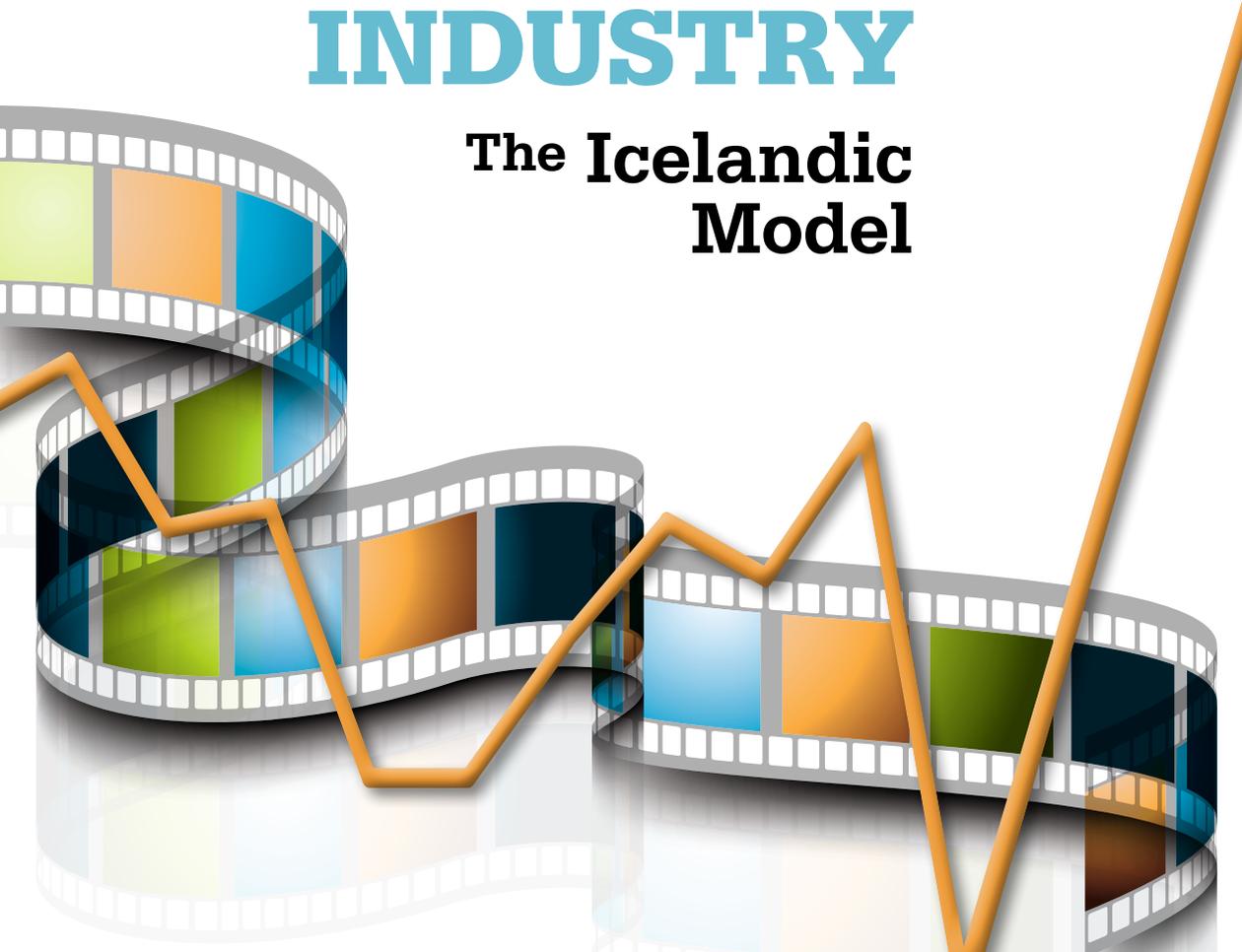


Ágúst Einarsson

**ECONOMIC
IMPACT**
OF THE
**MOTION
PICTURE
INDUSTRY**

**The Icelandic
Model**



Economic Impact
of the Motion
Picture Industry
The Icelandic Model

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BIFRÖST UNIVERSITY
HÁSKÓLINN Á BIFRÖST

2014

Economic Impact of the Motion Picture Industry: The Icelandic Model

©Ágúst Einarsson

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To my granddaughters



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Preface

There is something fascinating about films, something mysterious that captures our imagination. Most children remember their first experience of film and some people preserve the memory of their first trip to the movies for their entire lives. Each generation remembers its own youthful experience of motion pictures in an enduring way and everyone has different and personal memories of films.

The term 'cinema', which can be used either as a synonym for 'film' or as a word for a building designed for showing films, has its origins in the Greek word 'kinema', which means 'movement'. The same applies in other languages, such as German, where the word for cinema is 'Kino'. The Nordic languages use the word 'bio' in various compound words meaning film such as 'biograph' in Danish and 'bío mynd' in Icelandic; this also originates in Greek, where the word 'bios' means life.

Recalling that a little more than a hundred years ago this form of recreation did not even exist brings home the enormous changes that have occurred over this very brief period. The advent of motion pictures is not a main cause of these changes, of course, but it is still a clear example of the way that society and daily life have changed in the last century or so. The world's population has grown fivefold in the last hundred years, having grown only tenfold in the two thousand years before that. Hardly any useful comparison can be made between our contemporary societies and those of several hundred years ago as regards living conditions and the options available to the general public for leisure and recreation. This is particularly obvious to Icelanders, who were a poor and relatively undeveloped nation well into the mid-1900s, when things finally began to take a turn for the better. Living conditions improved vastly, technology advanced rapidly and the population increased sharply. The present century may bring equally profound changes, but there is no telling what these changes might be, any more than there was a hundred years ago.

This book attempts to shed some light on the economic impact of the motion picture industry in general and at the same time to portray certain relevant aspects of Icelandic society for the purpose of illustration. Iceland is a small country and in studying economics at work it can be useful to focus on a small community in order to shed light on factors which can be more difficult to isolate in larger communities. This book is based partly on a book which I published in Icelandic in 2011 on the economic impact of the art of film, titled *Hagræn áhrif kvikmyndalistar* (The Economic Impact of the Art of Film). I have always been fascinated by the arts, not only as an experience that gives us pleasure and improves our lives, but as an important element of the economy. In fact, culture in general represents a large sector of the Icelandic economy and offers Icelanders diverse economic opportunities in a changing world.

This book is divided into six chapters. Chapter 1 discusses films in the general context of culture and describes the extensive consumption of culture in Iceland as well as the historical development of the motion picture industry. Chapter 2 discusses the basic concepts of the demand for motion pictures and their supply, or production. Chapter 3 addresses the role of the public sector in motion picture production. It outlines the reasoning that underlies public support for the film industry and describes the funding process for films. Chapter 4 reviews some statistics relating to the production, distribution and screening of films and provides an insight into the operations and finances of companies working in the motion picture industry. Chapter 5 discusses associations, interest groups and education in the film industry. Finally, Chapter 6 summarises the conclusions of the preceding chapters and discusses the possible future prospects of the sector.

The annexes recount the historical development of the Icelandic film industry, including Icelandic legislation on films, film rating and film museums and archives. The film industry is not an easy environment in which to earn a living or run a business, but even so, one of the conclusions of this book is that the motion picture industry could have a promising future and could easily become a major industry in Iceland, one of proportionally greater significance than in many other countries.

The book includes a number of illustrations and charts, as well as short biographies of twenty-nine individuals who have made their mark on the film industry.

A book of this kind is never one man's work and I have had support from a number of people. My wife, Kolbrún Ingólfssdóttir, as before, has been my best partner and critic in writing works of this kind. My colleague over a number of years, Jón Skaptason, contributed significantly and his assistance has been invaluable. Also, Ari Kristinsson, Axel Hall, Árni Pétursson, Erlendur Sveinsson, Hilmar Sigurdsson, Ian Watson, Njördur Sigurjónsson, Paul Richardson, Ragnar Karlsson and Stefán Jansen have been extremely helpful. I am very grateful to all these people. Nevertheless, any deficiencies are entirely my own responsibility. I dedicate this book to my four granddaughters, who are already greater experts on film than their grandfather. It gives me special pleasure to watch films with them and this time that we spend together is, for me, one of the many magical aspects of this wonderful art form.

Reykjavík, January 2014

Ágúst Einarsson

1. Motion pictures, culture and history

1.1 Economics and the creative industries

Humans have engaged in culture since the beginning of history. In the scholarly world, motion pictures, like other products of culture, have primarily been a topic of the humanities, as a subject akin to literature, but the discussion of motion pictures in the social sciences, including economics, has gained greater prominence in recent decades. Although various prominent economists of the past involved themselves in artistic and cultural subjects – Adam Smith, the father of economics, wrote articles about music, dance and poetry, and John Maynard Keynes, one of the most prominent economists of the twentieth century, was a member of the Bloomsbury Group and a patron of the arts – it is only in recent times that attention has been focused on the economic principles that govern this sector of the economy.¹

Cultural economics as an academic field came into existence in the 1960s. Among seminal works on the subject are Galbraith (1960) and Robbins (1963), which discuss the role of government in subsidising the cost of museums (among other subjects). Baumol and Bowen (1966) were the first to apply economic techniques systematically to the arts.² They discussed how the influence of advances in technology could be weaker in the arts and suggested that for this reason cost would fall less over time than in other sectors. For example, performing a piece by Mozart takes as long now as it did on the day it was composed and the text of a play by Shakespeare will not be improved or made more ‘efficient’ by technological breakthroughs any kind. A quartet will always

¹ For examples of the social-scientific treatment of motion pictures, see Wasko (2005) and de Jong (2009).

² See also McCain (2008).

require four performers! However, the validity of this generalization is limited and there is much scholarship to show that technological progress has also contributed to increased productivity and reduced cost in the creation of art.

The aesthetic value of works of art has also always been a matter of heated discussion and dispute. Beauty can be said to manifest itself in three ways: in the work itself, in the opinion of experts and in endurance over time. The opinions of ‘experts’, whether laymen or professionals, however, are rarely unanimous, or even similar. Nevertheless, the works of art that we know from earlier times are very often created by people who were also well-known and appreciated in their own day. Time does a decent job of sifting works of art and separating wheat from chaff, and in the long term it must be accepted as the best, though not an infallible, judge of quality.³

People have different ways of using their spare time. It should be noted, in passing, that spare time – which is essential for recreational experiences – is something that the general public did not possess in any great abundance until the last two or three hundred years. In earlier ages, normal people devoted most of their time to the task of making a living, and for the vast majority of people there was little time left over for any kind of recreation, although the common notion that life in the past was always all work and no play is a fallacy. Nevertheless, regardless of the time required for general sustenance, art and cultural activities have always been a prominent element of human social life.

The motion picture industry co-exists with a variety of other means of experiential recreation, such as music, and the stage, as well as completely unrelated forms of recreation, such as sports, spectator sports in particular, gaming and gambling. We can use the term ‘industry’ to encompass all these activities, whether we choose to use the terms ‘entertainment industry’, ‘recreation industry’, or ‘experience industry’. This industry is geared to the production of experiences and it generates extensive economic activity in meeting consumer demand for entertainment, recreation and pleasure. Some writers have suggested that it is the largest industry in the world, and the motion picture industry is now one of its more prominent and important segments.

³ For discussions of the aesthetic value of works of art, see, e.g., Hutter and Shusterman (2008) and Ginsburgh and Weyers (2008).

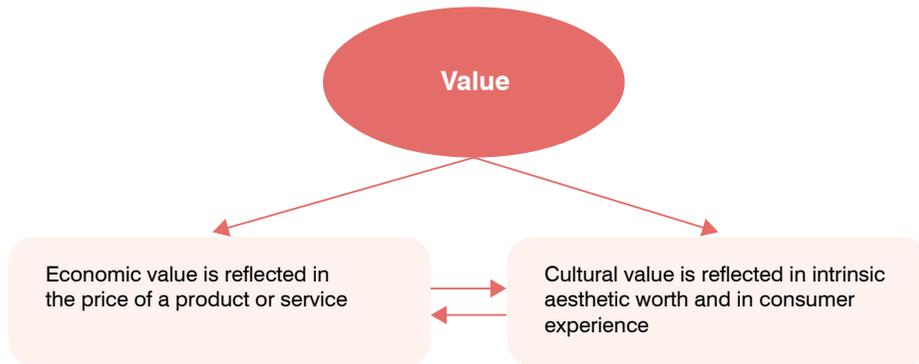


Figure 1.1: The concept of value in cultural economics

When discussing the ‘value’ of cultural products, and in particular when trying to quantify that value, we have to distinguish between two types of value: economic value and cultural value (see Figure 1.1). In economics, the value of a product or service is reflected in its price, which relates to the utility that individuals consider themselves to derive from the product or service. This economic value, or price, determines the distribution of the product or service in the marketplace and serves as a signal between consumers and manufacturers.

In addition to their economic value cultural products have another special value which is artistic or aesthetic and cannot be quantified using the traditional valuation methods used in economics. This value may manifest itself in the experience and emotional responses of an individual. The work itself, such as the sound of a musical piece or the combination of colours and shapes in a painting, creates value in the minds of the people who are exposed to it.

It is therefore not the price alone which is the determining factor when cultural products are assessed for their value, as shown in Figure 1.1. This double use of the concept of ‘value’ forms a sort of bridge between economics and culture.⁴

Looking at the concept of value from these two viewpoints, the economic and the cultural, provides a convenient framework for assessing the economic aspects of all culture, including film. Discussions of value in economics and culture involve assigning a value to an object or event. This value may be financial (a price, which is the norm in economics),

⁴ For a discussion of value in cultural economics, see, for example, Throsby (2001) and Hutter and Throsby (2008b).

and it may take account of other factors, such as emotional value (as in the case of culture). To give a couple of examples, a painting can be of value for the cultural history of a nation or even an entire civilisation, and a village inn may have significant cultural value for the surrounding community far in excess of the cash turnover it generates. A tavern may be the chief centre of culture in a small community and have intrinsic value as such, irrespective of any revenue that it may generate.

