

# **The Internationalization of the Television Program Market: Media Imperialism or International Division of Labor? The Case of the United Kingdom**

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Internationalization of information markets is far from a new phenomenon. The communications industries we know as the mass media owe their existence to the economies of scale that different technologies of reproduction and distribution have brought to the marketing of information. To realize the potential economies of scale, markets must be extended in time or space, and preferably both.

Gutenberg's development of printing with movable type rapidly conjured into existence a European market for printed books stretching from Riga to Naples and beyond. But in recent years a pervasive alarm at the dissolution of national cultural and communication unities has taken television as its stimulus and "wall-to-wall Dallas" is now an accepted shorthand for the baleful results attributed to this process. Internationalization of television is nothing new, though a long-standing flow of television across national borders has been amplified by technological change. The "Coca-Cola" satellites "attacking our artistic and cultural integrity," as Jack Lang, the Minister of Culture of France put it (*Financial Times*, 1984) have been pre-echoed in the customary prominence in the prime time schedules of the

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U.K. and other national television systems of imported programming. The British Broadcasting Corporation (BBC) used 35 Canadian television dramas in the mid-1950s in order to win back audiences it had lost to Independent Television (ITV), the newly introduced commercial channel and its 1984 screening of *The Thorn Birds* (a U.S. miniseries) was used by the Corporation to boost its ratings (the screening of the eighth and final episode achieved for the BBC its biggest audience in more than two years).

Within media and communication studies these processes of internationalization have been understood largely through the notion of media imperialism. Schiller's (1969) path-breaking *Mass Communications and American Empire* established an enormously influential paradigm that with few exceptions (see in particular, Lealand, 1984; Lee, 1980; Ravault, 1980, 1986) has provided the optic through which international flows of information have been understood by academics. Schiller's powerful thesis is hard to capture in a single citation, but its essence is contained herein:

Free trade is the mechanism by which a powerful economy penetrates and dominates a weaker one, the "free flow of information," the designated objective incidentally of Unesco, is the channel through which life styles and value systems can be imposed on poor and vulnerable societies. (Schiller, 1969, pp. 8-9).

A distinctive feature of international information trade is its dual impact on the economic and cultural spheres. Thus if it could be established that economic welfare was maximized by a division of labor and international trade in television programs, this would not be sufficient to challenge the objections to such trade and specialization based on assessment of the cultural impact of consumption of foreign television.

The classical paradigm employed in trade theory is that of division of labor on the basis of comparative advantage (Schiller's argument is explicitly directed against this dominant paradigm). Aggregate welfare is maximized if producers A and B specialize in producing what each of them produces best, and trade with each other in order to secure supply of the whole range of products produced between them. The comparative advantage model is derived from just such trades in agricultural products in which static attributes of climate and soil fertility clearly promote specialization by producers in certain products and trade between them. The model is widely applied to trade in manufactured goods and services, but its application to secondary and tertiary production is often challenged on the grounds that the major factors of production required in these sectors are not static.

It has been established to the general satisfaction of the academic community that international flows in television program trades are unequal, dominated by exports from the United States and, some way behind, the

United Kingdom (Nordenstreng & Varis, 1974; Varis, 1985). I do endorse Chapman's (1987, p. 10) identification of the "overall paucity of what has been produced," but there seems to be no reason to doubt the preeminence of the world's two largest Anglophone states in the international program trade. From where does this preeminence derive? From a classic comparative advantage? What then are the factors exclusively or preeminently possessed by the U.K. and the U.S., and are they actually or potentially contestable by other producers? If so, under what conditions could their preeminence be successfully challenged?

Among the pertinent factors that contribute to the success of the U.S. and U.K. in the international trade in television programs are language (English is the most "international" of world languages); the size and structure of domestic markets; the possession of a "critical mass" of creative personnel competent in acting, makeup, and videotape editing; an infrastructure of prop, set, and costume renters and makers; ready availability of financial services such as insurance; manufacturers of electronic and cinematographic equipment; and processing laboratories and electronic services such as video standard conversion and image manipulation. Some of these factors, such as language, could be defined as attributes of a classical comparative advantage; others, such as the availability of a pool of actors and efficient financial services, are probably better defined as competitive advantages. However, for most purposes such distinctions are more theological than real. In production centers such as New York, Los Angeles and London, factors required for production are present that to create elsewhere would require enormous and comprehensive investment.

Substantial investments have been applied in a variety of locations in order to establish national production industries. Such development policies often, but not necessarily, go hand in hand with import controls through mechanisms such as quotas. But the effect of quotas is to deny consumers foreign products that they would otherwise have consumed because of their superior price/performance characteristics relative to domestically produced products. Consumer interests are thus, at least in the short- and possibly in the long-term, subordinated to those of producers by a policy of import quotas. The economic rationale (and it is important to recognize that the economic rationale is not the only one) for such policies is that of establishing an infant industry which will, when mature, be able to compete internationally unprotected by subsidy, quota, or other protective measures, and make a return to investors whether directly, through taxation, or both. Such policies do not seem to have been particularly successful. Hoskins and McFadyen (1986) have described the operation of Canada's national television program promotion policy which principally consists of a subsidy of 49% of the costs of qualifying productions. They cite the judgment of the Government of Canada's Nielsen report (1986) that public support has

"only a modest impact on income, tax revenue productivity and the balance of payments," and that "although the economic benefits may exist, they are unlikely to be as high as for other economic investments."

