proviso for exhibitors to import films with the written permission of the Chairman was an intergral part of the NFC Act No. 47 of 1971. Section 2 of the review deals more fully with this point). Under the present arrangements the contracts for import of films, including details of titles selected are approved by the NFC, imported and cleared by the NFC and viewed by the Public Performance Board and a Certificate issued prior to exhibition.

With minimal investment on its part, the NFC receives from release cinemas in Colombo exhibiting English Language films a level of income by way of over riding commission, film levy and special levy which, in relative terms, is far more than what the NFC gets from any other individual cinema it services.

3

The NFC appears to have now come to the conclusion that the panacea for its huge and annually increasing losses is to arbitrarily revise terms and conditions applicable to the importation and exhibition of English language films. The NFC should rather examine critically and anew those of its operational areas causing its annual losses and introduce prudent financial management. An examination of the NFC's financial statements will reveal the areas that demand immediate and priority attention.

The present policy of the Government encourages private sector competition with state institutions in numerous areas of activity, however in no other area is the private sector participant called upon to subsidise the losses, if any, incurred by the state sector institution competing with it. The Sri Lanka Transport Board (operating at a loss), Ceylon Shipping Corporation, Insurance Corporation of Ceylon, State Pharmaceutical Corporation and the many other state trading corporations competing with the private sector within the normal fiscal structure of the state do not impose terms and conditions including the payment of tariffs and levies as a prerequisite to permit private sector participation. The State sector in other spheres does not attempt to coerce the private sector into accepting a state monopoly status by resorting to archaic legislation - an anomolous situation which runs counter to the accepted 'open economy' policies of the Government.

This review seeks to show why the existing terms and conditions relating to the importation and exhibition of English language films should not be arbitrarily vaired so that the Colombo release cinemas can operate viably. It will be evident from the submissions contained in this review that the NFC's decision to demand more and more from selected exhibitors simply to recoup its avoidable losses, regardless of whether such demands can be met, is an unbusinesslike and shortsighted tactic that really adds up, in effect, to these exhibitors subsidising inefficiency and even bad management at various levels of the NFC.

4

The film industry consists of three segments - the Producer, Distributor and the Exhibitor. The exhibitor (or cinema operator) makes the largest investment in the film industry and also helps generate the highest employment in the industry. Exhibitors are unquestionably the backbone of the industry. The 1985 Presidential Committee of Inquiry into the film industry in Sri Lanka had this to say on the role of the exhibitor. "However, important, production alone does not constitute the whole of cinema. **Without cinema houses to screen them, films would be,**

meaningless as a mass art; hence the well being and stability of the exhibition trade are also essential to the continued existence of a cinematic culture". (Emphasis added).

The operation of cinemas is repidly ceasing to be viable for many reasons. Among them are:-

* The exhibitors being deprived of any alternate source of supply of films because the NFC State monopoly - is the sole distributor of films in Sri Lanka.

* The wide ranging bureaucratic interference by the NFC, in the day to day running of the cinema industry, including unilateral, arbitrary and unjustified directives to continue to exhibit films for uneconomic periods.

* The paucity of films with good mass appeal.

* The imposition of 'ad hoc' levies on admissions by a State monopoly, the NFC, with the exhibitor being deprived of their accepted share.

* The failure of the NFC to offer incentives to cinemas which incur extra expenses in offering their patrons better amenities.

* The heavy capital outlay and funding requirements for the replacement of plant, equipment and improvements to patron amenities.

* The escalating operational costs that cannot be recovered due to the decline in income.

* The serious encroachment in recent years by pirate video film libraries and illegal video film cinemas (not subject to any statutory controls) into the traditional, legal and long established cinema market.

* Competition for the leisure market from television.

Another reason is the prevalent fiscal policies which subject the film industry to statutory levies such as entertainment tax, turnover tax, income tax etc. **While competitors such as video libraries and video cinemas, with comparatively negligible capital outlay, successfully evade the payment of such statutory levies,** thereby enjoying a much higher return on investment than the film exhibition industry. A major portion of cinema admissions in the country is subject to entertainment tax at 25% of the admission rate. The revenues in respect of which turn over tax is payable by the various segments of the industry is computed on the box office collection. The exhibitor pays turn over tax at the rate of 6% on the entire box office revenue; the distributor and producer also pay 6% on their share of the box office takings.

In 1986 the NFC introduced a new film levy on admissions; this additional income was supposedly to help the NFC improve the supply of other language films for exhibition and also financially assist local film producers. Despite this levy generating additional income of approximately Rs. 8.541 M in 1987 and Rs. 7.918M in 1988, the NFC's supply of films had been woefully inadequate and has seriously affected box office admissions. On 22nd December 1989 the NFC introduced a further hire charge of Rs. 2.00 term 'special levy' which is referred to in detail in Section 9 of this review.

* Cinema admissions in 1979, according to the NFC's own statistics, totalled 74 Million, by 1988 admissions had dropped to less than 30 Million.

* The number of cinemas operating in Sri Lanka in 1979 was 365, the number operating today is approximately 250.

* The reveues from box office admission tickets in 1988 covering 250 cinemas Island-wide, and approximately 500 prints released that year, was only about Rs. 150 M, or a monthly average of Rs. 50,000 per cinema, or Rs. 300,000 per print; revenues from other activites related to cinema operations was around Rs. 50M, making a total revenue of Rs. 200M.

* A conservative estimate of the total seating capacity of the 250 cinemas in the country (on the assumption that a cinema has 500 seats and operates two shows a day on weekdays and 3 shows on Saturdays and Sundays, and no shows on Poya Days) is approximately 100 million. The actual cinema admissions for the whole of 1988 was less than 30 million, which is a capacity utilisation of less than 30%, or an average daily admission rate of 96,000 islandwide compared with Rupavahini's prime time viewing public of over 3 million.

* The capital outlay in the industry at present market values is estimated as being in excess of Rs. 1,000M including the investment in laboratories and working capital tied up in locally produced films.

* The revenues when related to the estimated capital outlay, reflect the present state of the industry, a Rs. 1,000 M outlay should generate a profit of at least Rs. 2000M and net revenues of Rs. 200M.

Despite repeated representations the NFC is as yet not alive to or concerned with the grave predicament of the film industry particularly its exhibition segment. In stark contrast to the Government's policy of privatisation and increasing private sector participation, **the legally and long established film industry in Sri Lanka is perhaps the only private sector industry that is subject to controls in every aspect of its activities.** But the newly arrived, thriving but totally illegal pirate video film industry is left untouched, with the NFC making no effort whatsoever to exercise any control over it.

The NFC's thoughtless insistence on sourcing **both** English Language and oriental films mainly on a royalty basis without considering the greater benefits of sourcing English language films on rental, gives cause for much concern. The past performance of the NFC's English language films sourced on royalty basis (as analysed in Appendix 1 of this review) spotlights the losses incurred, and not profits made, as claimed by the NFC. The NFC's earnings on its films sourced on Royalty basis is now even more dismal than before because of the escalating exchange parity rates, costs incurred on attending film markets, enhanced publicity expenditure and poor box office results.

5

The advantages and benefits of dealing with MPEAA member companies and

Contd on page 14

—Contd. from page 11

others who supply on rental terms can be best seen from a comparison of the two methods widely used by the exhibitors worldwide to source films.

Royalty basis – This has certainly proved most advantageous in the case of oriental films, considering the much larger market for these films in Sri Lanka, which permits the investment made as a Royalty payment to be more than amply recouped.

In the case of English language films, the supplier of the film charges a royalty which may vary from US$ 4,000 to as much as US$ 15,000 depending on the area of distribution, the number of prints (of the same film) to be released and, of course, a film's box office potential. This sum has to be paid in advance before the print is supplied. In addition, the local Importer has to meet print and publicity costs, which would approximately be an additional US$ 1,250. Having made all these payments in advance the Importer of English language films has to take a gamble on the limited earnings from this restricted market justifying the heavy financial outlay already made. Furthermore, guaranteed English language box office winners cannot be obtained on a royalty basis (for outright purchase) because the cost of (or royalty on) such films would invariably be beyond a Sri Lanka exhibitor's capacity to pay and recover.