Economic and cultural value can often interact. For example, an object of cultural value, such as the Louvre Museum in Paris, may also generate significant economic value by attracting tourists to France. By the same token, an object of pure economic value, such as the computer industry in Silicon Valley in California, can become a part of the culture of a region in a way that may be reflected in the quality of the local school system or other aspects of the local cultural environment – or even in its attraction of tourists, for that matter.

As culture invariably involves experience of some kind, and this experience is often tied to a particular object or event, it may not be possible to separate cultural value from the actual object or event in question. For instance, art lovers will invariably be more eager to view the original of a painting rather than its replica, even if the replica is virtually identical to the original. Another example is music, where the experience of the setting, such as a grand concert hall, will contribute greatly to an audience's enjoyment.

Films are a part of popular culture in the sense that their popularity is extremely widespread and their appeal is virtually universal and independent of class and education; on another level they are also an important and influential vehicle for social commentary. Films tell a story, and well-told stories have always had wide appeal, regardless of whether they are told in speech, writing, music, dance, painting or film; all these art forms have the quality of capturing the imagination, and most of them have been doing so since time immemorial.

Frequently in the discussion of cultural affairs, attaching a price tag to cultural goods has provoked outcry on the grounds that culture is somehow degraded, and even sullied, when it is discussed in the context of money, let alone profit. But attaching an economic value to things is unavoidable, whether they are cultural or not. Economic valuation has proven to be a convenient way of putting things into a comprehensible context, for instance in measuring added value and charting changes

in living standards. Assigning both economic and cultural value to cultural goods is a way of showing respect for both of these perspectives.

Creativity is an important element of all science, including the social sciences. In economics, creativity is mentioned mostly in the context of innovation, where it is seen as a driving force of technological progress. Technological change has significant implications for any society, which makes innovation an important concept in economics. But creativity is even more of a key concept for cultural economics. Culture and the creative process are inseparable – especially in the arts, whether that means creative writing, music, film or any other art form. Creativity is the driving force that gives rise to art.

The creative process has something of a mystic, even divine quality. We speak of people as ‘gifted’ if, for instance, they appear to be born with an exceptional talent for singing or sketching. In some languages, a child who is more creative than other children is referred to as a ‘wonder child’ (German *Wunderkind* and its Icelandic counterpart, *undrabarn*). There are many examples of geniuses in art, but there is no clear explanation of how they acquired their gifts and talents. Consider individuals like Leonardo Da Vinci, Picasso and Shakespeare, who were such outstanding artists and creators that they have captured the imagination of successions of generations. It may be possible to explain genius on the basis of genetics and inheritance, but on a more practical level it can be argued that success in the creative process involves three major elements, as shown in Figure 1.2.

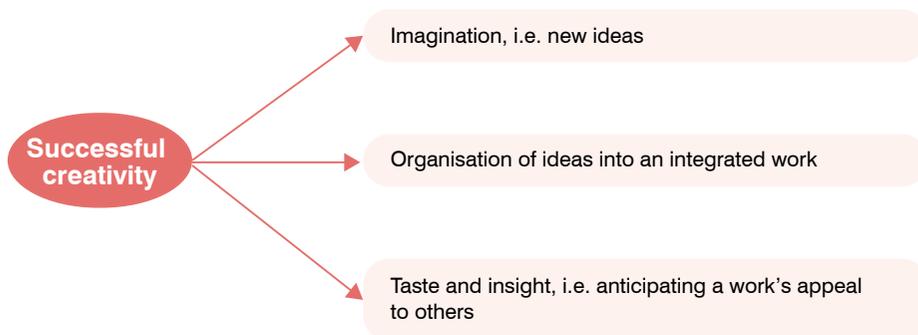


Figure 1.2: Features of successful creativity

As illustrated in Figure 1.2, successful creativity is, first, a matter of imagination, or the invention of new ideas. Second, it requires the

ability to organise these ideas. It is not enough to just have them; they must be organised into an integrated and complete work. Third, success demands taste, an elusive factor which means a sort of ‘insight’ – whether by the artist or someone else – into whether a work will appeal to others. As a caveat here it should be noted that it is not uncommon for artists to be well ahead of their time – so far ahead, in many cases, that their work is rejected by their own generation and their genius is not recognised until much later. But even though the term ‘creativity’ is most frequently applied to art and artists, it is actually much more broadly applicable, with relevance for a large number of other sectors of the creative industries.⁵

Many and varied obstacles stand in the way of people’s creative power. Their environment and surroundings can be among them, but the primary obstacle is usually capital – or rather the lack of it. Even in the absence of other hindrances (technological limitations, lack of time, or

lack of facilities), a lack of capital can easily lead to market forces taking precedence in the creative process. One manifestation of this constraint is that far more popular music is produced than classical music, because the market for popular music is so much larger and capital therefore much more abundant. Limited capital, whether a consequence of limited income or limited assets, severely restricts creativity, just as it restricts so many other aspects of life.

A work of art is the result of an act of creation and just as with any other kind of production, creating a work of art requires resources. One of these resources may be talent, but other more mundane resources are also required, such as time, tools and material. This means that when complete, a work of art will have both an economic and a cultural or artistic value. Creation begins with an idea, but it is not possible to obtain exclusive rights to ideas. To make a work of

David Attenborough was born in Britain in 1926. He is a world-renowned wildlife broadcaster and ambassador *par excellence* of the British Broadcasting Corporation (BBC) in his field. Attenborough is meticulous, captures stunning images and describes extraordinary and complex matters in a clear and readily understandable manner. His educational television series *Life on Earth* has been shown worldwide. A naturalist by training, Attenborough began his career in radio and later became a versatile filmmaker. His latest work is a television series on climate change and animal life in the polar regions. David Attenborough is the recipient of numerous awards and honours and was knighted, becoming Sir David Attenborough, in 1985. He holds an impressive 29 honorary degrees from British universities, more than any other person. He has been assured immortality by having a number of newly discovered fossils named after him.

⁵ For a discussion of the characteristics of creation, see, e.g., Throsby (2001).

art an artist needs to combine ideas with organisation and judgments about taste. When these elements are integrated into a single unit, as shown in Figure 1.2, the unit can qualify for protection under intellectual property rights legislation and acquire a measurable economic value.

Because of the difficulty of transforming ideas into works of art, artists often engage in employment other than their creative artistic work. They have ‘day jobs’; for example, musical composers and performers often work also as music teachers, poets and writers may be librarians or journalists, etc. The smaller the community the more difficult it is to make a living entirely from artistic activities, so although it is not unusual for Icelandic artists to make their living exclusively from their art, it is not particularly common either; and it is not uncommon either for Icelandic artists to need to reach a relatively advanced age before they can make a living entirely from their art, though this has changed somewhat in recent times.

Despite the difficulty of making a living from artistic work alone, the contribution of culture to Iceland’s gross domestic product (GDP, a measure of the creation of value in an economy in the course of a year) is nevertheless approximately four per cent and growing. By comparison agriculture contributes about one per cent to GDP and fisheries about eleven per cent. Culture is therefore already an extremely significant economic sector in Iceland. It would, however, be an error to focus too heavily on the individual economic sectors’ contribution to GDP, as the different sectors are interdependent.⁶

There is now a long tradition of research into creativity and the creative industries. The social sciences, in particular psychology, were the first locus of studies of creativity, with the early emphasis on individuals, creative individuals, and genius. Works of art were also examined, as was the nature of art. Social scientists analysed creativity with reference to personal development, family circumstances, education and other similar factors. Economics contributes a different perspective: it addresses the environment that surrounds creative work and the creative industries.

Cultural economics began as the economics of art, but as its scope expanded scholars started to speak of the economics of culture, and

⁶ For a discussion of the contribution of culture to GDP, see Einarsson (2004).

now an even broader term, the economics of the creative industries, is not an uncommon expression. Figure 1.3 shows this graphically. Art is a part of culture, culture is a part of the creative industries, and this combination is framed by society and the economy.

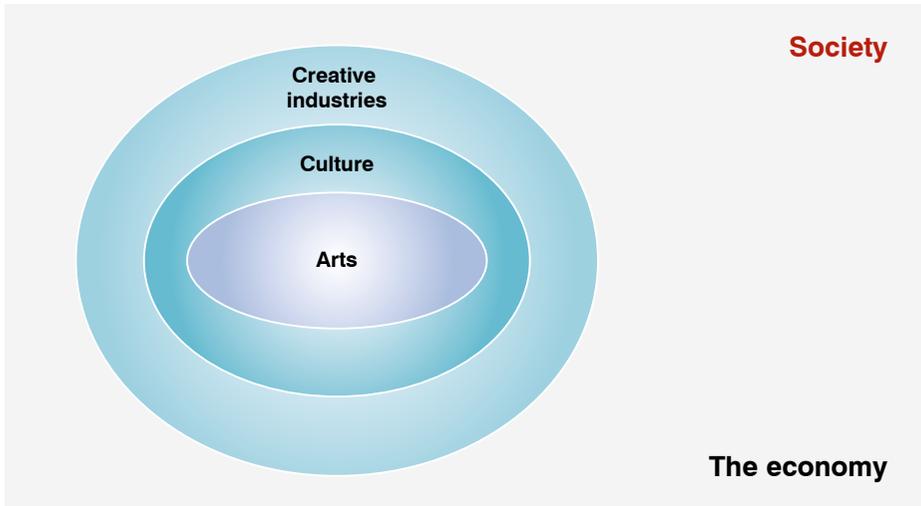


Figure 1.3: Arts, culture and the creative industries

Brigitte Bardot was born in 1934 in France. Although best known for her work as an actress, she was also a singer, a model and a dancer. Bardot was a symbol of French feminine allure. Her image captured the world's imagination and as an icon of style she also had a huge impact on contemporary fashion. She starred in many films directed by her husband, Roger Vadim. After appearing in approximately 50 motion pictures, Brigitte Bardot gave up acting at around the age of 40 because she disliked the constraints of fame. She then dedicated her life to animal welfare, often employing controversial methods to attract international attention. She succeeded in having a ban imposed on trading in seal fur and is largely responsible for the stigma against wearing fur.

Creative work often takes place in group settings, such as universities or other culturally rich environments. Some individuals need to work with others in order for their creative ideas to become reality, as in the case of theatre companies producing a play, orchestras performing a piece of music, or film studios making a movie. With very few exceptions, the creation of a work of art is the work of many (this holds both for production and performance), and industry clusters bring together individuals whose interaction can lead to innovation. A fertile, supportive, encouraging environment is vital for creative work and the people involved in it.

Universities are typically a favourable environment for creation. Universities provide a venue for exchanging views and information

between colleagues at conferences or in scholarly writing. Often, many people are working on the same subject and advancing existing knowledge incrementally. However, creation requires more than just individuals and groups; it requires organisation, a division of labour and a pooling of different skills. A symphony orchestra is an example of an organised entity; universities are also organised entities, although in a different and less specialised way. A creative group must also be strong enough and possess the permanence required for ideas to develop and gain support. To use an analogy, corn will not grow in a desert; the soil in which it is planted must be fertile and arable. The environment surrounding creative work is similarly important to the work's success, and where such an environment does not come into existence by itself its creation will often require intervention by government in some form.

Most creative individuals also want their work to attract attention; they want their creative efforts to extend beyond themselves as individuals. Creative work can simply be a part of an individual's isolated personal development, but a creation that takes the form of a product has to appeal to others in order to succeed. A work of art has to be staged, shown, or read. A technological innovation has to find a role in industry. Products can acquire economic and cultural value only through social interaction.

The film industry is one example of a sector of the economy that is based on creative work. It includes the actual making of films as well as their distribution and screening in theatres or on television. Another example is the music industry, which in fact is now inseparable from the motion picture industry. Science, whether in university research settings or as private enterprise, is also based on creative thinking.

There are numerous definitions of creative industries, as shown in Figure 1.4.

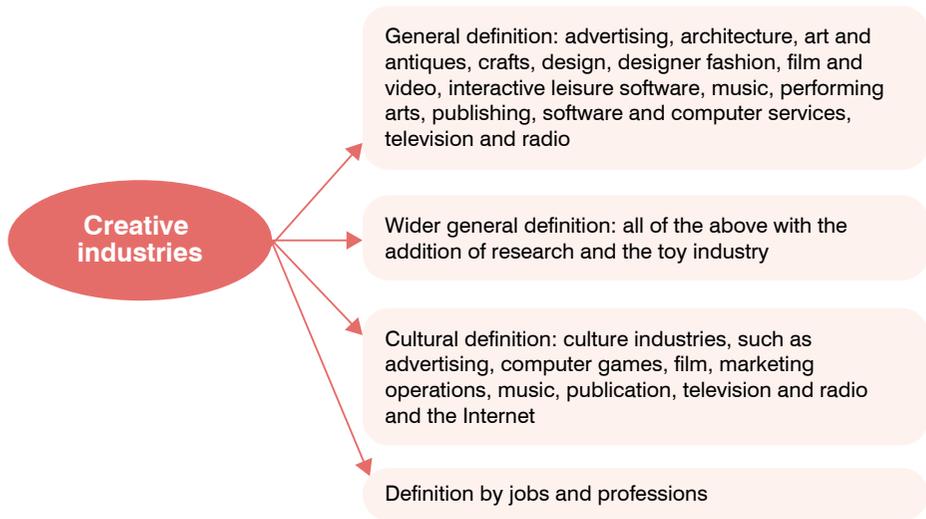


Figure 1.4: Some definitions of creative industries

One definition of the creative industries is that they consist of advertising, architecture, art and antiques, crafts, design, designer fashion, film and video, interactive leisure software, music, performing arts, publishing, software and computer services and television and radio.⁷ Another version adds research and the toy industry, as shown in Figure 1.4.⁸

Another approach to defining the creative industries is to base a definition on the process of production and to include among the creative industries those which manufacture products and services of cultural and artistic value. A narrower version of this definition is used here under the term ‘culture industry’. The culture industry includes everything relating to advertising, computer games, films, marketing work, music, publishing, television and radio and the Internet.⁹

Yet another definitional approach is to look at individuals and their jobs and professions. In economics, production in the economy has traditionally been classified into three categories: primary production, industrial production and service production. One can make the case

⁷ The definition of these thirteen industries as creative has been widely used and has its origins in the first decade of the present century; see *Creative Industries Mapping Document 2001* (2001).