There are, then, two possible rationales for the subsidy policy: that there are positive externalities realized (i.e., noneconomic benefits); and protection of an infant industry which may, once up and running, be internationally competitive. However, the infant industry rationale is one that applies only to temporary subsidy. If long-term or permanent subsidy is maintained, it has to deliver positive externalities, the social or cultural benefits that would not otherwise be enjoyed, to justify subsidy.

In Canada, mobile capital does not seem to have been attracted to the putatively infant industry, which suggests the Nielsen judgement that returns are unlikely to be as high in television production as in other economic investments was justified. The positive externalities remain as the justification for state subsidy of television production in Canada, and here we suggest the case and experience of Canada is representative of other nations. It is important to make clear that the high profitability of Canadian broadcasters does not contradict this argument. These profits come from the sale of advertising time and not from program production and sale.

The lack of success in establishing competitive suppliers of television programming outside the United Kingdom and United States can be explained in a variety of ways. The U.S. and U.K. markets are the world's largest Anglophone markets, and each are resistant to penetration by imported television programs, in the United Kingdom that is because of regulation, and in the United States because of the perception of audiences by broadcasters and advertisers as uninterested in foreign programs. United States and United Kingdom producers are therefore able to recoup much if not all of their production costs in their home markets, and sell into foreign markets confident that however low the price secured from a program sale, the marginal cost of production (little more than the cost of an extra film print or videotape) will be amply exceeded. Nevertheless the rising cost of television programming is encouraging international coproductions to both spread costs and guarantee market access.

In economic terms, it is therefore a rational choice for broadcasters in importing countries to import at close to marginal cost foreign programming that enjoys acceptability with domestic audiences, rather than produce indigenous product. Since television programs are relatively imperishable and not exhausted in consumption, consumers around the world are potentially able to benefit from the low marginal cost of production of television programs and enjoy cheap high-budget product from existing dominant producers.

The United States and United Kingdom, though dominant, are not omnipotent; there are important niches in the international market where they

have either no presence or a weak presence. Japan has been able to successfully occupy one such niche by producing computerized animations (mostly for children), and others exist. (A BBC source stated that there is a world undersupply of live action location-based dramas for children.) There is also a demand for programming in languages other than English that cannot be met by Anglophone producers, even in dubbed or subtitled form, that reflects the experience of regions and cultures other than those surrounding the North Atlantic. Mexico, for example, has been able to establish itself as an important regional and Spanish language producer in spite of its proximity to the United States.

Although aggregate economic welfare may be maximized by a trade regime that permits economies of scope and scale to be realized, and the average price of program products more and more closely approximate to marginal cost as markets are extended, the distribution of the maximized welfare may be profoundly unequal. If, for example, world television production were to be concentrated in New York or even in a variety of locations, it is quite possible for program supply to be circulated internationally at very low cost, but the benefits of such a regime to be preeminently experienced in New York. Jobs, revenue, and tax-generating power would tend to be decanted from the rest of the world into New York, and unless the other world locations from which television production had been decanted were able to specialize in the production of other products which could be successfully traded on "equal" terms of trade with New York, they would be disadvantaged and impoverished. (This is a calculus that is almost impossible to perform.) In theory, again assuming that economic criteria are the only relevant ones, everyone would be better off if, say, Canadians produced wheat and hydroelectricity, Jamaicans bananas, Brazilians coffee, and New Yorkers television, and then traded these products freely between themselves. But few producers would voluntarily stake their existence on a single product and the successful maintenance of international free trade, and there are significant intervening political and cultural variables that make such a regime supply fantastic.

I turn now to these variables that are as significant structuring features of the international trade in television programs as the economic factors considered above.

A particularly strong imperative that militates against the international organization of television production on a basis of comparative advantage and free trade is concern among non-Anglophones for the survival of their languages. This concern is particularly marked among, though not peculiar to, Francophones. A major initiative, La Francophonie, was launched by the Mitterand socialist government to consolidate the French language community around the world, although within the French language community there are complaints from the smaller nations that France has created a less

than perfectly competitive regime. Quebecois television producers are unable to establish a dubbing industry in Montreal because it is only programs dubbed in France that are acceptable to French quota administrators. And the African film *Sarraounia* experienced curtailed exhibition in France for its allegedly anti-French qualities. But survival of national languages is a powerful reason adduced by governments for promoting (via subsidy, tax breaks, public sector institutions) indigenous production and restricting consumption of programs in other languages.

Finally there are cultural, moral, and religious criteria exercised for the promotion of indigenous production and restriction of consumption of foreign programs.

The cultural, moral, and religious alarm at the consumption of international television programming is a conservative alarm based on the assumption that the national cultural, religious, and moral order prior to exposure to nonnational television programming was superior and any change is for the worse. It seems very unlikely that the effect of foreign television will invariably be either negative or positive. At the macro level, maintenance of national political sovereignty and national identity is becoming increasingly precarious as the unities of economic and cultural production and consumption become increasingly transnational. It is an open question whether the reharmonization of political, economic, and cultural institutions (if to be sought at all) should be performed by a more insistent nationalization of the economic and cultural realms, or by an internationalization of the political. At the micro level there are very many cases in which the freedom, welfare, and contentment of individuals is sustained and extended by the contestation of the authority and hegemony of the nation-state and the national culture.