Rental basis - In this arrangement films are supplied with all requirements of publicity material, without the exhibitor having to make payment 'up front'. After the film has been exhibited, the supplier gets a share of the actual box office collection (but after deduction of all local publicity costs, which are borne by the supplier).

A comparison of these two alternatives, Royalty vs Rental, spotlights the major advantages of Rental over Royalty as a basis for obtaining English language films for the Sri Lankan market.

* both the NFC and the local exhibitor are automatically protected against serious financial loss should a film prove to be a box office failure.

* with royalty (or purchase price of a film) having no bearing on films supplied on Rental, even the best (and otherwise prohibitively expensive) English language films become available to the film going public in Sri Lanka.

* the funds that would be tied up as royalty on films could be utilised more profitably by the NFC, thus minimising the cost of capital.

* the outflow of foreign exchange on Rental films is much less than that on Royalty films because of market size.

In evaluating the alternate options the following should also be considered:-

* The investment involved including foreign exchange component and other costs (also in foreign exchange) in attending international markets.

* The average earning potential of English films in Sri Lanka based on past performance.

* Expenditure such as turnover tax, cost of capital, publicity and other establishment and administrative costs.

* The extended credit facilities and interest free loans that are made available now by English language film suppliers actually supplement the working capital of the NFC.

In Table 1 of this review is a computation of the profitability based on the royalty cost of films being US$ 4,000 each and the box office takings being Rs. 400,000 a figure that is higher than the industry norm. The revenues which should correctly be termed distribution commission and the income on film levy - items which the NFC would earn in any case even when distributing films on rental - have therefore been excluded from this computation. The revenues on the special levy have also not been taken into consideration in view of what is stated in Section 9 of this review. The performance in 1989 at Colombo release cinemas of English language films on Rental terms, the NFC achieved a positive contribution unlike the negative contribution it now incurs on the films it sources and distributes.

The information contained in this Section together with appendices I, II and III clearly establish that it is uneconomical to procure English language films on royalty terms. The NFC should also consider the fact that MPEAA products account for the most successful films; appendix IV of this review sets out the box office hits, released in 1988 and 1989, indicating the distributors of each film. It is obvious that the NFC should reconsider its revised condition relating to the exhibition of NFC films (referred to in Section 8 of this review) so that the movie going public will not be deprived of the best entertainment fare that they have a right to expect, and which they will certainly have from MPEAA films. In the event the NFC persists in procuring films on royalty basis from sources other than MPEAA, such films could be released and exhibited in cinemas that do not deal with companies affiliated with MPEAA.

6

The NFC's present demand for a radical upward revision of the terms and conditions applicable to cinemas exhibiting English language films is obviously the result of a misconception that cinemas releasing these films (and numbering just 9 out of approximately 250) generate huge profits for their operators and that therefore the NFC is entitled to a larger share of this profit. In determining the income earning potential of these cinemas the following should be considered.

* The average box office takings of an air conditioned cinema in Colombo exhibiting English language films is higher than that from a cinema in the other category because of the enhanced admission rates applicable. The difference in the monthly boxoffice takings between an air conditioned cinema in Colombo exhibiting English films and a non air conditioned cinema exhibiting oriental films is approximately Rs. 70,000; but the exhibitor is no better off as more than half of this goes towards the film hire and turnover tax payable, while the balance cannot fully meet the increased cost of electricity in providing air conditioning.

* "Utility recovery charge" of an additional 50 cents is imposed at air conditioned cinemas on balcony and rear stall tickets, the electricity costs of an air conditioned cinema is about Rs. 40,000 a

month as against Rs. 5000 a month for a non air conditioned cinema. Expressed as a percentage, electricity for air conditioning costs 700%more while the"utility recovery charge" is only 50% more - Rs. 1.00 from non air conditioned cinema to Rs. 1.50 from an air conditioned cinema.

* The share of film levy on every ticket accruing to an air conditioned cinema releasing English language films is 20 cents - or in fact, 10 cents less than on each ticket sold in a non air conditioned cinema exhibiting other films.

* The capital outlay on an air conditioned cinema in Colombo exhibiting English language films far exceeds that of a non air conditioned cinema in the city; the percentage difference in cost outlay between the airconditioned and non air conditioned cinema is in the region of 200%.

* Maintenance costs for an air conditioned cinema are inevitably much higher than those for a non air conditioned cinema. (For economic reasons one of the original airconditioned cinemas in Colombo out of the seven air conditioned cinemas in the country-all of which are located in Colombo opted to change its status to non air conditioned and charge the lower rates of admission).

* Because of location, local rates and taxes on air conditioned cinemas are considerably higher than those payable on other cinemas.

* Higher insurance premia are also payable, as the cover required is on an enhanced figure to take account of higher building values and equipment.

Today instead of more air conditioned cinemas to take account of increased population there are only six air conditioned cinemas. If the cinema industry fails to attract new investment for much longer, there will soon be no air conditioned cinemas left; almost all cinemas airconditioning equipment is at least 30 years old today and most of them are well past their economic life span. The cost of replacing air conditioning equipment for each cinema is conservatively estimated at Rs. 3M.

It is pertinent and relevant to take account of income lost due to under utilisation of capacity by cinemas being forced to exhibit a stock of vintage, and badly scratched, films for the 9th time, including films with no box office potential, all because of the NFC's failure to ensure adequate supplies of films. At such times, cancellation of shows due to lack of patrons is not uncommon. Such losses in the cinema industry, due to under utilisation of capacity, can never be recouped due to physical constraints, unlike losses in other businesses. This predicament is unique to the film industry; in other businesses it is possible to recoup losses in income subsequently by working additional shifts, price hikes, promotions etc.

An examination of the income and expenditure on operating cinemas releasing English language films would reveal the level of returns on the investment at present market values, and the contribution made by these cinemas to the income of the NFC without any services being provided by it. The decline in addmissions has obviously affected not only box office revenues but also revenues from other related sources such as refreshment bars and advertising which contribute to the overall viability of cinema operation.

In Table 4 of this review is an estimate for operating an air conditioned cinema in Colombo, a non air conditioned cinema in Colombo and a non air conditioned cinema in one of the principal towns in the outstations. These estimates are based on cinemas being operated under normal conditions where admissions are not affected by circumstances beyond the control of the exhibitors, and with an uninterrupted supply of films from the NFC. The present return, from a business point of view, is meagre and positively inhibits further investment.

A conservative estimate of the capital requirement for a new cinema requiring 100 perches in Colombo would be in excess of Rs. 15M and a cinema in a principal town in Sri Lanka in excess of Rs. 8M. In the event of cinema is to have air conditioned facilities and car parks, the incremental capital requirement would be approximately Rs. 3M. If the area occupied by cinema halls were to be rented out for use as go downs the return would definitely be much higher. The disparities in income earning potential is evidence if a comparison is made between the gross revenue of a cinema and that of a grocery store operating in the same locality.

In the light of what has been said, the reasons for the reluctance of these already in the exhibition segment, as well as entrepreneurs outside it, to invest in the industry become evident. **It is a telling commentary on the extent to which the NFC has got its priorities wrong that, 17 yeaars after the NFC Act brought it into existence, the Corporation has failed to live up to one of the Act's General Objectives** (Clause 4 (d), **and has yet to establish a single cinema of its own inslandwide.**

For new investment in the exhibition segment to be encouraged the following deserve consideration.

* The removal of the totally anamolous positon of having a State monopoly to cater to the needs of the movie going public as well as exhibitors.

* The return on capital must be commensurate with the investment involved.

* The income earning potential and capacity of a cinema should be fully exploited by the exhibition of films having box office potential for optimum occupancy to be achieved.

* Profits should be of a level to permit provision for replacement and upgrading equipment for improvement of amenities of patrons, taking into consideration the unfavourable slide in purchasing of the Rupee.