⁸ The addition of research and the toy industry to the creative industries (see Howkins, 2004) is defended on the grounds that intellectual property rights protect the creative work in all the industries included.

⁹ For a discussion of the creative industries primarily from a cultural point of view, see, e.g., Hesmondhalgh (2002).

that the creative industries should be considered as a fourth category rather than falling under one of the three earlier categories,¹⁰ see Figure 1.5.¹¹

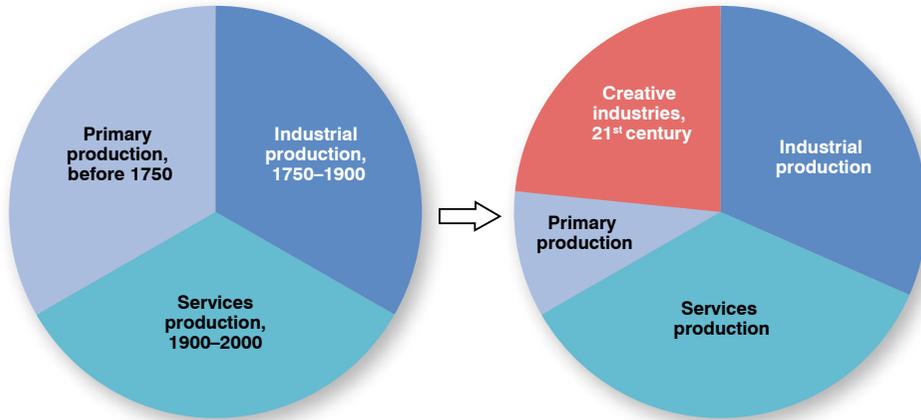


Figure 1.5: The four dimensions of the economy

Primary production, such as agriculture, was dominant into the second half of the 18th century. From that time on the industrial revolution, with its harnessing of steam power and external energy, began to influence human society. The nineteenth century was dominated by industrial production and the production of services became dominant in the 20th century. Primary production is now only a small part of the economic activity of most countries, as shown in Figure 1.5.

A case could be made that the creative industries are becoming a dominant industry of the 21st century. One of the principal reasons for this trend is that humans are devoting a constantly shrinking proportion of income to sustenance and more to recreation and experience. Also, technological advances in the experience industry have been extremely rapid, social media being a contemporary example. Facebook, for instance, is a new and powerful form of communication which can be thought of as source of recreational experiences.

¹⁰ The scientist who has written most extensively about the creative professions is Richard Florida; see Florida (2002) and Florida (2005).

¹¹ The left side of figure 1.5 shows the three earlier categories (primary production, industrial production, and service production) as equal in size. The right side of figure 1.5, with the creative industries added, aims to depict the contemporary division of the Icelandic labour market.

In many ways, Icelanders enjoy favourable conditions for success in the creative industries, including film: the general level of education and training is relatively high, even by Western standards, unique natural surroundings provide suitable backdrops for a variety of films, and there is a culture of swift problem-solving, which is important in an expensive process like motion picture production. Iceland's economy is not particularly diversified: in addition to the traditional fishing industry and the more recently developed tourist industry, foreign currency revenues have been generated since the 1960s by selling electricity from hydro-power and geothermal sources to power-intensive heavy industry. The author of this book ventures the opinion that the creative, culture and experience industries could well become Iceland's heavy industry of the future.

It can be difficult to quantify the role of culture in the economy and care must be taken to avoid overestimates. Nevertheless, looking carefully at employment in the cultural sector allows an assessment of its role in the economy. If employment within the service and manufacturing sectors that can be considered creative is counted as well, this gives a good idea of the scope of the creative sector. This approach

has been used in Iceland and the conclusions of both Icelandic and foreign studies are the same. They show that 23-24% of the Icelandic workforce is engaged in the creative industries and that the sector is growing.¹²

But the uncertainty is significant, both with regard to supply and demand. It can be difficult to make production follow a precisely mapped track and it is also difficult to predict consumer tastes and their trends. However, uncertainty applies to a greater extent to some aspects of culture than others; for instance, it applies to motion pictures, but not to religion.¹³

Ingmar Bergman was born in Sweden in 1918 and died in 2007. Although most famous as a director, Bergman was also a writer and a producer. His films deal with deep personal conflict and have since influenced many other directors. Death, insanity and loneliness were among his signature themes, and the drama always ran high. Bergman was praised by critics, even though his films rarely attracted large audiences. His films include *Persona* (1966), a masterpiece which Bergman himself considered one of his finest films. He worked intimately with a number of Swedish actors, including Liv Ullmann and Max von Sydow, and he received three Oscars for Best Foreign Film.

¹² The domestic studies referred to are discussed in Einarsson (2004), and the foreign studies in Florida (2004) and Florida (2005).

¹³ For an example of further discussion of uncertainty in the culture sector, see Scott A. (2006).

Like other sectors of the economy, the creative industries have their special features. Fundamentally, though, they are just another one of these sectors – one whose products happen to have both an economic and cultural value.

1.2 The consumption of culture in the Nordic countries

Motion pictures require proper soil in which to grow and prosper, and the fertility of this soil can be judged by comparing the cultural environment in different countries. This section will discuss several important aspects of culture and compare cultural matters across the Nordic countries, starting with a discussion of theatre, then museums, and finally book publishing.

Theatres are an important element in the cultural life of any nation. Figure 1.6 shows the number of theatres in the Nordic countries per 1,000,000 inhabitants.¹⁴ Data for two years (2000 and 2011) are shown in order to give a sense of recent trends.

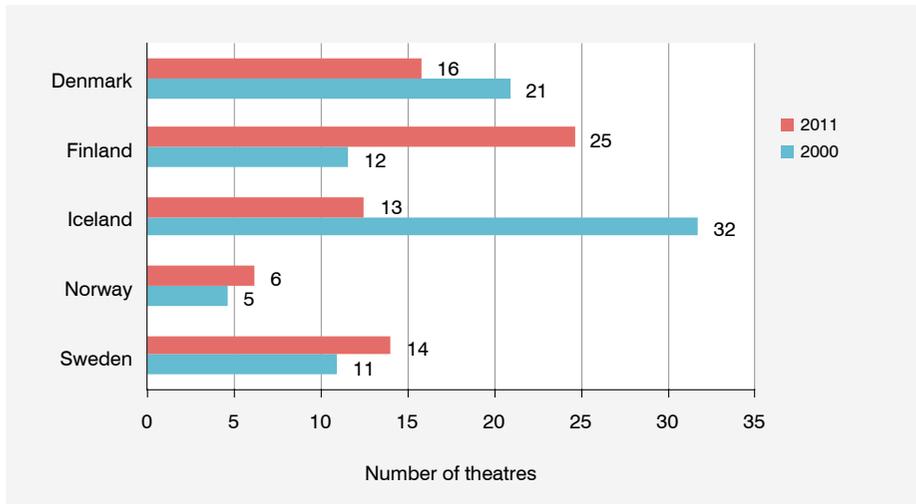


Figure 1.6: Number of theatres in the Nordic countries per 1,000,000 inhabitants in 2000 and 2011

¹⁴ The quantitative data in the following seven charts are derived from *Nordic Statistics* (2013).

In 2000 Iceland had by far the greatest number of theatres on a per capita basis, but their numbers have since fallen and by 2011 there were 13 for every 1,000,000 inhabitants. This is similar to the other Nordic countries, with the exception of Norway, which has the fewest theatres per person. The number of theatres in Finland has grown significantly over the same period.

In a global context cultural life in the Nordic countries is strong, so this comparison is being made among countries which all have a long tradition of cultural activity, a strong cultural sector and extensive public interest in cultural matters.

However, the number of theatres per capita in a country does not tell the whole story. The number of performances is also important. Figure 1.7 shows the number of theatrical performances per capita in the Nordic countries in 2000 and 2011.

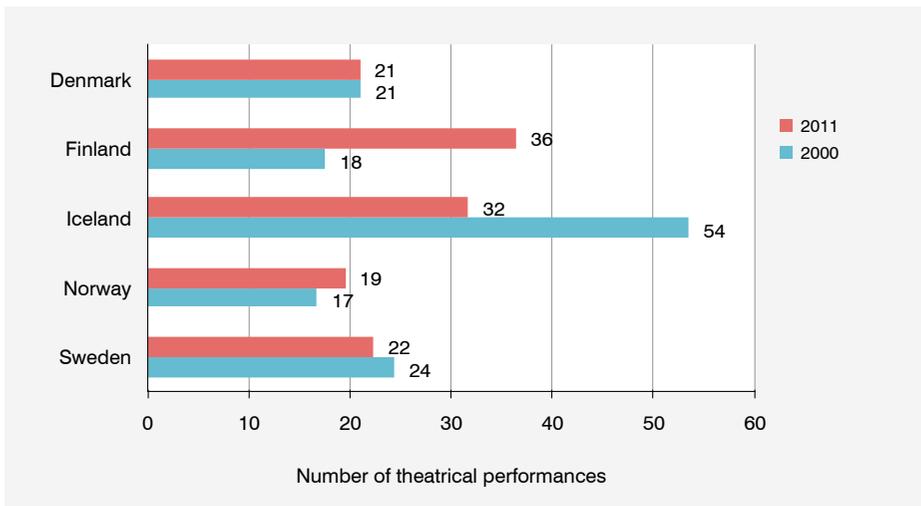


Figure 1.7: Number of theatrical performances per 10,000 inhabitants in the Nordic countries in 2000 and 2011

In 2000, Iceland had by far the most theatrical performances per person in all the Nordic countries. The number of performances had fallen significantly by 2011, but still remains among the highest in the Nordic countries. It is interesting to note that the number of performances per capita in Iceland is 50% higher than the number of performances in Denmark, Norway and Sweden. In Finland, the number of performances has doubled over the period shown in the chart.

However, the statistic that best illustrates a country's interest in the theatre is not the number of theatres or the number of performances per person, but the average frequency of theatre attendance. This is shown for the Nordic countries (again, in 2000 and 2011) in Figure 1.8.

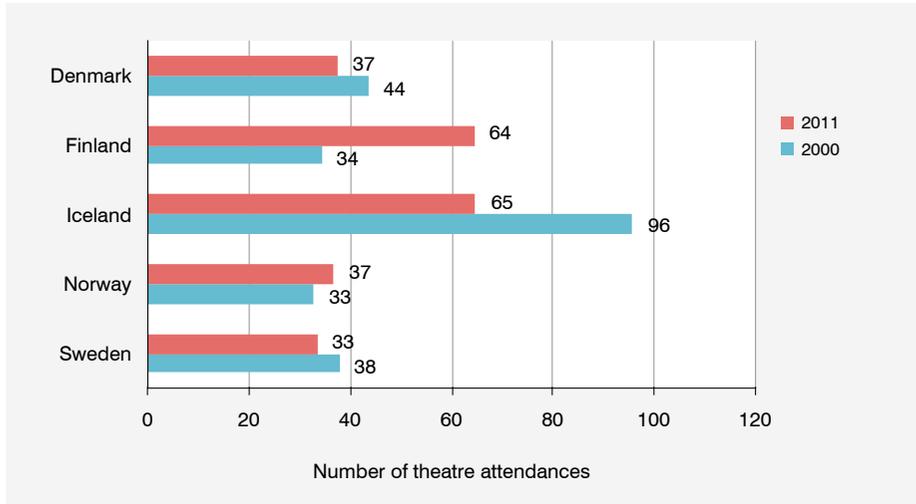


Figure 1.8: Number of theatre attendances per 100 inhabitants in the Nordic countries in 2000 and 2011.

Interest in theatrical performances in the Nordic countries is most prominent in Iceland. In 2000 Icelanders went to the theatre on average once a year, and even though this figure had fallen to 65 attendances per 100 inhabitants by 2011, it remained the highest among the Nordic countries. The level of interest in Denmark, Norway and Sweden is roughly equal, at about 35 attendances per 100 inhabitants per year, and it did not change significantly over the period. The Finns, however, are gaining ground; theatre attendance in Finland has increased sharply.

Humphrey Bogart was born in the United States in 1899 and died in 1957. He is in the minds of many the incarnation of on-screen suavity. With his trademark voice, Bogart was cast as a rogue in his first films. But he was just as successful portraying characters on the right side of the law, such as Sam Spade in *The Maltese Falcon* (1941) or the unforgettable private eye Philip Marlowe, a character created by crime novelist Raymond Chandler. Bogart was catapulted to international stardom with his portrayal of Rick Blaine in the classic *Casablanca* (1942), where he starred opposite Ingrid Bergman. His wife, Lauren Bacall, acted alongside him in numerous films, including *Key Largo*. Bogart received an Oscar for his role in *The African Queen* (1951), which also starred Katharine Hepburn.

Museums are a key part of the cultural landscape in every country. Figure 1.9 shows how often each individual in the Nordic countries visited a museum in 2000 and 2011.