The threat to communications sovereignty latent since the beginning of the 20th century and slowly actualized in North America (Canadian subordination to U.S. broadcasting remains the classic, even though earliest, instance) has, with the triple impact of new distribution technologies, new ideologies of deregulation, and the accelerating demand for quantities of high-budget but low-cast software, become a matter of general concern. In Western Europe, national governments have lost confidence in their ability to maintain communications sovereignty buttressed by national newspaper and publishing industries and state control of broadcasting. Italy's experience, following the Tele-Biella judgement, of the national broadcasting monopoly's vanishing access to the Italian people in favor of unregulated private broadcasters distributing largely U.S. programming, is exemplary. Moreover, the critique of the loss of communications sovereignty customarily runs in harness with a qualitative judgment that the new order and its product is inferior to the old. The concept of cultural imperialism or media imperialism is dependent on qualitative and quantitative judgements. The conditions of quantitative subordination are economic and organizational, while the conditions of qualitative subordination are cultural and aesthetic.

It is an enduring European characteristic to hold up a mirror to U.S. chauvinism. In the United Kingdom, critical concern focuses on the proliferation of U.S.-style hamburger outlets, not on the proliferation of Turkish, Greek, and Lebanese kebab houses, or French, Italian, Indian, and Chinese restaurants. The productivity of U.S. cultural influences are very quickly forgotten; for example, the appropriation of its practices by modernist artists such as Brecht and Grosz, or the impact of Hollywood cinema on the Nouvelle Vague, the New German Cinema, and on Italian film-makers like Sergio Leone or, as has recently been claimed, Gianni Amelio.

The shift in film and television production (though as indicated above, a shift that is far from total) from an artisan mode of production where products are strongly marked by an authorial signature, whether of director or scriptwriter, to series production in which it hardly makes sense to ask who is the author of *Dallas* or *Coronation Street*, is customarily deplored as a particularly insidious form of cultural imperialism. Yet this seems no more cultural imperialism than the adoption in Britain of the electrical engineering manufacturing techniques of Halske and Siemens, Pascalian mathematics, or the astronomical theories of Copernicus and Galileo. U.S. television series production techniques have dominated television in Britain since the 1960s, coexisting with, and some would claim making possible, British television's substantial dominance of the U.K. audience ratings.

It is in this complex ensemble of political, cultural, and economic forces that the international trade in television programs is caught. None of the forces in play operate singly. The low marginal cost of production of television program products will tend to call into existence markets that are widely extended in time and space. Political and cultural forces for the preservation of national language and culture will tend to inhibit these kinds of extension. This ensemble of forces has been imperfectly understood largely in terms of two contradictory paradigms, those of media imperialism and of the international division of labor on the basis of comparative advantage. Neither paradigm is adequate; the comparative advantage paradigm is questionable in its economic analysis and for its neglect of political, linguistic, and cultural criteria. The media imperialism paradigm fails to recognize that imported programs may be important sources of diversity and quality in television program schedules, and is flawed in its thesis that "most countries are passive recipients of information" (Varis, 1984, p. 152). This contention is hard to reconcile with the evidence of Katz and Liebes (1985) that different national and ethnic groups make highly differentiated use of that quintessentially international program, *Dallas*.

Ravault (1980) has pointed out how imperfect are the linkages between cultural production and consumption, and trade, and other political economic forces. Ravault contrasts U.S. and U.K. success in international media markets with the decline in their political, economic, and military power, and observes that West Germany—among other states—successfully

reconciles importation of information goods with increased power in other arenas.

The U.K.'s place in these processes is contradictory and little understood. The transnational cultural and economic unity that U.K. information producers have customarily inhabited is that of the international Anglophone (predominantly North Atlantic) community. But since the U.K.'s accession to the European Economic Community, the *political* unity it inhabits is increasingly European: a unity that is now (Commission of the European Communities, 1984) attempting to Europeanize the cultural and economic activities of the U.K. (and other member states) in the information sector. In a plethora of instances the UK is having to choose Atlantic or European solutions.

Although the empirical studies of Nordenstreng and Varis (1974) and Varis (1985) concluded "that there were two indisputable trends: (1) a one-way traffic from the big exporting countries to the rest of the world and (2) a predominance of entertainment material in the flow" (Varis, 1985, p. 53), Varis further recognized that there is considerable variety in the extent to which these trends were experienced:

In all parts of the world there are countries which are heavily dependent on foreign imports in their programming but also countries with relatively low figures for imported material. (Varis, 1985, p. 53)

This is confirmed by Paterson, who observes of Brazil:

The development of an indigenous television puts into question Schiller's thesis about the inevitability of traditional drama and folk music retreating before the likes of *Peyton Place* and *Bonanza*. (Paterson, 1982, p. 2)

There is, then, no stable interpretative paradigm available which can act as an initial guiding hypothesis. The evidence of international television program trades can only with selective appropriation be made to fit available paradigms of media imperialism or division of labor on the basis of comparative advantage. My view is that what relations exist are highly context-dependent and that market structures, rapidly changing in an international broadcasting order where new technologies and ideologies are exercising their power, are the most important determinants of international information flows.

The U.K. television program production industry has reached a stable *modus vivendi* with other forces in the international market place. This could not have been anticipated given the vulnerability of U.K. film producers to competition from the United States. The factors that give the U.S. movie majors dominance remain: a shared language, U.S. economic power



and ability to amortize high production costs in the domestic market, and the fundamental *attractiveness* of U.S. product to audiences. The vertical integration of producers and distributors in television, the successful imposition of quota restrictions on imports, the limitation of distribution capacity (all functions of state regulation) have enforced a different regime in television. Finally, these conditions of existence for television program production in the U.K. are all changing as national communication sovereignty declines. Changes in the market structure of U.K. trade partners, notably the United States, mean that their producers are also vulnerable to competition in the new television order. The decline in advertising revenues and network audience share in the United States create conditions more favorable to import penetration and less favorable to high-budget domestic production than before.