* The return on capital should be sufficiently attractive for funds to be channelled for further lateral investment in the exhibition segment of the industry.

* Restrictive trade practices, bureaucratic controls and prohibitive tariffs should be eliminated.

* Cognizance should be given to alternate opportunities available for untilising existing resources invested in the exhibition segment.

In addition, and considering the perilous state of the Film Industry the Government should provide relief in the form of changes in its present Fiscal Policies applicable to the Cinema industry.

The NFC's trading activities can be broadly categorised as follows:

* import and distribution of films.

* operation of a sound recording and film processing studio.

* supply of materials and accessories for the film industry.

The Import and distribution of films (described by the NFC as its 'exposed film activity') can be classified as the:

* distribution of nationally produced films on rental terms.

* Import and distribution of oriental films procured on royalty basis.

Import and distribution of western films procured on royalty basis.

* distribution of oriental films procured on rental terms.

* distribution of western films procured on rental terms.

7

In 1987 and 1988 the "exposed film activity" of the NFC generated a profit of Rs. 8,055,593 and Rs. 1,133,930 respectively. The decline in profits in 1988 could be attributed to increased expenditure (referred to later in this section) and to the drastic drop in income of Rs. 2,145,080 (1987 - Rs. 6,494,120 and 1988 Rs. 4,349,040) from the importation and distribution of oriental films procured on royalty basis (procuring oriental films on royalty terms is more advantageous as the market is very much larger, enabling recovery of the investment involved). This opportunity loss was primarily due to the NFC's inability to finance the import of an adequate number of oriental films and also because of its refusal in 1988 to permit the private sector to supply films on rental terms. Consequently, neither the industry nor the NFC could maximise the opportunities available.

It needs to be stressed that exposed film activity achieved:-

A. a **positive** contribution from the importation and distribution of Western films procured on **rental** terms.

B. a **negative** contribution from the importation of Western films procured on **royalty** basis as stated in section 4 of this review.

In respect of the other categories of its principal activities, the NFC has incurred huge and mounting losses. The operation of its sound recording and film processing studio incurred a loss of Rs. 6,027,367 in 1987 and a loss of Rs. 7,078,588 in 1988. The fact that the majority of local producers still choose to have their films processed abroad is, perhaps comment enough on the quality of the service offered by the NFC. Losses of Rs. 849,630 in 1987 and Rs. 1,787,098 in 1988 were also incurred by the NFC in supplying materials and accessories for the film industry.

The expenditure levels of the NEC for the servicing of 250 cinemas, local film producers, local and foreign film suppliers, the operation of sound recording and film processing laboratory and the movie going public, also deserve scrutiny. There are many areas in which wasteful and unproductive expenditure is incurred. In the year 1988 the overheads amounted to Rs. 30,886,273 as against Rs. 23,436,262 in 1987, an increase of Rs. 7,450,011. An organisation recording a decline in income should endeavour to contain expenditure levels proportionately.

The NFC believes that the easy way to set off its annually increasing losses in the other areas of its activities lies in demanding more and more from selected exhibitors, regardless of whether such demands can be met instead of:

A. identifying without delay those areas responsible for its losses.

B. exploiting commercial opportunities and other obvious avenues available for increasing revenue, including a regulatory control over the video market.

The NFC fails to realise that, considering the nature and magnitude of its losses, it would be impossible to recoup such losses from a **sub activity** such as the distribution of Westerm films procured on rental terms, which only accounts for approximately 20% of the box office takings in the country and, in terms of number of prints released, for approximately 25%.

The objectives of the National Film Corporation should therefore be:-

* increase box office takings to a level

Table 1

Estimated Profitability on Importation And Exhibition of English Language Royalty Films

Particulars	Rs.
Box Office Takings	400,000
Film Hire Receivable - 50%	(200,000)
Distribution Commission - 10%	(40,000)
Turnover Tax - 6% of Rs. 160,000	(9,000)
Income	150,400
Print Cost - US$ 4,000 @ Rs. 42/-	172,000
Stamp Duty - 3% of Rs. 172,000	5,160
LC Commission	500
L. C. Advising Charges	1,000
Bill Charges and Commission	2,500
Duty - @ 0.50cts per Metre (3,500M)	1,750
Turnover Tax	28,670
Clearing Charges	2,500
Publicity	30,000
Cost of Capital	21,408
Expenditure	265,488
Loss	115,088

Notes

1. The Distribution Commission, Film Levy and Special Levy are excluded in determining profits for reasons stated in Section 4 of this review.

2. Turn over Tax is computed at the rate of 6% on the Film Hire Receivable excluding Distribution Commission.

that would ensure that an average of Rs. 10,000 per year is earned from each theatre by way of distribution commission, film levy and the NFC's share of the special levy. (income Rs. 30M)

* Maximum opportunities in the importation and distribution of films to achieve a contribution of Rs. 6M a year in exploiting its oriental film obtained on Royalty. (This contribution, excludes distribution commission, film levy and the share of the special levy the NFC gets in its capacity as "distributor" but includes the supplier's share of the special levy on these Royalty films).

* Engage in other trading activities in competition with the private sector such as the import and distribution of raw films, cinema arc carbons, projection and sound equipment, spares, stationery etc to achieve a profitability of Rs. 1M a year.

* Explore possibilities of a joint venture for the operation of the sound recording and film processing laboratory to ensure a positive rather than a negative contribution.

* Contain overhead expenditure to a level not exceeding Rs. 24M per annum (excluding expenditure incurred on the studio).

* Minimise losses on Bad Debts and Stock Write Offs by introducing effective and wide ranging internal controls and by giving cash management priority attention.

* Achieve a profitability of Rs. 10M per annum after providing assistance of Rs. 3M per annum to the national film industry.

As stated above the NFC's largest potential source of income (Rs. 30M) is from its distribution activity and this can be achieved provided the NFC.

* distributes films having box office potential.

* establishes realistic "holdovers" to ensure that capacity of cinemas are maximised.

* desists from issuing unilateral, arbitrary and unjustified directives to continue exhibition of films for uneconomic periods.

* revises annually its distribution flow down so that cinemas having earning potential (based on population, location and merits of cinema) are given priority in the exhibition of films.

* liaises closely with exhibitors exercising greater supervision and providing the best mix of films for exhibition.

* standards of admission rates depending on type of cinema and location so that realistic 'ticket prices' are effective.

* eliminates competition from illegal and unlicensed video cinemas and video libraries.

* considers also distributing films on fixed rental (to be decided on the box office potential of each film) which will help recover overheads on the NFC's Operations, Investigations and Financial Divisions.

In Table 5 are the grossing of all cinemas for the year 1988. It is evident that the NFC is not even recouping the cost of the services it provides the majority of cinemas; the objective should be to ensure a contribution in the form of 'distribution income' (excluding exploitation income) of an average of Rs. 10,000 from each of the cinemas the NFC services. The present contribution to the NFC by each of the few cinemas releasing and exhibiting English language films is in excess of Rs. 25,000 per annum.