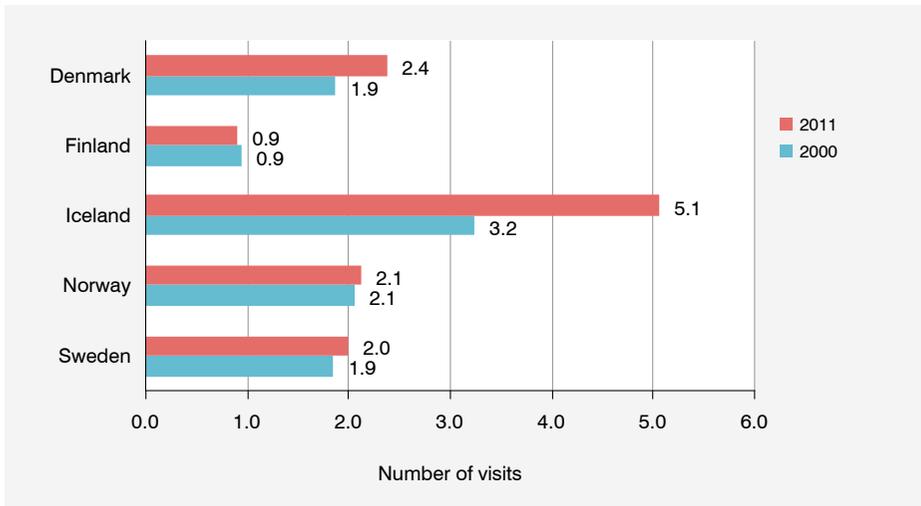


Figure 1.9: Number of visits to museums per capita in the Nordic countries in 2000 and 2011

Icelanders are the Nordic countries' most avid museum-goers. Icelanders visit a museum more than five times per year on average. The corresponding number of visits in Denmark, Norway and Sweden is two per year. In Finland, museum attendance is low, with less than one visit per year per inhabitant on average. This means that interest in museums is five times greater in Iceland than in Finland and double that of the other Nordic countries.

Book publishing is another prominent type of cultural activity. Figure 1.10 compares the volume of book publication in the Nordic countries in 2000 and 2011.

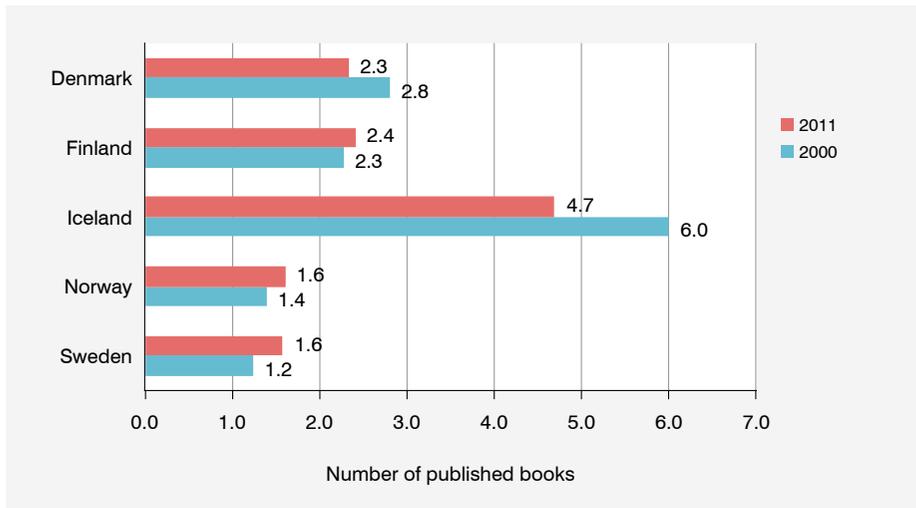


Figure 1.10: Number of published books per 1,000 inhabitants in the Nordic countries in 2000 and 2011

Far more books are published per capita in Iceland than in the other Nordic countries. In 2011, 4.7 books were published per 1,000 inhabitants in Iceland, a number that had fallen slightly since 2000. In contrast, 1.6 to 2.4 books were published per 1,000 inhabitants in the other Nordic countries – only half of the volume of publication in Iceland. It is interesting to note that book publishing increased in Norway, Sweden and Finland between the two years referenced, but not in Iceland and Denmark.

The conclusion of this regional comparison of three areas of culture is that the consumption of culture in Iceland is considerable –the rate is among the highest in the world if we bear in mind that the Nordic countries already rank high on a global scale.

1.3 The origins of motion pictures

For a long time, the branches of art were said to be five: architecture, sculpture, painting, writing and music. This classification stretches back to the civilisation of the Ancient Greeks. Theatre and dance, pertaining to the same branch, were later added with equal status,¹⁵ but early in the 20th century motion pictures began to be spoken of as the seventh branch of the Arts.

¹⁵ For a discussion of the branches of art, see, e.g., Kristeller (1980).

Motion pictures are a recent art form, dating back to 28 December 1895, when the brothers Auguste and Louis Lumière first exhibited a film in Paris. Still pictures projected onto a screen were known already at that time, but moving pictures, or live pictures, were a novelty. The first motion picture experiments were not themselves artistic in nature, but they were the first steps towards a technology that eventually became a vehicle for art and creativity, and indeed one of the most influential types of media ever developed. Progress was extremely rapid. The United States of America quickly took the lead as a centre for the production and exhibition of films, partly due to inventions by Thomas Alva Edison, and America has maintained this lead for over a century, at least among Western countries.

Edison was the most prolific inventor in history, with over one thousand patents to his name. Even though the Lumière brothers were (to begin with) at the forefront of film production and exhibition in Europe, Edison's filming equipment was considered superior. Motion picture quality rapidly became a focus of competition and advances in the design of cameras, film and projectors came extremely fast as the potential of this new technology quickly became evident. To give one example of the type of innovation that was going on, Edison built the first motion picture studio which could be turned in a circle to admit light in accordance with the position of the sun. This made it possible to film for a much longer part of the day, and at less cost. Making full use of available daylight was extremely important, as electric light and other light sources at this time were not powerful enough to replace daylight. Cost, that fundamental concept of economics, was thus from the start a key consideration in the development of motion pictures. For a considerable time Edison held a virtual monopoly on the new and emerging technologies of filmmaking, but his supremacy did not last long and may be said to have ended in 1918, partly as a result of antitrust decisions in the United States.¹⁶

Even as film technology advanced, all motion pictures were silent and in black and white. The first 'talkie' was shown in 1927 in the United States of America. Colour films did not become common until after 1940. The development of film and filming equipment capable of synchronising sound and pictures took a long time and much arduous work was needed before acceptable quality was achieved. The general

¹⁶ On the origins of the motion picture industry, see for example Sen (1999), Cousins (2005), Moul (2005a), and Hutter (2008).

public embraced the motion picture, and it is safe to say that motion pictures became the rage all over the world in the first half of the 20th century. The cinema became a form of entertainment primarily suited for the working classes, as admission was cheap in the early days and the entertainment options available to people who lived in poverty and strife were limited. Wealthier people had other and more expensive ways of entertainment. Nevertheless, the interest of the wealthier classes grew as motion picture technology advanced and cinemas became more opulent.

In the United States, the motion picture industry soon migrated for the most part to California on the West Coast, where the weather was mild and stable and there was plenty of available space and a varied natural environment. An added benefit was that labour unions lagged behind their counterparts on the East Coast and wages were low. Another important consideration was that the light in California was abundant and stable. The production of westerns flourished in this environment. These films were based partly on true – but mostly on fictionalised – events dating from the time of the settlement of the western United States in the 19th century and depicted the settlers' struggles with Indians and outlaws. A virtually new semi-fictional world was created as a venue for westerns that offered fast-paced plots, varied landscapes and wild gallops on horseback. This genre of films has proven durable, and it has frequently been resurrected in recent times. It is testimony, perhaps, to the resilience of the motion picture industry that an entirely new sub-genre of film has been created which appears to be devoted to the task of 'de-romanticising' the fantasy world of the Wild West created by the early moguls of film, best exemplified by the film *Unforgiven*, directed by Clint Eastwood, who, ironically, made his name as the romantic character Rowdy Yates in *Gunsmoke*, one of the best known romantic western television series of all times.

Marlon Brando was born in 1924 in the United States and died in 2004. He is regarded as one of the greatest screen actors of motion picture history and his performances are still used for instruction in drama schools around the world. Brando won Oscars for his roles in *On the Waterfront* (1954) and *The Godfather* (1972). Although he was considered difficult to work with, everyone, actors and directors alike, acknowledged his acting skills. He shot to stardom in 1947 for his role in the film *A Streetcar Named Desire*, based on the play by Tennessee Williams. Besides acting, Brando was also an activist who advocated the rights of indigenous people in the United States and elsewhere. He declined the Oscar (only the second actor ever to do so) awarded to him for *The Godfather* to protest the treatment of Native Americans. Brando continued acting well into his later years and in all genres of film.

In the United States, syndicates of producers and exhibitors dominated the industry in the early 20th century. In most other countries, however, independent associations of producers and film directors gradually gained a stronger foothold. Although exports of motion pictures produced in the United States have always been extensive, films were being produced in most countries already at the beginning of the 20th century. Motion pictures were at first made and exhibited primarily for the sake of novelty and for profit; gradually, however, the possibilities offered by this new form for the creation of art became evident, with far-reaching consequences. Considerations other than those of profit soon became important factors in the utilisation of this new technology.¹⁷

Early on, films showing scenes from daily life or amusing staged events were the most popular attraction, but films soon became a vehicle for more ambitious artistic creation. Works of literature were filmed, and at the same time script writing became an independent field for professional writers. With improved technology, opportunities increasingly emerged for artistic presentation. Governments also discovered the power of the new medium, and dictatorships, such as that of the Nazis in Germany and the Fascists in Italy, used film extensively as propaganda for their policies before and during World War II. Many other nations used, and still use, motion pictures as propaganda in support of their countries and policies; examples include British films of the early 20th century, where Britain's colonialism was glamorised. In Soviet films, the Communist system of government was praised uncritically. Films were used unsparingly for propaganda in the Cold War by both factions, the United States and the Soviet Union. Even the Icelandic government used films for a type of propaganda in the first half of the 20th century, to present Iceland as a country and to showcase the Icelandic fisheries industry.

Conversely, films have also been used extensively to oppose governments and to fight oppression and subjugation. This diversity of use bears witness to the power of the medium. Governments have always kept a close eye on the film industry and films have frequently been banned when they have been perceived as delivering an unwanted message or violating the moral or religious criteria advocated by these same governments. A peculiar episode in the history of the United States was the McCarthy era, from 1947 to 1957, when the government relentlessly

¹⁷ For a discussion of the motion picture industry in the United States, see, e.g., Vilhjálmsson (1999), Parkinson (2012) and Hutter (2008).

persecuted people who were suspected of sympathy with Communism; the highly visible film industry was particularly hard hit and it appeared to make little difference whether allegations of anti-Americanism were true or false. A number of people lost their jobs or were forced to leave the country, including one of the foremost comedians of film history, the English Charlie Chaplin, who left the United States in 1952 as a result of accusations made against him in the McCarthy era. He did not return until 1972, and then only for a brief visit to receive his honorary Academy Award.

Government intervention in the media continues across the world despite international agreements to the contrary. China, for example, the most populous country in the world, restricts the importation of foreign books, films, music and computer games despite the prohibition of such practices by the World Trade Organisation (WTO).¹⁸

Motion pictures have always been a subject of public discussion. Early on, the novelty of motion pictures was sufficient reason for public discussion, but subsequently reviews of films and film criticism became a staple of the print and broadcasting media. Feature-length, acted films have always attracted the greatest attention despite the early popularity of other forms, such as newsreels, documentaries, nature films, travelogues, cartoons and, later, television programmes. As early as the years after 1910, film stars began to attract attention, which has continued to be the case. A number of magazines and newspapers are published all over the world which deal almost exclusively with the private lives of film stars and other personalities engaged in the motion picture industry. These magazines and newspapers are popular merchandise and serve as an effective means of advertisement for the motion picture industry, both directly and indirectly. The art of film therefore enjoys a unique position among the seven traditional branches of the arts as regards public interest in characters and actors.

Film has also become a subject of numerous branches of science: philosophical, religious, social, anthropological, technological, literary, musical and economic discussions of film, to mention a few examples, have been prominent in scientific journals and books in recent decades.

The impact of other branches of art on film has always been extensive. Music became an intrinsic element in motion pictures from the outset,

¹⁸ For a discussion of the use by governments of films see, for example, Sveinsson (1999), Ellenberger (2007) and Cooper and Jayalath (2011).

with music being played as accompaniment to early silent films. Since then, music has been played in virtually all talking movies since their inception. Film scores are a separate field of musical composition in music studies, and increasingly sophisticated sound systems in film theatres have enhanced the impact of music.

Films in earlier times were often based on literary works, with the text adapted for screen. Nevertheless, scriptwriting has from the outset been an important element of motion pictures. The theatre has of course, had a deep influence on the motion picture industry and it was common in the early days of film for stage actors and directors to try their hand at film, admittedly with mixed results. Film actors of modern times are virtually all educated as stage actors and it is not uncommon for experienced film actors to take to the stage between their stints in film.

2. Supply and demand

2.1 Private demand

The two basic factors of the economy are supply and demand. Supply is the quantity of products and services that undertakings are able and prepared to sell, e.g. films and DVDs, while demand refers to the quantity of products and services that people want to buy and can afford. The market is the place where demand and supply come together, and where supply is equal to demand the market is said to be in balance. It is necessary to specify what shapes the demand for motion pictures and what underlies supply, i.e. how demand is met by production.