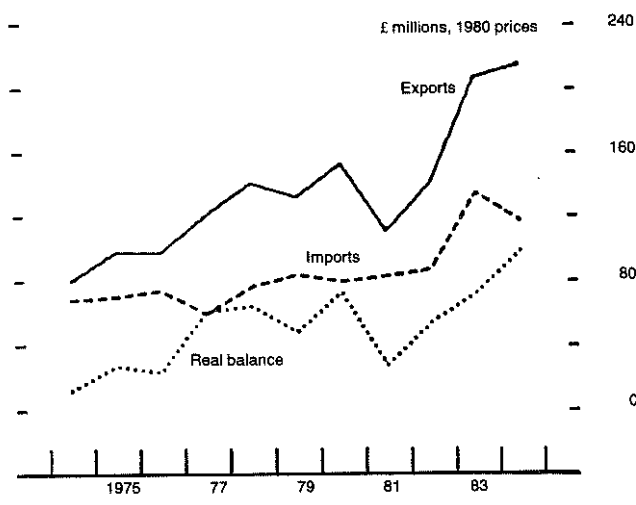
### BRITISH PROGRAM TRADES

The Organization for Economic Cooperation and Development (OECD) estimates that the volume of audio-visual production in OECD member states is about \$26 billion, of which almost half is earned by United States firms. Of this total, no more than \$1 billion is traded internationally, and of that, \$400 million is television programs and videofilms. In 1980, \$350 million of trade in telefilms emanated from the United States, with the United Kingdom the second biggest exporter, exporting \$22 million in telefilms (OECD, 1986, pp. 23, 25).

However the Department of Trade & Industry (DTI) publication, *British Business*, states the overseas receipts of the BBC and ITV program contractors in 1980 to be £50 million (*British Business*, 1986, p. 42). Though to compare the DTI and OECD figures is not to compare precisely like with like, for the DTI figures embrace world trades denominated in sterling and the OECD only OECD trades in U.S. dollars; there is an uncomfortably large discrepancy between them, a discrepancy symptomatic of the uncertainty of the data available on these trades and the tradeable information sector generally. But though it is difficult to establish the volume of trades authoritatively, there is no reason to doubt the OECD's definition of U.S. domination of international markets and the United Kingdom's second place.

In a survey of services in the U.K. economy (Services in the UK Company, 1985, pp. 404-414), the Bank of England comments:

Earnings from film and television amounted to 2.8% of exports and 3.5% of imports of financial and "other" services in 1984 and showed a surplus of £131m. Real growth in this sector has been strong but somewhat erratic, in recent years. (p. 413)



"Services in the U.K. Economy"

Source: *Bank of England Quarterly Bulletin*, 25(3), September, 1985, pp. 404-414.

**Figure 6.1. Films and Television: U.K. Service Earnings and Payments**

The Bank displays the exports, imports and the real balance of trade. It is important to note that the *Bank of England Quarterly* does not disaggregate films and television. There are difficulties in doing so, as many programs produced and traded internationally for exhibition on television are recorded on film and may also be exhibited theatrically. Similarly, films may be distributed on videocassettes and be consumed through exhibition on a domestic television set whether the signal originates from a terrestrial or satellite broadcast, cable, or a domestic videocassette recorder.

The last nine years (to 1986) were ones of increased volume of trade between the United Kingdom and the rest of the world in television programs. Both imports and exports of programs grew, though particularly in the last five years, imports tended to grow more rapidly than exports. In the period 1976-80 the average positive trade balance in television programs was 12 million pounds per year; since 1980 the positive balance of trade has declined. In 1985, a very strong positive balance of trade was reestablished (of £28m), but in 1986 this fell to £12m.

In the period 1968-76 receipts from the trade in television programs more than trebled, from £5m to £18m, and doubled, from £18m to £36m, between 1976 and 1977. Expenditure on overseas programming more than quadrupled between 1968 and 1976, from £4m to £18m, fell slightly in 1977, and then grew again at an increasing rate through the mid-1980s, falling off only briefly in 1985. Movements in the volume of trade are not regular either on a year-to-year basis or in terms of the geographical area in which the trading partner is located.

**Table 1. Transactions of the BBC and ITV Program Contractors, 1978/86: Analysis by Area Receipts (millions of £)**

	EEC	Other W Europe	USA & CAN	Other Devlpd	Rest World	Total	USA & CAN Share	Balance of Trade (£M)*
1978	6	3	17	6	5	37	46%	15
1979	10	4	18	7	3	42	43%	14
1980	8	3	30	6	3	50	60%	19
1981	10	4	21	8	4	47	45%	10
1982	11	3	35	9	5	63	56%	8
1983	11	2	47	11	6	77	61%	8
1984	15	4	51	14	7	91	56%	1
1985	14	6	65	16	9	110	59%	28
1986	18	5	53	16	8	101	52%	12

\* Receipts less expenditure

Figures taken from *British Business* dated 9-16-83, 10-5-84, 8-30-85-9-5-85, 9-19-86, 10-2-87. Other developed countries comprise Australia, New Zealand, Japan, and South Africa.

**Table 2. Transactions of the BBC and ITV Program Contractors: Analysis by Area (1978/86) Expenditure (millions of £)**

	EEC	Other W Europe	USA & CAN	Other Devlpd World	Rest World	Total	USA & Canada Share
1978	4	2	12	1	3	22	55%
1979	6	2	15	1	4	28	54%
1980	5	4	18	1	3	31	58%
1981	11	2	19	1	4	37	51%
1982	9	4	36	1	5	55	65%
1983	12	4	47	1	5	69	68%
1984	16	3	64	2	5	90	71%
1985	13	4	56	4	5	82	68%
1986	15	5	57	5	7	89	64%

Figures taken from *British Business* dated 9-16-83, 10-5-84, 8-30-85-9-5-85, 9-19-86, 10-2-87. Other developed countries comprise: Australia, New Zealand, Japan, and South Africa.