It is imperative that a commission be appointed early to study the working of the NFC at all levels and make recommendations on how the NFC could be operated profitably, **without burdening**

Contd on page 20

Table 2

NFC English Language Film Grossings At Colombo Release Cinemas

Release Date	Name of Film	Theatre	Period Screened	Gross Collection Rs. Cts	NFC Share 50% Rs. Cts.
20.10.89	Whistle Blower	Empire	2 weeks	41,143.25	20,571.62
06.10.89	Mona Lisa	Ruby	2 weeks	45,450.00	22,725.00
13.10.89	Frenchmans Farm	Rio	2 weeks	44,967.05	22,483.52
27.10.89	Goodbye Pork Pie	Rio	1 week	19,257.20	9,628.60
15.09.89	Bruce Lee the Legend	Rio	4 weeks	143,682.55	71,841.27
03.11.89	Robo Vampire	Crown	5 weeks	104,206.60	52,103.30
19.11.89	Man of Fire	Savoy	3 weeks	118,511.10	59,255.55
17.11.89	Gwendoline	Rio	2 weeks	31,835.20	15,917.60
22.12.89	Autumn Bells	Savoy	5 days	16,793.55	8,306.77
29.12.89	Youth of a Genius	Savoy	17 days	98,156.05	49,078.02
19.01.90	Doctor & The Devil	Empire	2 weeks	46,911.30	23,455.65
16.02.90	Creator	Central	1 week	18,082.15	9,041.07
16.02.90	Shanghai Surprise	Rio	1 week	27,781.60	13,890.80
02.03.90	Half Moon Street	Liberty	3 weeks	106,623.60	53,461.80
02.03.90	A Woman for All Men	Rio	6 weeks	271,885.05	135,942.52
23.03.90	Last outpost	Crown	5 days	4,802.35	2,401.17
23.03.90	Wheels of Terror	Savoy	3 weeks	102,075.00	51,037.50
30.03.90	Frankenstein's General Hospital	Liberty	2 weeks	75,019.30	37,509.65
30.03.90	Easy Wheels	Central	3 weeks	94,848.00	47,424.00
30.03.90	Willie Nelson's 4th July Picnic	Ruby	2 days	3,202.35	1,601.17
05.04.90	A Choice Line	Majestic	3 weeks	146,897.85	73,448.67

Notes

1. The following films obtained by the NFC on Royalty terms have been banned by the Public Performance Board (it is unclear as to whether the costs incurred including duty, landing and clearing charges. Turn over Tax etc are recoverable from the suppliers)

Crime Wave	Car Trouble
Devils Paradise	Mixed Blood
Executioner's Song	Showgun Assasin

2. An English language film that does not perform satisfactorily in Colombo (4 to 6 weeks) will not prove attractive to outstation exhibitors, and its out of Colombo earning potential is consequently very limited.

3. It is a 'rule of thumb' that total earnings on outstation screenings of films with good box office appeal are approximately equivalent to the earnings on these films in Colombo.

4. The NFC's earnings on film levy and special levy have not been taken into consideration in view of what is stated in Section 4 of this review. The NFC's share of the gross takings, include its distribution commission which, in fact, should be discounted.

5. It is clear that the NFC will incur huge losses on their films released in 1989 as not even royalty costs would have been recouped from their share of the Colombo box office takings, as each film would have cost at least Rs. 125,000 (US$ 2,500 a print).

Contd. from page 17

the exhibitors and the movie going public more and more. The NFC after all, is one of the several state owned undertakings known to be running at a loss and cannot be unaware of His Excellency President Premadasa's ultimatum early last year to all Government Corporations that they make themselves financially viable. It is unimaginable that the Presidential directive calling for financial viability via efficient management could, in fact, be used by the NFC as the ostensible imprimatur for its blatant attempt at extortion, to cover up plain bad management of its own affairs.

8

The NFC's stated reason for changing its terms and conditions is because of "changing circumstances and the financial plight of the Corporation" Although exhibitors have sought for long to focus on the financial plight of the Corporation, the NFC has used this point ostensibly to justify demands that are clearly unjustifiable while at the same time dismissing references to its bad financial management as "hair splitting arguments". The revised terms demanded by the NFC for granting approval to exhibitors for sourcing their requirements of English language films are;

1. A minimum commission of 10% from the opening day of each film,

2. No payment of commission by NFC to the Agents in respect of outstation screenings of Agents' Films.

3. The Main Release Stations should screen alternately KRS films and NFC films.

4. Duty surcharges, clearing charges on each of the films, and accessories supplied under these contracts to be borne entirely by the Exhibitor:

5. The respective clauses in the Agreement with regard to the custody and distribution of films to be amended by substituting "NFC" for "Exhibitor".

The observations on the NFC's revised terms and conditons are:-

1. The over-riding commission accruing to the NFC (from 5% now when the film hire payable to the supplier is 40% to 10% from the opening day) on the Colombo release screenings will, in absolute terms, be approximately 200% more (not 100%) than what accrues to it under the present arrangements.

2. In their capacity as local agents, exhibitors are entitled to a commission, the quantum having been agreed on after a three way discussion involving the exhibitor, supplier and the NFC. In the event the NFC is unwilling to collect and pay the commission due to the agents, it could consider:-

A. paying the principals who in turn will settle with the agents, or

B. stop distributing such films to the outstation cinemas.

The combined agency commission that accrues to the local agents of MPEAA i.e. Ceylon Theatres and Liberty Cinemas Limited on the exhibition of MPEAA flims in cinemas other than from Colombo release cinemas is only in the region of Rs. 600,000 annually. Payment of agency commission is an accepted business practice and is also declared for tax purposes.

3. The discretion to exhibit films should lie with the exhibitors who from experience are the best judges of the product they can market. The comments made in the last paragraph of Section 4 of this review should also be considered.

4. Having originally got Exhibitors to agree to a 5% commission to cover its expenses on Customs Duty and clearance charges on English language films, the NFC now demands an increased commission of 10% while at the same time refusing to handle the very tasks for which the commission was agreed on initially. The overall commission of 5% the NFC receives at present on films released is in excess of the overall customs

Table 3

Box Office Hits 1988 - 1989
Top Ten Films – 1988

United Kingdom			United States Of America		
Rank Film	**Distributor**	**Origin**	**Film**	**Distributor**	**Origin**
1. Fatal Attraction	(UIP)	US	Rain Main	(MGM/UA)	US
2. Crocodile Dundee	(UIP)	Aus	Who Framed Roger Rabbit	(Buena Vista)	US
3. Three Men and a Baby	(Touchstone/ Warner)	US	Coming to America	(Paramount)	US
4. A Fish Called Wanda *	(UI)	UK	Big	(20th Fox)	US
5. Coming to America *	(UI)	US	Twins	(Universal)	US
6. Good Morning Vietnam	(Touchstone/ Warner)	US	Crocodile Dundee	(Paramount)	Aus
7. The Last Emperor	(Col/Tri Star)	UK	Die Hard	(20th Fox)	US
8. The Jungle Book	(Disney/Warner)	US	Cocktail	(Buena Vista	US
9. Buster *	(Vestron)	UK	The Naked Gun	(Paramount)	US
10. Beetlejuice	(Warner)	US	Beatlejuice	(Warner)	US

@ 1989 Entertainment Data, Inc

Top Ten Films – 1989

1. Batman	(Warner)	US	Indiana Jones And the Last Crusade	(UIP)	US
2. Indiana Jones And Last Crusade	(Paramount)	US	Who Framed Roger	(Touchston/Warner)	US
3. Lethal Weapon II	(Warner)	US	Batman	Warner)	US
4. Honey I Shrunk The Kids	Buena Vista	US	Rain Man	UIP	US
5. Ghostbusters II	(Columbia)	US	The Naked Gun	UIP	US
6. Look Whose Talking	(Tri Star)	US	Licence to Kill	(UIP)	US/UK
7. Parenthood	Universal	US	Lethal Weapon II	Warner	US
8. Dead Poets Society	(Buena Vista)	US	Twins	UIP	US
9. When Harry Met Sally	(Columbia)	US	Dead Poets Society	(Touchstone/ Warner)	US
10. Turner and Hoocj	(Buena Vista)	US	Cocktail	Touchstone/ Warner	US

Note Box to date up to Dec 3, 1989

Notes

1. *Denotes independent distributors who are not members of the MPEAA
2. The above information has been extracted from Screen Intrnational Magazine Issue of January 6th 1990

duty and clearing charges that the NFC incurs on these films. Table 7 of this review lists the MPEAA films released in 1988 indicating against each film the over-riding commission of 5% received by the NFC. A scrutiny of customs duty and clearing charges incurred by the NFC will reveal the unnecessary costs incurred by way of demurrage and transport.

5. The existing contracts clearly stipulate that any amendment must be by mutual agreement, hence the NFC's attempts to arbitrarily and unilaterally vary the terms and conditions is a clear violation. The MPEAA have indicated that such variation would be unacceptable to them.