Everyone has to do something other than simply to eat, sleep and work, which creates a demand for entertainment, recreation and experience, whether in the form of watching films, participating in sports, going to the theatre, listening to music or whatever else comes to mind. The decision here lies with individuals and their attitudes.

There is a close relationship between the price of a product or service on the one hand, and demand for the same product or service on the other hand. This relationship is reflected in a model which is a simple and condensed depiction of reality. This model will be used to explain the traditional factors that influence demand for films and is equally applicable to other products and services. The more prices rise, the smaller the quantity in demand and the lower the price the greater the quantity that consumers wish to buy. This context, known as the law of demand, is shown in Figure 2.1.

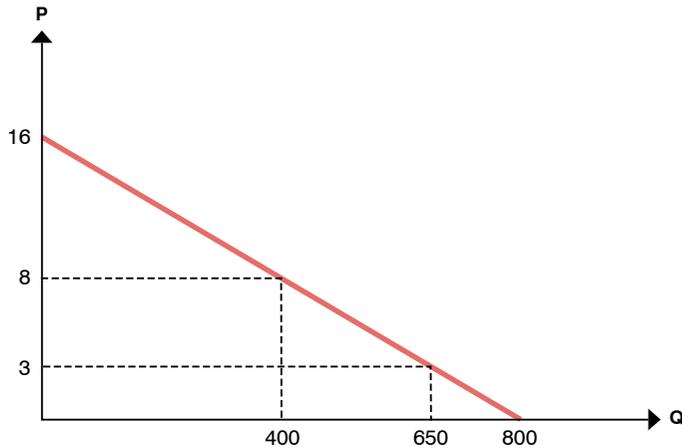


Figure 2.1: Demand curve

In Figure 2.1, the quantity of products (Q) is shown on the x-axis, while the price of products (P) is shown on the y-axis. When the price is higher than ISK 16 per unit, there is no demand. When the price is ISK 8 per unit, the quantity in demand is 400 units and at the price of ISK 3 per unit the quantity in demand is 650 units. Figure 2.1 assumes a linear connection between quantity and price. The law of demand applies to films, as it does to most goods and services. The lower the price of admission to cinemas, the more people will want to see a film. A deciding factor here, however, is what it costs to see or do other things, because films are in constant competition with other recreational material. Consumers are always choosing between watching a film – and which film – or not doing so, at least not doing so at the present time.

Consumer demand is not determined only by price, but also by income, the price of similar products, taste or expectations. Equation 2.1 shows a simple demand function, where demand (D) is a function of several factors.

Equation 2.1: $D = f$ (price of the product, price of related products, advertisements, quality of product, expectations, taste)

Demand is dependent, among other things, on taste, which determines the use or usefulness of a product for consumers. The more use there is for goods, the greater the demand. However, the increase in use will normally fall gradually as more goods are used. Consumers always have

use for goods that they buy, including films, and they use their income to buy a number of things, such as films, but they cannot allow themselves everything they want, simply because their income is insufficient to fulfil all their wishes. And it is not always just income that limits possibilities, but also constraints of time, as no one has enough time to do everything they want. Choices therefore have to be made.

In economics it is generally assumed that supply will be driven by consumer tastes and attitudes. The consumer decides which products he or she will buy. In the culture industry, however, decisions on what gets produced are often down to the personal opinion of the individual in charge of the production, and these decisions are grounded in the knowledge possessed by the individual in question. The result is not always what the market wants. However, the chief problem in the film industry is not a lack of information on what the public wants, but the lack of a sound framework to interpret the information available.¹⁹

In economics, willingness to pay, i.e. the price that people are prepared to pay for goods and services, is a key concept. If people pay less than they would have been prepared to pay for goods, they obtain what is known as a consumer surplus. Willingness to pay also reflects the value that people place on the time that they spend on a film show and travel to and from the cinema. Willingness to pay can be measured using surveys in order to discover what people would be willing to pay for goods and services. Willingness to pay can also be clearly expressed at auctions. In any case, it is more difficult to discover what people are prepared to pay for various elements of culture.²⁰

The norm is that as a consumer owns more of specific goods his needs will gradually become saturated. For instance, normal people will not accumulate endless quantities of clothes. However, this need not apply universally with regard to motion pictures, as increased attendance will often generate increased consumer interest in watching even more films. The same applies to music: a person who listens extensively to music, thereby acquiring a greater taste for music, will often wish to hear more music. Thus, demand is increased by increased consumption, which is unusual.²¹ Figure 2.2 shows this context.

¹⁹ For a discussion of demand and information in the motion picture industry, see, e.g., Owers *et al.* (2004) and Shamsie (2006).

²⁰ For a discussion of willingness to pay, see, e.g., Frey (1994) and Frey (2008).

²¹ For a discussion of increased demand with increased consumption, see Becker and Murphy (1988).

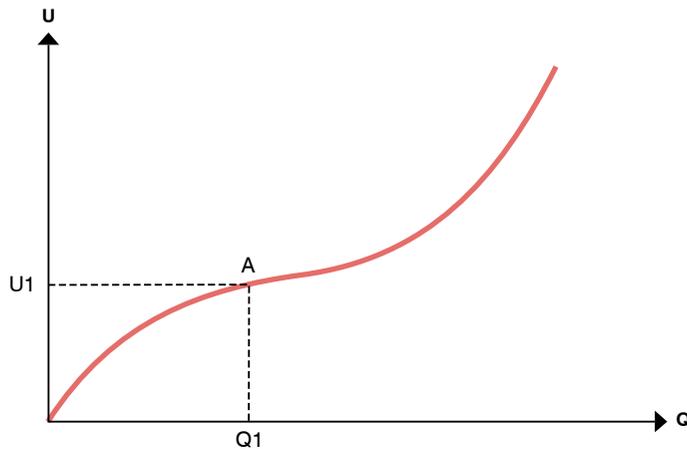


Figure 2.2: Relationship between quantity and utility

In Figure 2.2, quantity (Q) is shown on the x-axis, while utility (U) is shown on the y-axis. Figure 2.2 shows that utility increases with increasing quantity, but the increase decelerates until it reaches the quantity of Q_1 and the utility U_1 . This is known as diminishing marginal utility. After the quantity Q_1 , utility increases significantly; this is the range of increasing marginal utility. After the quantity of Q_1 ,

the consumer's taste has changed so that he now enjoys music or films more after the increase – so much more that he desires to increase his consumption. This indicates that there is some sort of learning curve at work, i.e. increased knowledge and consumption beyond a certain quantity of goods will increase demand still further.

Charles Chaplin was born in Britain in 1889 and died in 1977. Chaplin was a pioneer in many fields. Not only a comedic actor and a director, Chaplin also wrote the script to every one of his films. His numerous appearances in his role as a tramp have long since become classic in cinema history. Chaplin founded United Artists alongside other actors, a company which later became an empire and he played an active role in protecting the interests of individuals employed in the film industry. Chaplin was a fierce opponent of the political extremism that gained momentum in Europe and eventually led to the Second World War. He produced *The Great Dictator* as a polemic against Nazism and became himself a victim of McCarthyism. Chaplin received numerous honours and was knighted in 1975.

A special characteristic of films is that people do not know how they will like a film until they have seen it. People know more or less what a hamburger or a steak will taste like before they eat it, but this does not apply to films. Films and other filmed material have recreational value and involve an experience on the part of the people who consume them. Films are also a part of culture, and filmmaking thereby falls within both

the cultural and creative industries. The motion picture industry can also be seen as a complex and extremely varied information industry. Motion pictures can replace personal experience, as people will often immerse themselves into the events of some films. The effect of films and other filmed material can be compared with the effect of reading books, although in modern times, the influence of filmed material is no doubt much greater than that of books.²²

People themselves determine their own demand when they decide what films they want to see and how and when they see them. People discuss among themselves the films they have seen and express their opinions on their merits and faults in conversations. Public opinion has a decisive impact on film attendance. Although the general opinion is still that films are best enjoyed in a cinema rather than on television or a computer, the latter media are rapidly gaining ground. Nevertheless, the social experience of attending a cinema remains special and popular. In cinemas, a film can be viewed on a much larger screen than on television or in a computer, or can now even be viewed in 3D. The technological revolution of 3D movies has increased the competitive advantage of cinemas, at least for the time being. DVDs in 3D do exist, but they still require special equipment for viewing.

When people attend a cinema they take advantage of services which include, among other things, the exhibition of the film on a big screen, often in the company of friends and family. The use made by the consumer consists in the experience of watching the film, no matter what form it takes. The satisfaction of the desires of people who seek entertainment, recreation and experience also requires people who are willing to produce the entertainment, recreation and experience and individuals who are willing distribute them. Today's business economics, including the business economics of film, centres largely on demand, supply and marketing. When filmed material has been produced, it needs to be distributed by means of exhibitions, which can be achieved by various means, including cinemas, television broadcasts, computers or even mobile telephones.

As soon as a decision is made on one option, another option is lost. A person attending a cinema will not at the same time read a book or watch television. The fact that each decision involves the sacrifice of

²² For a discussion of experience in the film industry, see, e.g., Pignataro (1994), Thorlacius (2005), De Vany (2005) and Bell (2008).

another is a key feature of economics. The lost opportunity is known as ‘opportunity cost’. If the government decides to spend ISK 500 million per year on grants in support of the Icelandic film industry, those funds cannot be used also to build roads or schools or to cut taxes. Conversely, building a school could curtail financial support for films. Everything in life therefore consists in choosing between different alternatives. Economics is fundamentally dependent on the existence of a shortage in the world and the need for choice to be made between alternatives, where each choice entails the sacrifice of another.

By far the greatest time spent on watching films is on television, including DVDs and video on demand (VoD). In 1970 each American spent an average of 11 hours per year watching films in cinemas. In 2009, almost forty years later, this time had increased to 12 hours; at the same time, however, each American spent an average of 44 hours per year watching films on television. This means that 80% of the time spent watching movies was spent in front of television screens, while only 20% was spent in cinemas. The total time spent on recreation, including films, increased over the space of these thirty-nine years by 60%, which means that, proportionally, cinema attendance has decreased even though the total viewing has grown significantly owing to the increase in television and compact disk viewing (Vogel, 2011, p. 10). Predictions that cinema attendance is on the decline and will be obsolete within a relatively short time have been frequent in recent years of rapid technical progress. They have never materialised, however, and there are no indications that anything will be replacing cinemas and the showing of large-screen films in the near future.

Economics uses the term ‘externalities’ to denote the impact that the production of goods or services has on a third party or society as a whole without any involvement of any kind by such third party in the production. This impact is often the source of market failures, with the result that the market does not supply benefits in an economical quantity, i.e. too much is produced or too little. Externalities can be positive or negative. An example of a negative externality could be pollution, which can result in cost, e.g. as a consequence of health problems. The result is damage, which affects society as a whole, but rarely affects the party causing the pollution. Education, conversely, has a positive external impact because it improves society and increases productivity, e.g. as a result of technological progress. The same applies to culture and cultural activities, such as filmmaking. Increased cultural activity

improves society and has a positive impact on our lives as individuals and improves our relations among ourselves.

The demand for films does not obey the normal laws of marketing. Statistical studies have shown that there are no rules or averages to predict whether a film will be successful or not. A very small proportion of films, about 20%, account for 80% of total income in the sector and it is impossible to say beforehand which films will succeed. It is nothing new for a small number of products in an enterprise to return the majority of revenues and in fact it is something of a rule, but in nearly all production it is known which products these are.

One of the most famous quotes in the discussion of the film industry is from the screenwriter William Goldman, who responded to the question of predicting the success of films that ‘Nobody knows anything’ (De Vany, 2005, p. 22). This assertion has proven extremely accurate. It has proven impossible to predict the success of a film despite numerous attempts to do so using a variety of statistical methods. Using expensive film stars, extensive advertising, special premières and spending vast amounts of money on a film and its promotion is no guarantee of success, which makes the film industry an extremely risky business.

What is interesting as regards Goldman’s quote is that he was himself an experienced screenwriter and wrote a number of excellent scripts and was therefore extremely familiar with the industry and with techniques for creating successful products. Even so, he could not come up with a better answer than that. There are numerous films in the history of motion pictures that illustrate this conundrum. To give some examples, *Star Wars*, *Home Alone* and *Forrest Gump* are all films that were made and proved huge successes after a number of film studios had refused to produce them (Shamsie, 2006, p. 178). A number of works suffer rejection before finally gaining the approval of a producer. For example the film *Back to the Future* was rejected by all producers until one finally accepted it. Not only did it become a massive box office hit but also generated two popular sequels. The production of the smash hit *Jaws*, directed by Steven Spielberg, was almost halted due to cost overruns (Vogel, 2011, p. 115).

Information about films may be misleading, but attendance is a sure indication of public appreciation. If people like a film they will discuss it in favourable terms and this discussion will spread rapidly, even more rapidly now than ever before through new communication channels

such as Facebook, Twitter and other social media. Negative discussion will usually follow the same path, albeit with the opposite impact, but most films are produced at a loss, and many at a very significant loss. Public discussion of this kind will generally have a much more significant impact than stars awarded by critics or advertising campaigns. If a film is well attended it will be shown for a longer time, though longer running times will not necessary guarantee large revenues as that will depend on the number of cinemas that show the films and their seating capacity.