However it is clear that North America, of which the United States is by far the most significant market component, is the most important single market, accounting for between 43% (1979) and 61% (1983) of the export market for British television programs, and between 43% (1977) and 71% (1984) of the imports of programming into the United Kingdom by value. The substantial improvement in the balance of trade in 1985 was principally due to increased receipts and decreased expenditure in North America. The shifting patterns of U.K. trade in television programs between 1978 and 1986 are shown in Tables 1 and 2.

### BRITISH TELEVISION COMPANIES AND FOREIGN COPRODUCTIONS

Direct program sales to overseas markets is not the only form of trading or production relationship between British television companies and overseas markets. There are a variety of coproductions concluded, either under coproduction treaties whereby the program or series produced counts as a domestic product in the home market of each coproduction partner, or in a less formal arrangement such as that between BBC's *Horizon* documentary program and the equivalent *Nova* series produced by WGBH in Boston for PBS in the United States. The arrangement is one in which the BBC and WGBH exchange a number of programs each year.

Co-producers' contributions to BBC program production are stated as follows:<sup>1</sup>

Year	1978/9	1979/80	1980/1	1981/2	1982/3	1983/4
	£5.5m	£2.9m	£2.7m	£4.6m	£4.6m	£5.9m

The production of Central TV's *Kennedy*, LWT's (London Weekend Television) *Dempsey and Makepeace* and Thames Television's *Reilly: Ace of Spies* were all done on the basis of a presale agreement with a U.S. client. *Reilly* had, for British television, a high production budget of £4.5m (11 episodes of 52 minutes, one of 75 minutes), or approximately £370,000 per program hour. This exceptional commitment, which required authorization by the main board of Thames Television, was made possible by a presale agreement with Mobil Oil of \$100,000 per program hour. *Dempsey and Makepeace* was presold to the Chicago Tribune group for an estimated \$100,000–200,000 per program hour (Stoddart, 1985, p. 38). An interview with Herb Schmerz (1985), the vice president of Mobil Oil responsible for Mobil's sponsorship of PBS television drama, established an average range of between \$100,000 and \$200,000 per program hour as the acquisition cost of "quality" television drama for exhibition on PBS.

The term "coproduction" describes a wide range of collaborative activities concerned with the finance and actual production of television material. Rarely do coproductions involve a fifty/fifty share of funding, production, and distribution responsibilities between partners on an equal basis. Most coproductions represent the collaboration of a project initiating company with a funding and/or facilities partner. In addition, the nature of such financial collaboration is such that there is increasingly a "blurring" between the boundaries of coproduction and presales activities.

<sup>1</sup> Source: *BBC Facts and Figures*, 1980–85, British Broadcasting Corporation, London, England.

**Table 3. BBC Enterprises: Coproducers' Contributions to Program Production/Foreign Program Sales (Millions of £)**

	Coproduction	Foreign Sales Contributions
78/79	5.5	7.6
79/80	2.9	8.5
80/81	2.7	9.7
81/82	4.6	15.7
82/83	4.6	12.4
83/84	5.9	17.4

Source: BBC *Facts and Figures* booklets, 1980 to 1985, British Broadcasting Corporation; London, England.

Note: Foreign sales figures include program presales income.

### BBC Coproductions

The BBC has a long established tradition of coproduction activities, particularly with the (Anglophone) Commonwealth. Such coproductions have typically involved programs of the documentary/wildlife/travelogue/cultural/location historical drama variety. In such productions, the BBC has traditionally been the dominant partner in creative terms, and usually the sole beneficiary of subsequent international program sales.

For programs not simply requiring a specific foreign locale and/or on screen talent, coproduction partners are sought for purely financial purposes. Coproduction finance is sought firstly from BBC Enterprises, the business arm of the BBC, then by international shopping around. Byron Parkin, deputy managing director of BBC Enterprises, outlined the process as follows:

When programmes are offered to the controllers of BBC1 and BBC2, often they don't have sufficient money to take the more prestigious ones and so they tell the producers that the balance will have to be found from outside co-producing partners. The co-production department makes a list of all those programmes looking for co-production money and their first port of call is Enterprises. We say we'll put so much into that one and so on. After they've had our answer they go round the world trying to find the outstanding sums. For *The Living Planet* we put a substantial amount of money in and then we went out to try to pre-sell it. All of that pre-sale money comes back to us. On big productions pre-selling is very important and necessary to re-coup the large amounts of up-front money. It's a growing trend. (Wade, 1985, p. 45)

As Parkin describes the relationship, foreign coproduction partners are passive providers of finance to the BBC. Research interviews and Trade

Press reports do, however, indicate a growing resistance to this approach on the part of foreign television companies (particularly given the increasing range of players in this area)—Inta Janovskis (Director of Programme Development, Canadian Broadcasting Corporation) singling out the lack of production consultation and zero profit share in subsequent sales in particular as major shortcomings in BBC coproduction deals (Interview with Janovskis, Fall 1985). If this resistance becomes more pronounced, it seems likely that the BBC will look to more coproduction deals with nonproducing TV operations such as the American Worldwide Holding Corporation, a U.S. syndication company, where the “co-pro” arrangement is effectively a high price presale which gives the U.S. coproducer rights to U.S. syndication.