It is unfortunate that the NFC only stresses on its income on overriding commission while choosing not to mention its substantial income (for no services) from the other components of the 'ticket price'.

Under the present arrangements the NFC gets:-

A. 53% of the film levy from the very first day of exhibition with the exhibitor receiving 27% and the supplier of the film 20%.

B. 5% over-riding commission on the box office takings dependant on whether a film is classified as a 'special' or a "non-special" with 80% of the films falling into the "non-special" category.

(The NFC receives the 5% overriding commission on non specials from the 2nd week onwards. On specials the exhibitor pays film hire to the supplier for the first two or three weeks at percentages varying from 70% to 50%, based on a film's cost of production and box office potential, thereafter the share payable is 40% with the NFC receiving an over-riding commission of 5% for the rest of the film's run).

C. Of the special levy of Rs. 2.00 the NFC gets Rs. 1.55 with the exhibitor receiving 45 cents. The comments made in Section 9 of this review elaborate further.

Comparative charts in appendices VII and VIII (based on the capacity of the Regal Cinema Colombo) illustrate the division of box office takings including the Utility Recovery Charge, Film Levy and Special Levy when the film hire payable to the supplier is 60%, 50% and 40% in the following scenarios.

A. Present terms (but before Special Levy imposed)

B. Following the introduction of the Special Levy;

(I) under the present terms;

(II) increasing the over-riding commission to 10% from the opening day;

(III) with the NFC appropriating the suppliers' share of the special levy.

It must be emphasised that as film hire payable to the supplier on "specials" is at times also 70% and 65% on the first one, two or three weeks, and Turnover Tax at 6% is on the gross receipts, the share accruing to the exhibitor **will be very much less than the percentages indicated** in these charts. It is clear that the share already accruing to the NFC with minimal investment and services on its part, is more than adequate and the NFC has no grounds to make further demands.

The revenue from a film ("ticket price") is shared among the exhibitor, distributor and supplier/producer on a predetermined percentage basis (excluding entertainment tax). This is the most equitable basis and is accepted international practice in Sri Lanka, however, **the "ticket price" consists of four components - Admission Rate, Utility Recovery Charge, Film Levy and Special Levy -** where the percentage share accruing to the three segments vary depending on each component of the overall ticket price. This deviation from the usual practice makes the sharing inequitable. The two

Table 4 **Estimated Annual Income & Expenditure By Type Of Cinema**

Particulars	Aircondition Colombo Rs.	Non Air Conditioned Colombo Rs.	Non Air Conditioned Outstation Rs.
Box Office Receipts	2,400,000	1,800,000	1,200,000
Utility Charges	420,000	340,000	260,000
Film Levy	300,000	260,000	240,000
Income	**3,120,000**	**2,400,000**	**1,700,000**
Film Hire	1,200,000	990,000	624,000
Film Levy	210,000	143,000	132,000
Overheads	240,000	240,000	120,000
Salaries and Wages	450,000	300,000	200,000
Bonus	37,000	25,000	17,000
Overtime	60,000	40,000	30,000
EPF	54,000	36,000	24,000
Trust Fund	13,500	9,000	6,000
Gratuity	18,750	12,500	8,500
Electricity	480,000	75,000	55,000
Repairs and Maintenance	150,000	100,000	60,000
Repairs and Maintenance Air Con	60,000	0	0
Printing and Stationery	24,000	18,000	12,000
Operating Room Expenses	60,000	50,000	40,000
Postage and Telegram	2,400	2,400	2,400
Travelling and Transport	12,000	12,000	18,000
Telephone	18,000	12,000	12,000
Turnover Tax	187,200	144,000	102,000
Rates and Taxes	125,000	55,000	15,000
*Depreciation	200,000	150,000	100,000
Insurance	24,000	16,000	14,000
Licence	2,500	2,500	1,000
General Expenses	12,000	12,000	1,000
Security Fees	60,000	30,000	20,000
Expenditure	**3,736,350**	**2,492,400**	**1,625,900**
Contribution of Film Exhibition	616,350	92,400	74,100
Refreshment and Bar Profits	350,000	250,000	120,000
Slide and Filmlets Income	50,000	50,000	24,000
Other Income	20,000	15,000	15,000
Profit / (Loss)	**(196,350)**	**222,600**	**233,100**