Films have at least one feature in common with sports: there is only one victor, and attention is focused on first place, or perhaps the first three places and not on the others. No one knows who the winner is until the race is over. The first receives the biggest prizes or the greatest recognition and the first receives by far the biggest or by far the most prestigious awards in most cases. So the rule of ‘winner takes all’ applies not only in sports and games but also in films. No one is interested in the average time of all competitors in a 10 km race and in the same way there is little general interest in average films.²³

Sean Connery was born in Scotland in 1930. In his early life, Connery worked at various jobs; among other things, he worked as a truck driver and a model before moving on to film. After a few minor roles, Connery’s big break came when he was offered the role of the British spy James Bond in the films based on the novels of Ian Fleming. These action thrillers became hugely popular and Connery is considered by many to be the greatest Bond of all time. Sean Connery was awarded the Oscar for *The Untouchables* (1987) and later starred in a number popular films, such as *The Name of the Rose* (1986), *Indiana Jones and the Last Crusade* (1989) and *The Hunt for Red October* (1990). He is a supporter of the Scottish National Party and an advocate of Scottish independence. Connery was knighted in 2000.

Films are normally shown first in their home countries, with the most important premières in many countries at Easter and Christmas, and if the première is successful this increases the likelihood of successful sales of the film in other countries and subsequently on video disks in the international market. A film’s successful passage through all these stages is a measure of its popularity. An example is the *Star Wars* trilogy which appeared in 1977 to 1983 but is still being sold on video disks, thirty years later.

An average of eight new films are premiered in the United States every week. Many of them receive little promotion. However, this does not mean that cheap films never achieve any attendance. There are numerous examples of success. For instance no one had any expectations regarding the films *My*

²³ For a discussion of film attendance, see, e.g. Thorlacius (2005) and De Vany (2008).

Big Fat Greek Wedding and *Sixth Sense*, as they were cheap productions, but they became hits and returned significant profits. Films live a varied life. Most people will see a film only once in a cinema, but may subsequently see the film again, sometimes more than once, on television, on a video disk, through VoD or in any of a number of other available ways.²⁴

The uncertainty and risk in motion picture production has engendered various kinds of graphic comparisons to illustrate the notion that the production, distribution and screening of films is unique in comparison with other production of goods and services. Motion picture production has even been compared to skydiving: if the parachute does not open, the skydiver is dead! (Evans, in De Vany, 2005, p. 28). Bankruptcy is common in the motion picture industry, as clearly illustrated in the case of Iceland, where a number of companies, many of them formed around the production of a single film, have gone bankrupt.

Every film is unique though many can resemble one another, which applies to most products of the creative industries. Television programmes can be similar, for instance, but not identical. The same applies to music and books. Musical compositions are different from one another and so are books, even though both books and music by the same artist can be similar from one year to the next. However the same soft drink is always exactly the same from one day to the next, one month to the next and even one decade to the next. Cars of the same make and model are virtually identical. This does not apply to films where a team of creative staff collaborates on making a film which is deliberately intended to differ from all previous films and become a box office hit.

Of course, not all films are produced with the ambition of creating a blockbuster success, but no one sets out to produce a bad or unsuccessful film. Films may be good but still not be box office hits. This is the problem that is inherent in film-making and other creative industries: it is possible to learn the craft of producing a good film, but not the formula of producing a successful film. The formula for box office hits simply does not exist.

²⁴ For a discussion of the success of films in the United States, see, e.g., Moul and Shugan (2005), Shamsie (2006), Colbert *et al.* (2008) and *Nollywood rivals Bollywood in film/video production* (2009).

The factors that have the greatest influence on the success of a film are the director, actors, promotion, number of cinemas that accept the film for screening and, finally, public opinion, which may well have the greatest influence. Also, film stars can contribute by participating in talk shows on television and radio to discuss their new films. This promotion is extremely important. Film advertising is expensive and its value is difficult to determine as most people rarely go to the movies compared to their TV viewing habits. People spend much more time watching films on television than in cinemas, as mentioned earlier.²⁵

There is no reason to doubt that cinemas will reflect consumers' wishes in their choice of films. Cinemas show the films that are most popular at any given time, as it is to their advantage to do so. The variety of films has also increased as a result of film festivals and access to video disks and a greater number of television stations.

2.2 Supply of motion pictures

In the market it is supply and demand that will decide volume and price in trading. The following discussion will focus on the supply side and on the factors that influence people and enterprises to venture into filmmaking. Some of these factors are based on the traditional laws of supply, while other factors are atypical and specific to the film industry.

2.2.1 Basics of production

The production of goods meets demand in a world of shortage, where a choice is continually being made between a number of alternatives. A basic function of human economic activity is to allocate limited goods. There is not enough for everyone and there are severe shortages of some goods, such as food, employment and education for billions of people. Since almost a third of the world's population, over two billion people, subsists at or below the poverty line, it is clear that the goods which are available need to be allocated in the most efficient manner possible, whether in the case of natural resources, such as energy and fish stocks, or our own work contribution. The principal questions to be answered by economics are what should be produced, in what quantities and for whom. This applies equally to motion pictures and other cultural goods as to everything else that is produced in the world.

²⁵ For a discussion of film viewing on television, see, e.g. Moul and Shugan (2005) and Weinberg (2005).

It is enterprises that produce, distribute and exhibit films and it is individuals who watch these films. There are three participants in any economy: individuals, corporations and public entities. Business enterprises have three fields of operations, as shown in Figure 2.3.²⁶

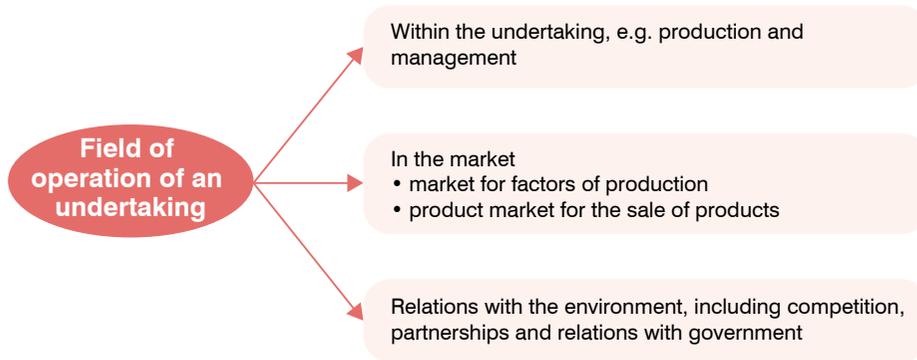


Figure 2.3: Field of operation of an undertaking

The field of operation of an undertaking covers first what happens within the undertaking, e.g. production and management, see Figure 2.3. This could be a film producer who produces films under the auspices of a separate company, or a cinema that needs to be managed.

Second, an undertaking operates in the marketplace. There are two markets involved, i.e. the market for factors of production, such as labour and raw material, and a market for goods and services where the products are sold. To give an example, a film producer needs to hire actors for roles in the film, which he finds in a specialised labour market. The producer then needs to sell the film, which is done through specialised distribution companies or at international trade fairs. That is the market for goods and services.

Third, the field of operation of an undertaking concerns relations with its environment, i.e. co-operation or competition with other undertakings and relations with government entities, e.g. involving regulatory disclosures to a statistical bureau or tax authorities. This applies to all undertakings, whether they are involved in the film industry or any other production.

²⁶ For a discussion of fields of operation, see Einarsson (2005).

Man fulfils his needs through production and production requires supplies. Such supplies could, for example, be paper, pen and a fertile creative imagination, where the product might be a poem. In the economy, goods and services are created, where goods can be preserved as inventory. Examples of goods that people can put to use over a longer or shorter period of times are cars, food and drink. Service, however, cannot be preserved. The use or benefit of a service takes place as soon as the service is rendered. An example of a service is a trip to a hairdresser or barber. The use takes place at the time that the hairdresser or barber styles or cuts the customer's hair. Goods and services are often inextricably linked, as in the case of dinner at a restaurant. The food constitutes goods, but the setting and the attention of waiters and waitresses are service. Going out to eat is an experience, and at the same time meets an individual's need for food and that constitutes the consumer's use.

The same applies to films as to other production in the economy. Motion pictures are goods which can be preserved in many forms, e.g.

Marlene Dietrich was born in Germany in 1901 and died in 1992. She is remembered both as an actress and a singer. Her career began in Germany, where she starred in such roles as Lola-Lola in *The Blue Angel*, which is now considered a classic role. Dietrich fled from Germany at the beginning of the Second World War and assisted the Allies in the war effort by entertaining troops on the front line. Her performance of the German song *Lili Marleen* helped to popularise the English version of the song, which had previously been performed in German by Lale Anderson and the song became a favourite of German soldiers in the war. After the war, many Germans found it difficult to forgive her for aiding the Allies and for having turned against her country, but this ill feeling eventually faded and in time Dietrich was made an honorary citizen of Berlin.

on film or in digital form. Digital distribution, including distribution on the Internet, has become more common than before and now applies not only to music and video material but also to newspapers and books. Technological advances of this kind have had the effect that production time has been cut, not only in film but in music and still photography. Naturally this trend has facilitated access in the distribution of filmed material and reduced distribution and production cost.²⁷ Design software has also expanded the possibilities in motion pictures. Many motion pictures now are a combination of acted material and computer graphics, as in the case of the *Lord of the Rings* trilogy. Prior to the introduction of this technological revolution it was said that this well-known J.R.R. Tolkien epic could never have been filmed.

²⁷ For an example of technical progress in the culture sector, see, for example, Baumol (2008).

Factors of production that need to be used in the creation of products and services are of four kinds, i.e. work, capital, natural resources and the management factors of planning, organisation, management and knowledge, see Figure 2.4.

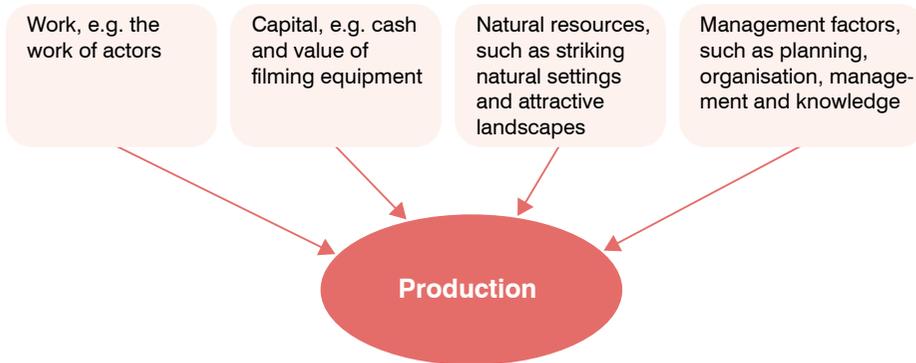


Figure 2.4: Links between factors of production and production

Filming a motion picture will often require natural resources, as shown in Figure 2.4, such as a picturesque landscape. It requires specialised work, such as the work of actors, directors and film crew. It also requires capital to meet the cost of production. A common arrangement is for a number of parties from different countries to pool their resources in the funding and shooting of motion pictures, especially in Europe. This approach makes it easier to make ends meet in the production and increases the possibilities of distribution in larger market areas and in addition it adds to the diversity of the creative work involved in making a motion picture.

The management factors of production are fundamental features of contemporary business operations, as shown in Figure 2.4. A plan is needed to indicate who does what and when. A system is needed within the undertaking and this needs to be well managed or things can go badly wrong. Contemporary business management relies on knowledge, which is one of the most important factors of production.

Producers of filmed material are usually driven by the hope of profit and they are almost always in severe competition with other film producers who produce similar products, i.e. other motion pictures. Film producers are also in competition with other forms of recreation and cultural activities, such as the theatre, opera or sports events.

Well-known actors are very well paid for their work. The same is true in sports, where the stars are paid enormous wages, but even so this is cost-effective because the demand is so high and the individual stars are so few in comparison with all the people involved in the production, whether in the case of a motion picture or a football game. This 'superstar phenomenon', reflected in the prodigious wages paid to the stars, rests on the correct assumption that people want to see the most famous and therefore presumably the best. It is also possible to make such products, whether motion pictures or football games, using a technology that enables all customers to enjoy it without excessive cost. Hundreds of millions of people can watch a football game featuring Lionel Messi in a live television broadcast. Motion pictures featuring big stars such as Meryl Streep are shown all across the world to millions of viewers. Consumers want to see the best and such demand can be met, making it feasible to pay high salaries to the best people.²⁸

Motion pictures and other filmed material are available on the market worldwide and the addition of one person to a cinema audience has no impact on other individual members of the audience, provided that the cinema is not full. This additional person brings very little additional cost to the cinema operator but pays the same admission fee as others.

It is also characteristic of the motion picture industry that manufacturing an additional unit, e.g. producing a second copy of a film or video compact disk, costs comparatively little. This is similar to book publishing. For instance, the additional cost of adding one hundred copies to the printing run of a book is negligible. It is also a small matter to reproduce a motion picture on DVD post production. Ironically, this is also a disadvantage, as improved technology and the digital revolution have facilitated illegal downloading of films and music which has become a huge problem owing to complex copyright issues in all fields of art.

A number of external factors, apart from the intangible filmed material itself, are needed to make it possible for a film to be experienced. An array of tangible assets is needed, including film projectors, players to play DVDs or cinemas to host film audiences. These are substantive factors which are important to the supply of motion pictures to the public.

There are also various side products in the motion picture industry which can prove profitable, such as film-related toys or computer games.

²⁸ For a discussion of the superstar phenomenon, see, e.g., Mankiw and Taylor (2010).

Income in the film industry can therefore derive from a number of sources. Television stations, for instance, can generate income both from the sale of subscriptions and from advertisements. Actors can derive income from acting in films or in advertisements, or in dubbing foreign material or animated films. Cinemas derive income from sales of soft drinks, candy etc. and advertisements shown in intermissions. There are also cases of indirect advertisements in motion pictures and television programmes, as in the case of a chocolate manufacturer who paid for the Extra-Terrestrial in the Spielberg film *ET* to say that he loved a certain kind of chocolate candy. This paid off, as sales of the candy increased by 85% (Hoskins *et al.*, 1997, p. 122).