The area of high-budget drama production in particular has seen the BBC alter its traditional approach to coproductions. The case of *Tender is the Night* illustrates how the high production costs of prestige drama increasingly require the BBC to take major coproduction partners who have a significant role in both funding and creative decision making.

#### Channel 4/European Coproductions

Joint productions with European partners have been an established aspect of British Television coproduction activities for some time, but recent developments have led to increased activity of this kind. The significant factor has been the introduction of Channel Four with its specific cultural programming brief; the similarity of Channel Four's programming policies to other European broadcasters such as ZDF (Zweites Deutsches Fernsehen), with *Das Kleine Fernsehspiel*, has been an obvious incentive to coproduction.

Channel Four has actively pursued European coproductions since its introduction in 1982 (e.g., its £1m input into the C4/RTE/Astramead series, *The Price*). In addition to collaboration in television drama coproduction, a second area of coproduction is coming to assume increasing prominence, that of cultural, documentary, and television feature film coproductions involving a number of European partners. It should be noted, however, that only one or two of the partners involved in such multipartner coproductions usually control production decisions; the others characteristically provide “presale” type finance.

Justin Dukes (business manager of Channel Four) has emphasized the potential long-term importance of European coproductions to minimize the duplication of European productions addressing common European interests (e.g., cultural anniversaries, performance events, etc.); Dukes has predicted that up to 15 percent of future Channel Four production could derive from such arrangements, thus freeing around 40 percent of the national cost of a similar domestic production for other production activities (Interview with Dukes, Fall 1985).

Additional interest in the area of multipartner European coproduction has arisen from 1984 publication of the Commission of the European Communities Green Paper, *Television Without Frontiers* (1984), and the ensuing debates. The European Broadcasting Union canvassed a European production fund, a measure referred to in the Commission Green Paper. However, even given the acknowledged importance of such production activities, European broadcasters have largely rejected proposals for an EEC (European Economic Community) administered European coproduction fund of \$20 million. The BBC comments are representative: "The BBC is sceptical about the usefulness of a fund but it all depends on what it is for. In principle the BBC would oppose any initiative which brought Government or EEC involvement in editorial decisions. Coproduction projects are already made in reasonable numbers in Europe and extra money alone is unlikely to significantly increase such coproductions. The BBC therefore would ask what purpose a fund might serve (House of Lords, 1985, p. 70).

This rejection follows lengthy discussions between representatives of European broadcasting companies, and demonstrates a reluctance to collaborate with a funding source which requires executive supervisory powers over editorial and production decisions.

### ITV Coproductions

Though information on the annual income from Independent Television (ITV) coproduction deals is unavailable, trade press reports indicate that in addition to coproductions with European and Commonwealth partners, ITV companies are attempting to increase and diversify their coproduction activities with a range of U.S. partners. There has also been greater willingness to work with foreign partners in a genuinely collaborative manner, for example, the Yorkshire Television/Alan Landsburg coproduction of *Glory Boys* which was produced in separate versions for the U.K. and U.S. markets (*TV World*, 1985, pp. 12-14).

Coproduction deals encompass a wide range of financial arrangements and production responsibilities and such arrangements often overlap with "presales." The growing importance of such deals has led in some cases to the presale purchaser being able to dictate script modifications and approve casting and thereby produce ostensibly British domestic market programming tailored to the American market. A recent example of this is London Weekend Television's *Dempsey & Makepeace* presale deal with the Chicago Tribune group.

British television companies' production and presale of program material specifically developed by independent agents for American network transmission also blurs the coproduction/presale boundaries. Harlech Television (HTV) has been particularly active in this field, with a number of major

deals with CBS and NBC. Deals such as that struck with CBS for the production of the television film *Arch of Triumph* have seen the U.S. partner supplying over 50 percent of the production budget through its presale license fee. This has resulted in allegations from within the industry of HTV simply acting as a "facilities house" for foreign production. (*Broadcast*, 1984, p. 48).

ITV company subsidiaries such as Central's Zenith have also involved themselves in similar activities, coproducing properties specifically for the U.S. market. For instance, Mary Tyler Moore Productions developed *Finnegan Begin Again*, starring Mary Tyler Moore, directed by Joan Micklin Silver, and shot entirely on location in the United States. These coproductions have been subsequently broadcast by the parent company in the United Kingdom. Subsidiaries of ITV companies such as Zenith and Euston Films have an advantage over ITV parent companies, as their residuals are calculated on the anomalous basis of them being film production companies rather than television producers and are consequently smaller. The question of residual payments to creative personnel following sale of a property in additional markets is an important influence on ITV company strategy, and has led to the anomalous situation of the BBC receiving a fee for the relay of its programs by cable in Belgium, and the ITV companies declining to accept a fee because of their consequential liability to pay residuals.

### Program Format Sales

Thames Television has developed further methods of exploiting its intellectual property assets. The *Benny Hill Show*, a product that has enjoyed considerable longevity in Britain (and of which, therefore, there is an extensive archive) is re-edited into 22½-minute units and sold to the U.S. syndication market for stripping. New *Benny Hill Specials* produced in and for the United Kingdom are sold to Home Box Office for its satellite/cable pay TV services on an exclusive basis for 18 months. The rights then revert to Thames Television, and the shows are re-edited into a different time format and sold to the syndication market for stripping. The U.S. syndication market demands a high volume of programs so that a stable schedule can be constructed and audiences know, for example, that *M\*A\*S\*H* will be screened at 7 p.m. on Thursday evenings. British programming is ordinarily not made in sufficient volume for stripping, and so however high the quality of individual programs or short series, their lack of volume makes them unattractive in the most important U.S. markets. Thus a series such as *Fawlty Towers* made in a dozen episodes is attractive only to PBS in the United States.