Notes

* 1. The annual depreciation charge would be much higher for new cinemas

2. The special levy has not been taken into consideration in view of the dispute with suppliers.

Table 5

Rank	Theatre	Town	Collection Rs.	Rank	Theatre	Town	Collection Rs.
61	Jayanthi	Panadura	747,889	62	New Minerwa	Kalutara	741,778
63	Rex	Badulla	715,840	64	Gemunu	Wattala	714,168
65	Regal	Ambalangoda	709,509	66	Central	Matale	703,292
67	New Trivoli	N'Eliya	702,909	68	Sarasavi	Galle	700,027
69	New Cinema	Matara	688,308	70	Vijandra	A'pura	681,165
71	Tarzan	Kegalle	675,328	72	N. I. T.	Avissawella	666,932
73	Quinlon	Nugegoda	658,198	74	Broadway	Matara	657,795
75	Chandra	A'sawella	630,157	76	Zainstan	Colombo	630,019
77	S. K.	Matora	629,374	78	Jupiter	K'negala	627,720
79	Sigiry	B'arawela	617,214	80	New Cinema	K'negala	606,684
81	Jezima	Colombo	603,586	82	Eros	Colombo	592,904
83	Samudra	Wattala	584,316	84	Shamrock	W'puwa	580,901
85	Seedevi	Piliyandala	580,757	86	New Reka	Kaduwela	563,140
87	Ashok	Beruwela	556,817	88	Don Plaza	Kalutara	542,259
89	Windsor	Jaffna	540,482	90	Mipura	Negombo	537,529
91	Anura	A'langoda	537,248	92	New Champika	Ingiriya	531,720
93	Wijeya	Badalkumbura	513,631	94	Nanda	Koswatte	509,420
95	Raja	Jaffna	506,607	96	Jayanthi	P'naruwa	503,750
97	Wijaynthi	Kaduwela	500,247	98	A. S. G.	Elpitiya	487,243
99	Apsara	Homagama	682,992	100	Sigiry	Veyangoda	477,726
101	Pearl	Chilaw	472,736	102	Rani	Jaffna	471,378
103	Sri Lanka	W'puwa	455,240	104	Regal	Ampara	455,035
105	Wijeya	Ampara	457,394	106	Malekam	Kuliyapitiya	477,395
107	Modern	K'negala	445,840	108	Prisa	Kalutara	438,497
109	Dharshana	Koswadiya	436,462	110	Asoka	Horana	433,283
111	Regal	Diyatalawa	422,569	112	Sagara	Chilaw	417,434
113	Gamini	Mirigama	405,616	114	Nanda	Jaela	399,688
115	Samodaya	Mawatagama	396,640	116	Wijitha	Hatton	383,852
117	Ethwil	B'wela	383,060	118	Lavinia	Nugegoda	381,691
119	Manohara	Jaffna	379,301	120	Swarnamalee	Mahawewa	378,530
121	Neela	Dankotuwa	371,300	122	Chitra	Kalutara	370,790
123	New Town	Embilipitiya	368,748	124	Chandani	Weligama	368,242
125	Sandya	Gampola	368,081	126	Dinusha	N'pitiya	365,046
127	Gankanda	Pelmadulla	359,950	128	Anada	Gampola	351,960
129	Liberty	Hatton	351,173	130	Lekha	Homagama	346,288
131	Midland	N'pitiya	347,541	132	Asoka	Puttalam	346,288
133	Jeewani	Alawwa	344,562	134	Wellington	Jaffna	342,542
135	Chaya	Nawanella	336,359	136	Sri Mahal	K'pitiya	332,300
137	Minneri	Hingurrakgoda	326,970	138	Swarna	Galewela	326,047
139	Sarasavi	Alawwa	325,552	140	Piyakaru	Warakapola	315,047
141	Samupakara	Hingurankgoda	311,694	142	Mihira	Mirigama	311,405
143	Nimali	Hanwella	308,012	144	New Vasaka	Embilipitiya	307,992
145	Minka	Passara	303,163	146	Wijitha	Maskeliya	302,984
147	Manel	Moratuwa	302,098	148	Princess	Hatton	297,792
149	Elight	Kochchikade	289,596	150	Cey Movieton	Dalugama	288,007
151	Vilasini	Wellampitiya	283,140	152	New Janaki	Matugama	283,040
153	L. S.	Uragasmanhandiya	281,574	154	Sandalanka	Sandalankawa	280,775
155	New Rohana	Tissamaharamaya	272,903	156	Samanala	Bagawanthalawa	271,110
157	N. I. T.	Yatiyantota	270,116	158	Ranjani	Padukka	265,324
159	Samga	Dummalasuriya	257,987	160	Dhanasiri	Warakapola	257,289
161	Hasalaka	Hasalaka	253,651	162	Sooriya	Welimada	253,351
163	Gamini	Matugama	238,055	164	Haran	Jaffna	237,995
165	Veenus	Mawanella	237,984	166	Hameediya	Madurankuli	235,403
167	H. R. Cinema	Dickwela	233,530	168	Theranga	M' wangoda	232,989
169	Sriya	Wariyapola	231,745	170	Nilmini	Ehaliyagoda	231,368
171	Liberty	Aluthgama	229,189	172	Central	N' pitiya	224,874
173	Pathma	Ratmalana	215,045	174	Shanthi	Medawachchi	210,967
175	Realto	Kalutara	205,723	176	Elphinstone	Colombo	205,759
177	New Indrani	Welimada	203,780	178	Thusitha	Deniyaya	200,759
179	Ruwan	Maththumagala	199,138	180	Rani	Kekirawa	193,079
181	Wins	Wadduwa	192,895	182	Rupika	Divulipitiya	191,950
183	Indrani	Narammala	190,822	184	Royal	Kahawatta	156,253
185	Harischandra	Krindiwela	183,255	186	Jithy	Galaha	181,616
187	Belco	Bellatta	176,139	188	Wasan	Bellapane	173,732
189	Gemunu	Nittambuwa	183,585	190	Saliya	Ambalangoda	168,886
191	Samanala	Maisipura	168,532	192	Sudharshi	Anamaduwa	159,908
193	Mahaweli	Bibile	159,693	194	Champika	Pitigala	158,601
195	Samanala	Kuruwita	158,399	196	Regina	Walsmulla	157,829
197	Sujatha	Maho	151,772	198	Everest	Ruwanwella	140,749
199	Ruhunu	Tangalla	136,679	200	Thisara	Madampe	135,540
201	Nawajothy	Galgamuwa	134,540	202	Vasanthi	Pussellawa	131,192
203	Diamond	Galadedera	130,590	204	Samara	Naththandiya	129,273
205	Gamini	Ehaliyagda	128,547	206	Crisantha	Bingiriya	127,329
207	Parakrama	Kegalle	124,637	208	Vasanthi	Vivuniya	124,565
209	Saratha	Galgamuwa	121,614	210	Vilasini	Kahawatte	118,008
211	Suranganie	Kochchikade	116,129	212	Royal	Vavuniya	115,913
213	Viseka	Dambulla	109,611	214	Kalyani	Rambukkana	104,129
215	Hsathi	Agunukolapellassa	103,927	216	Wallatine	Wethara	103,500
217	Sri Murugan	Vavuniya	102,459	218	Ranjani	Hettipola	102,176
219	Ranjani	Kadana	101,806	220	Deepa	Nivitigala	96,640
221	Dharshana	Akuressa	93,667	222	Weelington	Valchchanai	88,048
223	Nanda	Nikeweratiya	87,886	224	Lakahmi	Trincomalee	85,146
225	Jayamini	Nochchiyagama	83,998	226	Gamini	Ragala	79,771
227	Indra	Pundalyoya	79,754	228	Sooriyamahal	Hembantota	77,698
229	Anura	Medirigiriya	77,484	230	Ganga	Yakkalamulla	76,611
231	Anoma	Kantale	75,698	232	New Rex	Alawathugoda	75,615
233	New Gem	Ragama	73,794	234	Saraswathi	Trinco	71,311
235	Eastern	Sammanthural	69,296	236	Lichchavi	Aluthagama	68,761
237	Lakshmi	Nelliady	68,287	238	Lakmali	Ragala	67,634
239	Leo	Agrapathana	68,842	240	Rani	Kotmale	65,748
241	Indrani	Nikaweratiya	64,144	242	Rajeswari	Batticaloa	63,590
243	Wellington	Kantalai	60,546	244	Devendra	Chavakachcheri	59,468
245	Chandrika	Bandaragama	57,222	246	Subharajee	Batticaloa	56,468
247	Western	Udupussellawa	56,039	248	Sripali	Warakaopla	55,675
249	Kalyani	Athurugiriya	55,451	250	Abhaya	Huluganga	54,262
251	Shanthi	Jaffna	46,778	252	Pragash	Pundaluoya	46,080
253	Andrew	Trincomalee	45,869	254	Nahams	Chunnakam	44,134
255	Ridgeway	Mahabege	37,953	256	Lido	Jaffna	39,430
257	Easwaran	Kilinochchi	39,405	258	Lanka	Wadduwa	35,604
259	Pauline	Pesalai	34,410	260	Astra	Katunayake	34,200
261	Nilantha	Kahatagasgiriya	30,404	262	Janthi	Rattota	28,758
263	Creasent	Putrtalam	26,627	264	Shihara	Trinco	21,132
265	Parashakthi	Kilnochchi	20,300	266	Saradha	Kalawanchikudi	19,740
267	Vijaya	Batticaloa	19,437	268	Kamal	Deraniyagala	18,320
269	Regent	Rambukkana	17,986	270	Astra	Katunayake	17,000
271	Shanthi	chenkalady	16,634	272	Wasana	Hiripitiya	16,477
273	Aynn	Mannar	12,805	274	Kumaran	Mannar	12,679
275	Rajanayaki	K. K. S.	12,167	276	Lakshmi	Nelliady	10,760
277	Selvi	Pandithirippu	9,609	278	Wesley	Manipay	7,865
279	Yoganayaki	V. V. Thurai	8,365	280	Nahame	Mannar	5,699
281	P. T. S.	Kalutara	8,400	282	Yarl	K. K. S.	4,422
283	Lakmini	Warakagoda	3,405	284	Liberty	Atchuvely	3,345
285	Orchid	Hiripitiya	1,995	286	Saradha	Chenkalady	1,065
287	Sivajothy	Mullaitivu	745				
Total Grossings			Rs. 133,609,942				

components of the 'ticket price' which have been introduced ad hoc by the NFC, and which are also shared contrary to accepted international practice, are the Film levy and the Special levy.

The utility recovery charge of Rs. 1.50 on admissions to air conditioned cinemas and Rs. 1.00 on admissions to non air conditioned cinemas was imposed in mid 1982 and early 1983 with the benefit accruing to the exhibitor to offset escalating utility costs, particularly the increased cost of electricity. The local authorities, recognising the predicament of the exhibitor, exempted this charge from the payment of entertainment tax (international practice accepts that, by mutual agreement, the entirety of a particular charge of component of the ticket price may accrue to only one segment to meet a specific cost borne additionally by that segment alone). The equitability of this arrangement (in respect of the Utility Charge to meet the exhibitors' increased cost of electricity) has now been nullified by the introduction of the Speical Levy, as will be evident from the following:-

9

The film levy of Rs. 1.00 imposed on all admissions with effect from October 1986 does not attract entertainment tax on admissions to nationally produced films, whilst on admissions to imported films 25% entertainment tax is payable, thus reducing the film levy on this category of films to 75 cents. The film levy is shared as follows:-(See Table 6)

The Special Levy of Rs. 2.00 introduced in December 1989 by the NFC gave the exhibitor 45 cents, the balance Rs. 1.55 being payable to the NFC, Rs. 1.15 of this Rs. 1.55 is passed on to the local producer, and 40 cents is retained by the NFC. The NFC have advised exhibitors that this levy does not attract entertainment tax, but exhibitors have yet to receive confirmation from the respective local authorities.