Specialisation is prominent in motion pictures. It is efficient to produce motion pictures in large enterprises. Large corporations can reduce costs and for this reason there has been much concentration among motion picture producers across the world in recent decades, to the extent that competition authorities have frequently needed to intervene, in some cases prohibiting mergers which they consider anticompetitive.²⁹

Economic goods and services are divided into four categories, as shown in Table 2.1.

		Rivals in use, i.e. the use by one reduces usefulness to others	
		Yes	No
Others can be excluded from use	Yes	Private goods - foodstuff - motion pictures	Natural monopolies - subscription television - fire departments
	No	Common resources - national parks - fish stocks	Public goods - national defence - traffic lights

Table 2.1: Classification of goods and services by use and impact on others

As shown in Table 2.1, the first category comprises what is known as private goods. This category covers most goods and services. Their characteristic is that others can be excluded from enjoying the goods and use by one person limits the use by another. A typical example is food, but motion pictures also fall into this category. Anyone can see a film in a cinema provided that the film is not prohibited to certain age groups, but they have to pay for admission. To be sure, the film can be viewed

²⁹ For a discussion of mergers and competition in the film industry see, for example, Corn-Revere and Carveth (2004).

later, or in another form, but this access must also be paid for. The use of a film by one person limits the use by another person because two people cannot sit in the same seat in a cinema and space in cinemas is limited. Some seats are also less desirable than others, for example the front seats, and sound quality may be better in some seats than others. This results in competition for use.

The second category comprises goods and services that are classified as natural monopolies. This means that others can be excluded from enjoying the goods, but the use by one does not reduce the use by another. An example of this is subscription television. Anyone can buy a subscription to the station, but not without payment. The addition of one customer to the station has no impact on other customers.

The third category is common resources. Others cannot be excluded from using the goods and the use by one can result in reduced use by another. Examples of this are natural sites such as national parks. Anyone can visit the site, although the pleasure of visiting can be diminished significantly if there is a crowd, and in fact there are numerous examples of popular natural sites where the crowds of visitors have become excessive and there is a risk of spoilage. There is a phrase in economics, the 'tragedy of the commons' which refers to the spoilage or depletion of shared resources, as in the case of fish stocks which are not carefully managed.

The fourth category is public goods. In this category others cannot be excluded from use and the use by one will not curtail the use by another. Examples could include national defence and traffic lights. Everyone benefits from national defence, if there is any such defence. Everyone has the use of traffic lights when they arrive at an intersection. Even if one person benefits from national defence or traffic lights, this has no effect on the benefit to others. The Internet is an example of common goods, which are accessible to all. Common goods are usually provided by government, as it is often difficult to charge individuals for their use.

Closely linked to common goods is the problem of the free rider, i.e. the problem that arises when people use goods or services without paying for them. Free riding is never acceptable to a private trader who produces such goods and services, as the trader bears the cost of the production. As mentioned earlier, 'market failure' refers to a situation where the market by itself is unable to promote the efficient supply of

goods, which will often lead to intervention by government. Governments will mitigate market failure by creating an adequate supply of common goods by funding their production, at least in part, with taxes.

Even though motion pictures are properly classified as private goods, like most goods and services in the market, this classification has not been entirely accurate in recent years, as it excludes illegal downloading. Illegal downloading allows the use of goods without payment and is one of the greatest current threats to motion picture production. Music has already experienced this problem which has led to a complete commercial transformation in the sector. Large record shops used to be a common sight but they are a dying breed. Commerce in music has to a great extent migrated to the Internet, where it competes with illegal downloading.

Illegal downloading is a violation of copyright law and subject to sanctions. Right holders of material such as music and films have tried to protect their rights, but this is not a simple matter. Once a product changes from being private goods and becomes a sort of public goods through, for example, ubiquitous illegal accessibility over the Internet, the producers of such goods will attempt to change the goods and services back to private goods. In the motion picture industry increased efforts have therefore been made to focus on high-quality technical equipment in cinemas, such as 3D films, which still require specialised cinema equipment, and efforts are made to generate further revenues through various kinds of merchandising, such as toys and computer games. The motion picture industry is adapting to this trend, but the government has a special role to play while this adaptation is in progress, as the government cannot simply stand by while illegal activities are causing irreparable damage to an entire industry. If illegal downloading gets out of control market failure will eventually ensue and have the effect of severely curtailing production and even bringing the industry to its knees.

Walt Disney was born in 1901 in the United States and died in 1966. He was one of the most influential filmmakers in the world and founded a company which still bears his name and grew into one of the biggest mass media corporations in the world. The company boasts a diverse range of operations running the gamut from film production to theme-park management. Disney's cartoons became very popular and his most famous creation was the cartoon character Mickey Mouse. No single person has been awarded more Academy Awards, or nominations, than Walt Disney. During the Second World War Disney produced films for the government designed to boost the morale of U.S. troops. Disney contributed to technological innovation in films and was a pioneer in the creation of theme parks such as Disneyland.

Technological progress has therefore completely transformed the production of films, in particular digital production which simplifies filming but in turn increases the risk of illegal downloading which requires businesses to adapt their practices and government to amend legislation.³⁰ The same applies to the music industry.

2.2.2 Comparative advantages and the value chain

Cinema as an art form is international with trends and influence respecting no borders. A great deal of commerce is carried out in the world involving motion pictures and other filmed material as trade becomes more globalised. All production and trading is based on advantages, which means that some producers will produce certain products or offer certain services at lower costs than others. This may result from better technology, special skills, control of resources, better organisation of manufacturing and sales or stronger capital reserves. Comparative advantages are measured on the basis of what is called 'opportunity cost' in the economic sciences. This means that the party with the lower opportunity cost has a comparative advantage over other parties. All undertakings have their area of specialisation in comparison with others and this gives them an advantage in business. Since motion pictures are products which are sold and bought in the international market and virtually all countries produce films, it is clear that each country has to make use of the factors that can enhance their comparative advantage and focus on those factors.³¹

To give an example, Iceland's unique natural features such as glaciers, waterfalls, mountains and volcanos, not to mention 24 hours of shooting light over the summer, have proven to be an advantage for Icelandic motion picture producers. Combined with a ready supply of flexible, well-qualified and well-educated employees this provides a mix that can be used to Iceland's international advantage.

There are numerous opportunities in the motion picture industry, particularly as the international demand for filmed material is strong and growing, even though some markets may be very specialised. India produces the largest number of motion pictures in the world. Very many Indian films are specialised musical romances which could hardly be

³⁰ For a discussion of technical progress in the motion picture industry, see, for example, Ravid (2005).

³¹ For a discussion of globalisation and specialisation in trade, see, e.g., Hoskins *et al.* (2004) and Zaniello (2007).

produced by anyone outside India with the same degree of success. It is precisely this specialised home market that gives them their comparative advantage. In Iceland, the country's unique natural characteristics and its qualified workforce in film production have given Icelandic companies a competitive edge in the production of advertisements for foreign markets, which in turn provides good support for the production of other filmed material, including feature-length motion pictures.

Economies of scale have the effect that manufacturing cost per unit drops with increased production. In addition to this, proficiency increases in the work force as skills are honed, reducing the average cost per manufactured unit. Figure 2.5 shows this context.

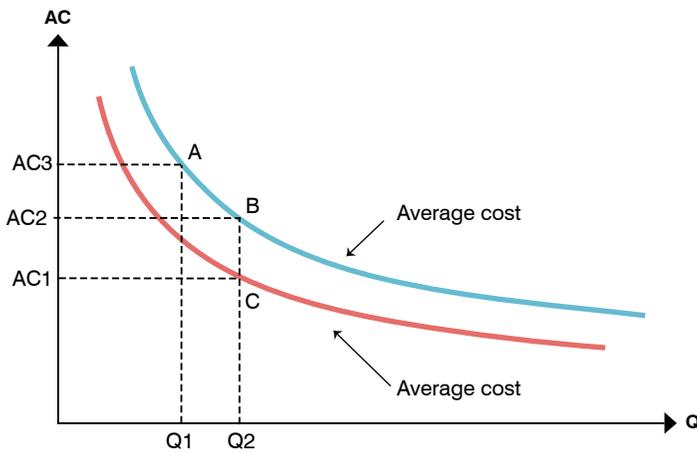


Figure 2.5: Economy of scale and learning curve

Figure 2.5 shows total production (Q) on the x axis and the y-axis represents the cost per unit produced, or average cost (AC). The upper cost curve in Figure 2.5 represents the average cost, AC_3 , in the production of the quantity Q_1 , which corresponds to point A. As a greater quantity is produced, the average cost is reduced and when Q_2 units are produced, the average cost has fallen to AC_2 , which is at point B in Figure 2.5. This represents economy of scale, i.e. increased production reduces average cost. The lower cost curve in Figure 2.5 shows employees getting better to grips with production. Skills and experience accumulate, with the effect that the capacity of employees increases gradually over time. When the quantity Q_2 is produced, average cost has fallen as a result of the improved skills of employees and the average cost is AC_1 , which corresponds to point C in Figure 2.5. This curve from point B to point

C in Figure 2.5 is the learning curve and it describes how the average cost of production is reduced with the increasing skills of employees. A great deal of specialised knowledge has been developed in the Icelandic motion picture industry over the past three decades, which is reflected in the greater number of films, better films and more varied material.

The motion picture industry is characterised by strong competition, as in other fields of art. There is competition between actors, directors, screenwriters and so on. Even though many film companies are large, they are engaged in competition with other large companies and the risk in this sector is high. It is sometimes said that out of ten films, seven will show a loss, of which some will show a significant loss; one will break even and two will show a profit, even a significant profit.³² This contention illustrates the risk and uncertainty of the motion picture industry and is one of the reasons why motion picture companies are often very large companies, as in the United States. This means that the motion picture industry is often characterised by oligopoly, where a comparatively small number of very large companies compete in a very large market, both in production, distribution and exhibition. Nevertheless, in addition to the large companies there are also many small film producers and small distribution companies and exhibitors.

Sergei Eisenstein was born in Latvia in 1898 and died in 1948. Eisenstein grew up in Russia and is most notably known as a director during the silent-film era. As a film editing genius, he employed editing techniques to achieve revolutionary results. Eisenstein was unstinting in his employment of film to further the Soviet cause and made a number of films in the spirit of the Russian revolution; he even fought with the Red Army during the revolution. His films include *Battleship Potemkin* (1925), which features the famous Potemkin Stairs scene in which Cossacks slaughter civilians while marching rhythmically down the Odessa steps – a scene that has often been imitated. His film *October* (1927) was made in honour of the Russian Revolution of 1917.

One of the principal and unique features of the motion picture industry is that costs are unrecoverable, i.e. all cost accrues more or less before any income is generated and the amount of the income is unknown. This is especially clear in the case of motion pictures, where virtually all the cost of filming, salaries and all expenses have to be paid before any income accrues, whereas the cost of producing a single additional copy of a completed film is very small. It is precisely this characteristic that makes the motion picture industry the high-risk sector that it is. It can be worthwhile for film producers to focus great effort on marketing precisely for the purpose of generating income, in the knowledge that costs are unrecoverable.

³² For a discussion of financial performance in the motion picture industry, see Vogel (2011).

The pricing of motion pictures and other filmed material is extremely varied and will differ from one time to another. The pricing is, in other words, 'dynamic' or 'time-based'. Normally, films are first shown in cinemas; subsequently DVDs appear in the shops and eventually the films are aired on television.

Viewing of motion pictures on videotape and video discs is widespread. Tapes were the dominant medium for a long time, but with new and improved technology, discs have virtually replaced cassettes in the market. The most recent version of the DVD is the Blu-ray disc, which is capable of holding much greater quantities of material than older discs and of better quality.

Once more, we are confronted with the uncertainty involving motion pictures: people cannot know whether they like a film until they have seen it, but the same is not necessarily true of video discs. The consumer may actually have seen the film before in a cinema and the disc may either be the same or contain a different version of the film, such as a director's cut, which may be longer than the film as originally shown, and too long for a normal cinema exhibition, but represent the version that the director would have liked to deliver. Examples of this are *Lord of the Rings*, directed by Peter Jackson, and *Das Boot*, directed by Wolfgang Petersen. Both films appeared later on DVD in longer versions than the ones shown in cinemas. Films are also sometimes abridged when they are run or re-run on television; this was done, for instance, in the case of *E.T.* and *Unforgiven*. Different versions of this kind may reflect a difference in opinion between directors and producers regarding the final form of a film. In the first decades of motion pictures it was common practice for a new director to take over when the filming was over in order to prepare the final version of the film. This is now a thing of the past.

Some material is produced exclusively for television where the material is frequently released on DVD shortly after the airing. It is also common for material to be sold in bundles, i.e. a number of films or television programmes together in a single package sale.³³ It should be noted that when material is sold across borders the price may differ from one country to another, often depending the purchasing power in the countries in question and it is not unusual for the same product to be sold at different prices by price differentiation.

³³ For a discussion of the film trade, see, e.g., Gomery (2004) and De Vany (2005).

Value creation in the film industry takes place in several stages, which can be illustrated as a chart of a value chain revealing the primary factors, characteristics and support activities, see Figure 2.6 which shows the value chain in the motion picture industry.