Thames has developed further successful strategies for exploiting its intellectual property in the U.S. television market by selling a series of "formats" to U.S. producers. The original British situation comedies such as



*Keep It In The Family*, *Man About The House*, *Robin's Nest*, and *George & Mildred*, have in this way been transmuted for the U.S. market into new sitcoms such as *Too Close For Comfort*, *Three's Company*, *Three's a Crowd*, and *The Ropers*, which have enjoyed considerable success. The success of the American format clones has provoked Thames to sell the British original versions of the sitcoms to U.S. broadcasters under the title, *The Thames Comedy Originals*, advertised as "156 half-hours for strong, cost effective stripping." Thames has also established a Californian production company, Grand Central Productions, as a 50/50 joint venture with Thames' long-standing U.S. distributor, D.L. Taffner. Grand Central Productions proposes to make programs for six principal U.S. buyers: Home Box Office, Showtime, syndicators, and the commercial networks ABC, CBS, and NBC. Thames' explicit equity stake in Grand Central Productions is a novel initiative in its North American operations which have customarily been through companies in which it takes no equity, but a share of profit.

### The Profitability of Overseas Sales

Sales to overseas markets are likely to continue as an important element of British television companies' activities. The BBC is unable to continue its existing activities and levels of employment at the current levels of its license fee revenue, and is actively pursuing revenue-raising activities including publishing, the sale of information from its archive, and a more vigorous exploitation of its program stock by BBC Enterprises. The relationship between average and marginal costs in television program production is such that sales of programs to small overseas markets for low prices may still realize very high profits in relation to the costs incurred. A hypothetical example will clarify this argument. A program may be produced at a cost of £200,000. Much, if not all, of this cost of production will be defrayed from revenues accruing in the United Kingdom home market, whether from the sale of audiences to advertisers or from license fee receipts. The cost of printing an extra copy of a film or dubbing an additional copy of the program onto video tape is negligible compared with the first copy costs, against which virtually all production costs are allocated. Indeed, the customary practice of the ITV companies is to write off costs in the United Kingdom. The customary formula regularly used in Thames TV's Annual Report and Accounts is representative of the ITV companies' practice.

To the marginal cost of making a second film or videocassette for sale in additional markets must be added the costs of promotion, residual payments to actors and other personnel, marketing, and sales. These may be considerable, as distributors customarily take 30 percent of fees realized. In 1984, BBC Enterprises incurred the following costs:

Sales	£13,715,986
Distribution	£6,671,379
Administration	£4,379,609
Interest	£1,107,225
TOTAL	£25,834,199,
in effecting a turnover of £31,414,923,	
and a pre-tax profit of £5,852,173 <sup>2</sup>	

However, it is likely that many of the costs incurred by BBC Enterprises do not vary proportionally with turnover, and profit will rise more than proportionally with each additional sale. Thus even markets in which low returns are realized may, once "first copy" costs have been defrayed in the home market, be highly profitable.

### THE UNITED STATES MARKET

A consequence of the profitability of foreign sales of television programs and the relatively uncompetitive nature of the domestic market (in which there is a very indirect relationship between consumption and audience size on the one hand and revenues and profitability on the other) is a tendency to tailor programming to the requirements of overseas markets, and in particular to the requirements of the largest and potentially most rewarding market of the United States. This tendency is relatively satisfactorily controlled in the commercial sector by regulation, although whether it should be an aim of regulators to control it or deny British audiences Americanized programs for which a consistent liking has been demonstrated is another question. The Independent Broadcasting Authority (IBA) in 1981 declined to renew the franchise of Associated Television (ATV) to transmit programs and sell television advertising in the Midlands region of England. ATV had a long history of producing evidently "mid-Atlantic" programming such as the series *Baron*, *The Protectors*, and *Man in a Suitcase*. Nonetheless, the pull of the United States market remains a potent one; the predominance of high budget costume drama in British companies output is likely to be related to the evident PBS market for "quality" television of this order.

But there are characteristics of the British and American markets that are difficult to reconcile. The United States market, with the exception of PBS, demands a high volume of product for stripping. There are very few British programs that meet this requirement (*Dr. Who* and *Benny Hill* do and have been successfully sold to the U.S. syndication market), although ATV attempted to develop British product in volumes suitable for stripping with programs such as *The Prisoner* and *The Muppet Show*. Rather the program

<sup>2</sup> Source: BBC Enterprises Annual Report & Accounts. 1984 British Broadcasting Corporation, London, England.

form that is perhaps most successfully "amphibious" in both markets is the miniseries. Much of the drama output sold to PBS for screening under Mobil Oil's sponsorship as *Masterpiece Theatre* or *Mystery!* has been of this kind, and characteristically commands prices of between \$100,000 and \$200,000 per hour. Presale agreements with Mobil enabled Thames Television to proceed with its expensive *Rumple of the Bailey* and *Reilly: Ace of Spies* productions. *Reilly* cost £4.5m for 12-1/4 program hours, with revenue from the PBS presale accounting for perhaps 20 percent of its budget. The sale of Canadian Francophone rights, an audience of approximately eight million, realized \$16,000 per hour for Thames. Such agreements have become of increasing importance to U.K. producers. Indeed Central Television's daughter company, Zenith, set up after the successful transnational miniseries production *Kennedy*, receives a maximum of 50% of its production budgets from the parent company. The requirements of the IBA and institutional amour-propre are such that few U.K. producers will admit to any relationship with coproduction partners which might compromise British autonomy and control, or to any tailoring of cast or productions to foreign markets. But the quantity of coproduction and joint ventures, and the importance of foreign markets, is such that it is unimaginable that the anticipated requirements of the most important market, the United States, has no impact on editorial or creative decisions.