This hire charge of Rs. 2.00 is applied to all admissions irrespective of the existing "ticket price" to the various classes or half rate and service tickets. The cinemagoer therefore is, in fact making an additional contribution to the NFC's coffers without receiving any additional benefits. Had the normal admission rate been,

Table 6

	Exhibitor	Distributor	Supplier Producer	Entertainment Tax
	Cts	Cts	Cts	Cts
Nationally Produced Films	30	10	60	nil
Imported English Language Rental Films				
- Release Cinemas	20	40	15	25
- Other Cinemas	30	45	**	25
Imported Oriental Films	30	45	**	25

** Although this levy was introduced in October 1986, the basis of sharing has yet to be agreed upon, the NFC has offered only 10 cents of the levy whereas the supplier has insisted on 15 cents in terms of their discussions with the NFC.

* The NFC being the sole importer of Tamil language films purchased on royalty basis, the suppliers' share also accrues to the NFC.

Table 7

Overriding Commission To NFC On English Language Films - 1988 & 1989

Title	Cinema	Supplier	Release Date	Box Office Gross	NFC Commisson 5%
Staying Alive	Liberty	PAR	01.01.88	172,162	3,579
Woman In Red	Regal	FOX	01.01.88	126,479	3,984
Butterfly Revolution	Central	CPL	01.13.89	90,715	2,439
Raw Deal	Liberty	CPL	01.13.89	332,741	8,995
Young Lady Chatterly II	Central	CPL	01.15.88	659,022	28,152
Fire Walker	Majestic	CPL	01.15.88	281,828	6,287
Hercules	Empire	CPL	01.15.88	102,565	1,241
Remo	Regal	FOX	01.22.88	78,927	1,716
Fx Murder By Elution	Majestic	FOX	01.27.89	177,692	'3,321
Club Paradise	Liberty	WB	01.29.88	13,007	6,501
Two of A Kind	Regal	FOX	02.05.88	37,300	1,865
Viiolent Street	Empire	UA	02.05.88	9,804	0
Hard Knocks	Empire	STR	02.10.89	48,824	964
Murphy's Romance	Empire	COL	02.12.88	17,517	0
White Roses For My Coloured Sister	Regal	STR	02.12.88	20,658	0
Girls For Rentq	Central	SJ	02.17.89	236,086	8,913
Out of Africa	Liberty	UNIVERSAL	02.19.88	114,508	2,127
The Ice Pirates	Empire	MGM	02.19.88	16,656	0
Moving Violations	Regal	FOX	02.19.88	47,736	1,254
Give My Regards To Broad Street	Majestic	FOX	2		
Jagged Edge	Regal	COL	02.24.89	63,619	1,605
Burglar	Liberty	WB	02.24.89	33,874	0
Platoon	Majestic	FOX	02.24.89	849.879	3,1009
Stuck on You	Empire	DGT	02.24.89	112,526	3,181
Black Cauldran	Empire	WB	02.26.88	30,,091	631
Bruster Millions	Liberty	UNIVERSAL	03.03.89	67,772	1,352
Live And Die In La	Majestic	UA	03.04.88	323,384	11,846
Living Daylights	Regal	UA	03.04.88	527,266	10,303
Pickup Artist	Regal	FOX	03.10.89	28,,413	0
Police Academy	Liberty	WB	03.11.88	141709	1,885
Jim Kata	Empire	MGM	03.11.88	83,,199	2423
Beverly Hills Cop II	Liberty	PAR	03.17.89	209,663	5,,,126
Raising Arizona	Empire	FOX	03.17.89	14363	0
Girl From India	Empire	DGT	03.24.89	51611	1,227
Heartbreak Ridge	Central	WJO	03.31.89	87,834	2,436
Exorcist	Central	WB	04.01.88	134,787	6,739
Witness	Liberty	PAR	04.02.88	676,571	2,074
Quick Silver	Empire	COL	04.02.88	20,570	0
The Crazy Jungle Adventure	Empire	CLP	04.07.89	53,436	1,074
Extreme Close Up	Empire	STA	04.08.88	139,408	4,506
Fantasia	Majestic	WB	04.15.88	41,935	0
Delta Force	Liberty	CPL	04.15.88	894,100	38,340
Friday The 13th Part II	Central	PAR	04.21.89	23,257	0
Karate Kid Two	Majestic	COL	04.22.88	177,051	3,728
Bad Medicine	Empire	FOX	04.28.89	34,344	483
Best Defence	Central	PAR	04.29.88	15,617	0

increased by Rs. 2.00 on which Entertainment Tax of 25% (or 50 cents) would have been payable the exhibitor's share would have been 75 cents, the balance 75 cents being shared by the supplier and the NFC. The basis of sharing the Rs. 1.55 payable to the NFC by exhibitors on admissions to other language films procured by the NFC on rental terms **was not agreed upon** at the time fo the imposition of this new hire charge. Agents representing suppliers of films on rental terms and suppliers have protested and made submissions with regard to the apportionment of this special levy.

The overall basis of dividing the various components of the "ticket price" when film hire to the supplier is 60%, 50% and 40% of the admission rate is illustrated in Table 8 and Table 9 the basis of sharing the Utility Recovery charge, Film Levy and Special Levy is as stated earlier in this section. The observations on these appendices are as follows:-

1. Prior to the imposition of the special levy the exhibitors' share of the "ticket price" when the film hire payable to supplier was 60%, 50% and 40% was 47.10%, 54.98% and 58.94% respectively.

2. The NFC's share of the "ticket price" prior to the impositon of the special levy was 4.04% when the film hire to the supplier was 60% and 50% and 7.98% when the film hire payable to the supplier was 40%.

3. Consequent to the introduction of the special levy the share accruing to the exhibitor when the film hire payable to the supplier is 60%, 50%, and 40% declined to 42.96%, 49.53% and 52.82% respectively.

4. The share accruing to the NFC following the introduction of the special levy increased from, 4.04% when the film hire payable to the suppliers is 60% and 50% to 6.71% (over 66.09%) and when the film hire payable to the supplier is 40% it increased from 7.98% to 10.00% (over 25.31%)

5. In terms of the proposed increase in the over-riding commission the exhibitors' share of the "ticket price" when the film hire payable to supplier is 60%, 50%.

and 40% drops drastically to 36.40%, 42.97% and 49.54%; when turnover tax is also taken into consideration the share accruing to the exhibitor is only 30.40%, 36.87% and 43.54%. The NFC's share under the proposed arrangements further increases to a constant 13.28%.

6. The NFC's attempts to increase its share from 4.04% and 7.98% to a constant 13.28% an increase of approximately 228% and 66% without any input on its part (the exhibitor now being called upon to bear customs duty and clearance charges) will be a crippling blow to exhibitors and will prove counter - productive, in that the cinemas which have been the NFC's major sources of revenue will opt out of the industry in favour of other business avenues offering a more realistic return on capital investment.

7. The inequitability and unfairness of the NFC's attempt to appropriate for iteself the percentage of the "special levy" which is rightfully due to the suppliers is evident from the fact that 22.94% of the "ticket price" accrues to the NFC (without any investment on its part) leaving only 40.66%, 34.09% and 27.52% for the supplier of the film when film hire payable is 60%, 50% and 40% respectively.

8. The disparity of the division is further amplified if half rate and service tickets are taken into consideration. In Table 9 where, for purposes of illustration of this disparity, the capacity is computed at half rates and the division applied, the unfairness is crystal clear. A norm can be struck by considering 10% of the admissions at "half rate" ticket prices and the balance at "full rate".

At the risk of being repetitive it must be reiterated that the contribution (in excess of Rs. 25,000 per month) to the NFC by cinemas releasing English language films in Colombo is, in relative terms, much higher than the contribution of any other individual cinema in the rest of the country. This contribution is without the provision of any service by the NFC unlike in the case of other cinemas. The NFC's own statistics on its income from Distribution, Commission, Film Levy and Special Levy will establish the veracity of this assertion.

Table 8

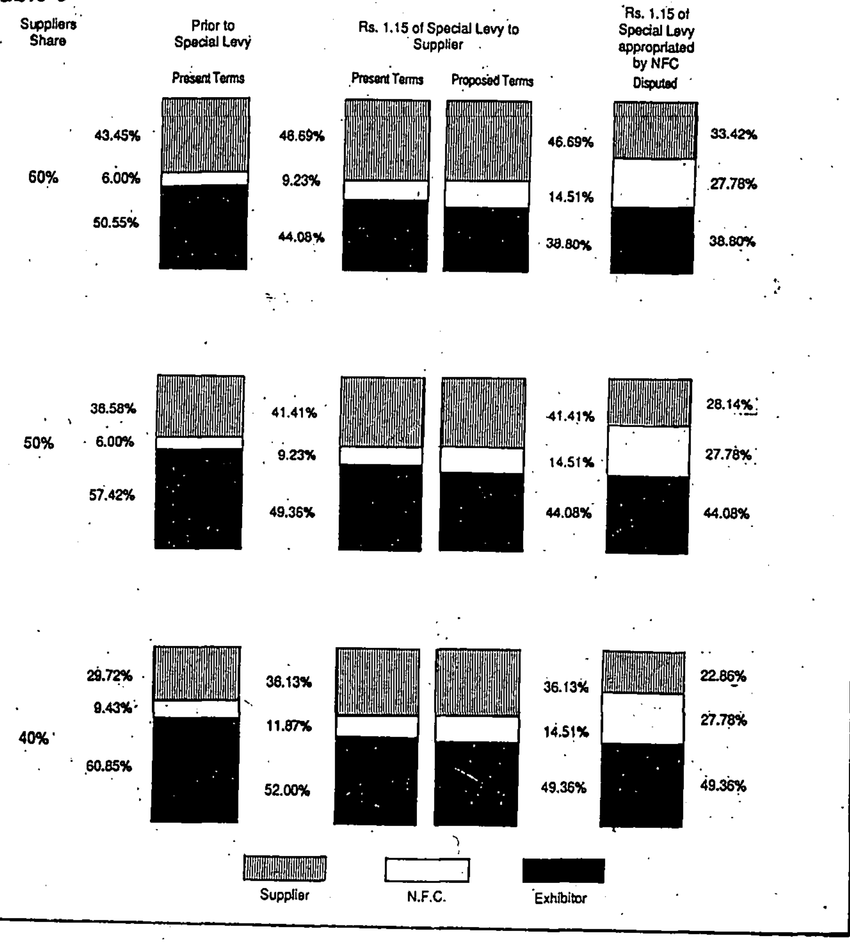
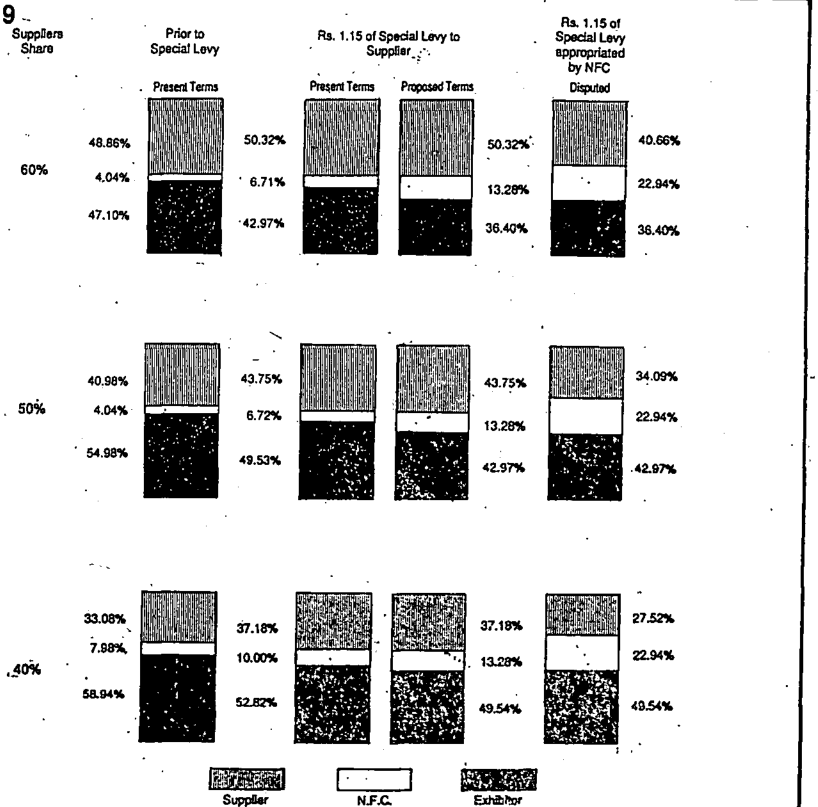


Table 9



The NFC's allusion to "the plight of the Corporation" is admission enough that the NFC is a continuing and annually increasing burden on the public purse. While cinema exhibitors and the NFC are agreed on that, where they clearly differ is on how to resolve the problem of the NFC's rising and recurring losses.

It is the exhibitor's considered view that no useful purpose will be served, even in the short term, by the NFC attempting, as it were, to sweep its losses under the carpet and maintain a facade of exemplary management simply by tightening its stranglehold on a cinema industry that is already financially battered.

The NFC must examine critically and anew those of its operational areas causing its massive annual losses and endeavour to put its house in order without delay. There can be no substitute for prudent financial management in all spheres of human activity, even organised charities, when run properly and well, are invariably managed like a business venture.

The NFC's decision to vary terms and conditions only for 9 of the approximately 250 cinemas in the Island, with all other cinemas continuing with unaltered terms other than of course the film levy and the special levy (both of which were applicable to all cinemas), confirms that they are under a mistaken impression. Had the NFC responded to the exhibitors' offers to provide it with complete details on the operation of cinemas, the NFC would not have sought any variation in the existing arrangements.

The principal causes of the present shortage of films which has deprived the movie going public of the entertainment it has a right to expect are:-

A. The NFC's non payment of long outstanding dues to the MPEAA member companies, resulting understandably in the MPEAA stopping further shipment of films on contracts already approved by the NFC.

B. The arbitrary introduction of the special levy by the NFC and its unilateral variation of terms and conditions, which prompted MPEAA member Companies to direct that their films not be released for screening.

C. The NFC's failure to approve four contracts for 1989 covering 33 films concluded with Columbia Pictures Industries Incorporated, MGM/UA Communications Company, Universal International Films Incorporated and Paramount Pictures Corporation although contracts covering 42 films from 20th Century Fox International Corporation, Buena Vista International, Orion Pictures Corporation and Warner Brothers International for the same period were earlier approved by the NFC.

Although the NFC has announced that the import of English language films has been liberalised no private sector exhibitor has yet imported any films on the NVC's revised terms and conditions; put simply, the importation of films on the new terms is no longer a business proposition. When other state sector monopolies were liberalised the private sector was quick to move in and seize all available opportunities because the liberalisation was not accompanied by restrictive and/or prohibitive terms and conditions, as the cinema Industry is faced with today.

The NFC's proposal to revise terms and conditions for 9 Colombo cinemas, coming on top of the Special Levy of Rs. 2.00 imposed by the NFC as recently as December 1989, which adversely affected the exhibitors' share of income, will make operation of these cinemas unviable. Equally important is the exhibitors' view that the proposed revisions cannot prove to be a permanent panacea for the NFC's numerous shortcomings, and is nothing more than another example of ad hoc policy changes which can only result in a deepening of the crisis that the NFC and the cinema industry both find themselves in today.

10

This review reiterates that the continued monopoly by the NFC on the import and distribution of films runs counter to the Government's accepted and oft-reiterated principle of not having the State sector encroaching on what is essentially and exclusively the preserve of the private sector.