The joint venture, coproduction phenomenon is a two-way street; a number of U.S. series owe their continued existence to their success in the U.K. market, and *TV World* testifies to the need of U.S. producers for foreign partners and the power of these coproducers:

What were co-financing deals in years past are now becoming fully fledged international co-productions today. The U.S. and European partners involved are not only sharing production costs but more than that. There's a shared creative role in the project as well. At least for us its no longer a case of a major studio saying to a foreign partner "Give us your money but don't open your mouth." The foreigners want to be part of the editorial creative process and on that side they're playing a greater role than ever before. (Gershman, 1985, p. 12).

To be sure, the two-way street carries a disproportionally high volume of U.S. traffic, but the flow is two-way. No market in the world can now consistently support the cost and volume of production necessary to supply its domestic market. The United States' longstanding comparative advantage in audiovisual media production has been critically dependent on the size of its domestic market. The command of a high-income market of approximately 250 million people generally resistant to penetration by imports, has enabled U.S. film and television producers to invest very large sums in production budgets, recoup these investments in the home market, and then sell very high quality product at marginal cost in foreign markets.

**Table 4. Share of Viewing Hours by Television Provider.**

Year	1975	1981	1986	1991
Networks	84	75	67	56
Independent and PBS	16	22	22	23
Pay		2	7	13
Non pay cable services		1	3	7

Grieve Horner & Associates, *A study of the United States Market for Television Programs*, Toronto 1981; p. 4.

Producers have customarily been able to recoup costs in the U.S. market by licensing a network for two screenings of an hour of programming. However, this equilibrium is being disturbed as the production costs of U.S. television series rise, and the ability of broadcasters to pay declines. Broadcasters' ability to pay is declining as advertising revenue declines and as competition, most importantly with the challenge to the three networks' hegemony by the "fourth network", Fox, and independent stations grouping into syndicate, becomes more effective. The networks' prime time share of the U.S. audience has declined to below 75%, from 90% at the beginning of the 1980s, and advertising revenues fell in 1985 by 2.6%. This means that a prime-time slot "that commanded over \$100,000 two years ago is now selling for under \$95,000 (*Financial Times*, 1986, p. 24). A representative example of production cost inflation is the U.S. series, *Miami Vice*. Each episode of *Miami Vice* costs \$1.2m, of which \$850,000 is covered by NBC's network licence fee (*Business Week*, 1985, p. 77).

NBC and the other U.S. television networks' ability to pay \$850,000 in license fees is likely to continue to decline. As other terrestrial broadcasters augment their audiences, share of advertising revenue, and ability to pay for programming at the expense of the networks, and as pay services (whether delivered by satellite, cable, or video) grow, the networks ability to pay high program license fees declines. Grieve Horner projects a trend of continuing network decline. As the long period of network oligopoly in the United States draws to a close, the market structure of the United States will approximate to a model of a plurality of middle-sized distributors, each disposing of license fees for programs lower than those affordable by ABC, CBS, and NBC in their heyday. This change in market structure is likely to create more opportunities for non-U.S. producers to sell into the U.S. market. If the attrition of the networks' share of audiences and revenues continues to be faster than growth in aggregate revenues, then the revenue pool will be shared more evenly among a greater number of players, with each player commanding fewer resources than do the biggest current players. The ability to pay for the production costs of an episode of *Miami Vice* will decline. But the ability of a greater number of players to pay intermediate prices for

programming will rise. In this new regime, where very high-cost programming may no longer be afforded, and in which demand and ability to pay for low-to mid-cost programming increases, there may well be increased opportunities for sales to the U.S. by foreign producers. Increases in U.S. distribution capacity, through licensing of new terrestrial broadcasters and satellite and cable-delivered pay television, and redistribution of advertising revenue among broadcasters, are likely to diminish the comparative advantage of a strong home market resistant to foreign products long enjoyed by U.S. film and television producers.

There are of course counterindications to this scenario: The merger of a network, ABC, with one of the principle independent groups, Capital Cities Communications (*Philadelphia Inquirer*, 1985, p. 1), to form the United States' largest broadcasting group suggests that other resolutions of this contradiction are possible.

Accordingly the phenomenon of *Kennedy*, a production by a British company with a British script made in the United States with United States actors and crew is likely to become more widely generalized.

For the future it may be anticipated that British producers will continue to successfully penetrate foreign television program markets. It is likely that they will do this in conjunction with foreign coproduction partners and that, particularly if successfully alliances are concluded with established producers for the U.S. networks, sales to the U.S. networks will become established. The agencies through which these productions are launched are likely to be daughter companies of the ITV companies and independent producers rather than the ITV companies themselves. Many of these independent production companies and daughter companies will be located outside the United Kingdom, as production and consumption of television programs becomes more and more international. It makes little sense to ask whether *Kennedy*, *Star Wars*, *Finnegan Begin Again*, or *Murder in Space* are British or American or Canadian productions, or, in another medium, to ask whether *The Economist* is British; or the Frankfurt or New York editions of *The Financial Times* are British. It will make less and less sense to ask that question about more and more television programs. Culture and cultural production are international phenomena, and the political institutions of the nation-state are highly imperfect tools through which to control or regulate these practices and activities.

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