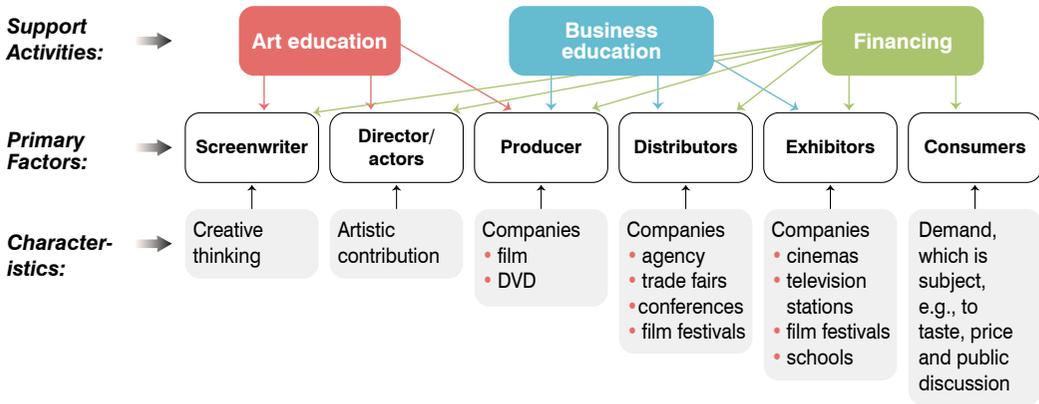


Figure 2.6: The value chain in the motion picture industry

There are six primary factors in the value chain. The first primary factor is the screenwriter or screenwriting team that creates the script for the film. The characteristic of that work is creative thinking and in this context it is irrelevant whether the script is original or adapted from a novel or other work. This work is accompanied by a great deal of other work performed by another set of people, including music and graphics that will be used in the film, and this work needs to be planned in detail and coordinated.

A second primary factor is the director and actors; the characteristic of their work is creative contribution. This work needs to be planned meticulously in order to save the time spent on filming, as each day of filming is extremely expensive. A complementary factor to these two primary factors is art education, as shown at the top of Figure 2.6, and financing, which is a fundamental issue and a condition for any film-making and often the most challenging task.

The third primary factor is the producer or producers, who bear financial responsibility for the making of the film. A characteristic of this factor is that it frequently takes the form of a company which is established for a sole purpose and whose single product will be a film or DVD, although DVDs of feature-length films are usually made following the

completion of the film for the big screen. The complementary factors here are art education, business education and financing.

The fourth primary factor is the distributors; their characteristics are that they are companies engaged in distributing films as agencies which are in direct contact with cinema operators, or they distribute motion pictures at special motion picture trade fairs or film festivals. The complementary factors here are business education and financing.

The fifth primary factor is exhibitors; their characteristics are that they are companies or organisations which can be cinemas, television stations, film festivals or schools. Schools are in fact prolific exhibitors of films, which are frequently used in teaching. The complementary factors here are business education and financing.

The sixth and last primary factor is consumers, whose characteristics are primarily demand for films, which is dependent, among other things, on taste, price and public discussion. The complementary factor here is financing, as consumers have to be able to afford the admission, subscription or whatever other price is being charged and also have the time at their disposal to go to the cinema, watch television, DVDs etc.

The illustration shows who the parties are who are involved in the creation of value, often working in close co-operation. In reality, the creation of a motion picture primarily requires talent, education and financing, as shown in Figure 2.6. The emphasis on education in Figure 2.6 illustrates that a good education is a condition for success in the film industry, whether in the case of actors, directors, producers or distributors and exhibitors. Marketing is also one of the principal factors in the work of producers, distributors and exhibitors, even though marketing is not specifically noted in Figure 2.6, as marketing is included in business education.

The value chain takes different forms in different sectors. The original primary factors were transport to plant, the production process, transport from plant, marketing, sales and service. The complementary factors were infrastructure, human resource management, technological development and procurement of production factors. This presentation is geared more to traditional factory production and service provision than the more specialised motion picture industry.³⁴

³⁴ For a discussion of the value chain, see, e.g., Porter (1980) and Porter (1990).

Various aspects of the production of cultural products differ from those of other production. Some productions cannot be duplicated, such as paintings, while other products, such as books or films, are independent of the original. A film can be shaped to fit the wishes of its director. In that regard, a film is like a book, which is a *tabula rasa* to begin with and then takes shape as a completed work.

One characteristic of modern motion picture production is that it is project-oriented, i.e. each motion picture is a unit and people are often hired to make that motion picture and nothing more; that said, it is often the case that many people are working together simultaneously on the production of a number of films, including directors and technical staff. Each film is also an isolated unit in financial accounts, often in a separate company.

The film industry, especially in the first decades of the 20th century, has often been characterised by a vertical structure. This means that the same parties own one or more companies that engage in production, management of the artistic process, distribution and even exhibition. However, the interrelationship between units is usually more complex. For instance, there may be small production units that focus exclu-

sively on production and others that engage in distribution and still others that manage exhibition and often there will be no ownership links between them. The production of motion pictures involves a project-oriented approach, which is divided into two main factors: on the one hand there is the design and planning and procurement of resources and on the other hand there is the use of these supplies in the production itself. This is, in itself, similar to the structure in many other sectors of the economy.³⁵

The difference is that in normal industrial production it is very difficult to change a design after the production process is under way, as in the case of automobile manufacturing or the production of foodstuffs. In the

Federico Fellini was born in Italy in 1920 and died in 1998. Fellini was one of the most celebrated and respected directors in Europe. He directed a number of influential films starring famous contemporary actors such as *La Strada* (1954), starring Anthony Quinn, and *La Dolce Vita* (1960), featuring Marcello Mastroianni and Anita Ekberg. He was a four-time Oscar winner in addition to earning a lifetime achievement award for his accomplishments over the course of his career. As a filmmaker he often infused his imaginative art with humour. He was influenced by such directors as Chaplin, Kurosawa and Bergman and he in turn had an impact on respected directors such as Martin Scorsese and Rainer Werner Fassbinder.

³⁵ For a discussion of the motion picture production, see, for example, Albarran (2002), Sontag (2002), Ravid (2005) and Lampel (2006).

motion picture industry this is easier, and changing a sequence, actors and plot, even in mid-production is quite common. It is not unheard of for an entire production to be called off in mid-process and even in the final stages.

Even though takeovers and mergers of companies in the culture industries are frequent, as in the case of film companies, the number of companies in the sector has actually grown. Most companies in any sector of the economy are small and medium-sized enterprises (SMEs) and these smaller enterprises are more specialised than before as a result of rapid technological progress.

The definition of small and medium-sized enterprises differs between countries and in some countries enterprises with over a hundred, or even five hundred, employees are classified as SMEs, when they would be large enterprises in countries the size of Iceland or even larger. In Iceland, an enterprise with five employees or fewer would normally be classified as a micro-enterprise, an enterprise with five to twenty employees would be a small enterprise, while an enterprise with twenty-five to one hundred and twenty-five employees would be a medium-sized enterprise. This is in fact about half of number of employees used by the European Union (EU) in its classification of SMEs, although the EU also uses turnover or capital as a criterion.³⁶

The production process of films in large production companies is often divided into three stages, which are consecutive, as shown in Figure 2.7.³⁷

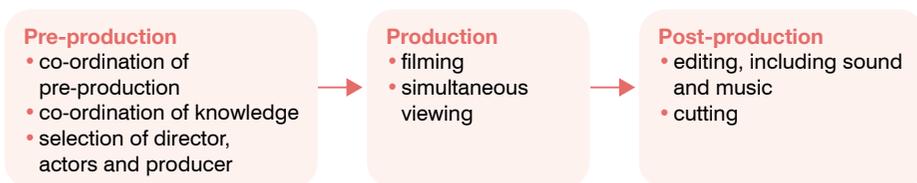


Figure 2.7: Production process of motion pictures

³⁶ For a discussion of small and medium-sized enterprises, see Caves (2000), Hesmondhalgh (2002) and *Small and medium-sized enterprises (SMEs)* (2003).

³⁷ For a discussion of the production process of motion pictures, see Vogel (2011).

The production process of films is, first, pre-production, second, production and, third, post-production, see Figure 2.7. Work prior to production takes place in three stages. The first stage is coordination of writing the storyline, completion of research work, set design, costumes, make-up and hairstyling and other matters that need to be dealt with before the filming itself begins. In addition to this there are copyright matters and the development of the projects, including links between the financier and authors of the work. The second stage prior to production consists in co-ordinating creative and marketing knowledge in order to produce a detailed film script which is suitable for filming and marketing. The third stage is to select a director, actors and producers for the film. All of these three stages need to be completed before the actual production, or filming, begins.

The production itself consists of filming the motion picture, either on location or in the studio or both. It is now possible to view a picture as it is filmed, or at the end of each day, which was not possible before. This means that the people in charge of the production, i.e. the director, assistant directors and producers or their representatives and even actors, can view the results of their work as it progresses in order to assess the results at any time.

Jean Gabin was born in France in 1904 and died in 1976. Gabin came from a family of cabaret entertainers and was one of France's most celebrated actors for many years. He began his career in silent film at the Moulin Rouge in Paris and was later catapulted to fame for his performance in *Pepe le Koko* (1937). Gabin appeared in films such as *La Grande Illusion* (1937) under the direction of Jean Renoir and worked with Marlene Dietrich. He never acted outside France during his entire career. Gabin fought with the Free French Forces in the Second World War and participated in the liberation of Paris at the end of the war. He received numerous awards for his involvement in the war. Among the characters portrayed in great style by Gabin was the private detective Maigret, based on the stories of crime fiction writer Georges Simenon. He is one of the great figures of French film.

Post-production consists of editing the filmed material, re-shooting selected scenes when needed, adapting the music and sound to the film, cutting, showing the first cut to selected viewers, assessing their reactions and making further changes as necessary. In smaller motion picture enterprises, which are the norm in Iceland, this work will be normally done by a small group of individuals. Technological progress has revolutionised the culture sector where one or two individuals can now do what previously required contributions from many. In the same way that amplifiers changed music in the sixties, synthesizers and digital mixers are now so advanced that entire musical scores for feature-length films can, theoretically at least, be composed on a laptop computer at home.

2.2.3 Producers, external economies of scale and uncertainty

Film producers have a fourfold role, as shown in Figure 2.8.

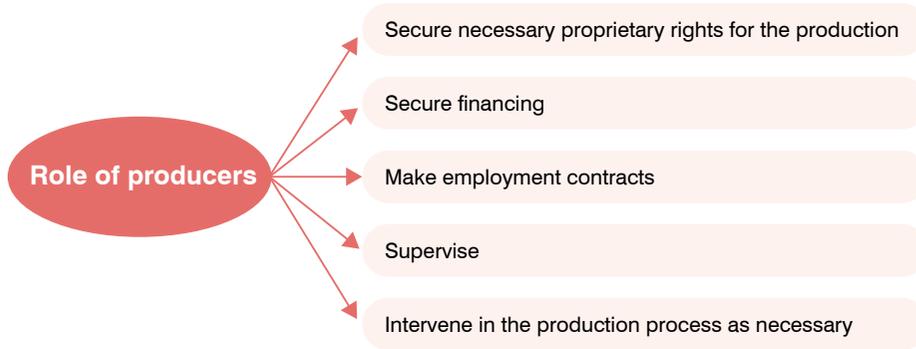


Figure 2.8: Role of film producers

Film producers first need to secure the proprietary rights needed for the film, such as the copyright to a book on which the film will be based. Second, sufficient capital needs to be secured to produce the film. Third, producers need to finalise all contracts on wages and other payroll costs. Fourth, they must actively supervise the production of the film, from script to final cut. Fifth, they need to intervene in the production as needed, for instance in the event of excessive cost overruns or failure to meet production deadlines.

Products in the culture industries are based on the creative work of artists as the main ingredient and are intended to enhance utility for consumers or contribute to their well-being. These products have a variety of characteristics, but inherently uncertain monetary value, as it is difficult to predict the prospective popularity or success of an individual product or service. Products are also many and varied, where the corollary of almost endless variety is that only a few achieve popularity. The products that do achieve popularity gain wide distribution, as the motion picture industry well illustrates. Many products – pulp fiction and pop songs are examples – are sold shortly after their manufacture but have a short lifespan on the market. It can be very expensive to make the first item but replicating it adds little to the original cost, as in the case of books, music and films.

The creative force of producing films and other culture projects originates in the work of artists, whether working alone or in groups. Many would love to be artists even though relatively few make a good living

from their art alone. Art as a profession is characterised by inequality of income. Comparatively few artists have very high incomes, but the attraction of joining their ranks is nevertheless great. The attitude characteristic of the Romantic Period that artists are generally poor and should be poor for their art to thrive is false, even though artists often need to make sacrifices in terms of living standards to engage in their creative work. They do this because the work gives them fulfilment and of course there is also the dream of stardom, fame and fortune.³⁸

One of the characteristics of creative work in culture production is that conflicts can easily arise between the person engaged in the creative work and other participants in the process. For instance, conflicts may arise between the director of a film and its producer and for this reason the relationship between participants engaged in the process of creating culture products will usually be defined in a very clear manner, often in extremely detailed contracts, not only between artists and producers, but also with the parties who will be responsible for distribution and marketing. Making contracts with creative artists can be a complex process and requires a great deal of precision where one of the reasons for avoiding loose ends is that the conflicts that so easily arise, such as artistic conflict or conflicts relating to the development of certain ideas, can quickly lead to cost overruns.³⁹

Conflicts of this kind are classic power struggles and although they are common in all production and economic activity, they are particularly prominent in the creative industries, as the production process can be fraught with emotion. The artist, or creative person in the process, is investing a part of himself or herself in the product, sometimes a very large part and therefore often wants to influence the work to its very end, which in many cases is neither feasible nor possible.

Another classic problem in the creative industries is the conflict between independence and supervision. On the one hand, creative work, and especially artistic work, requires a great deal of freedom, since otherwise the work is unlikely to achieve its objective of arousing public interest. On the other hand, the production process needs to be properly managed with an overview of costs and supervision and interventions

³⁸ This applies in a similar manner to scientists. For a discussion of the attitudes of artists and scientists, see, e.g., Throsby (1994), Frey (1994) and Menger (2008).

³⁹ For a discussion of contracts with artists, see, e.g., Caves (2000) and Scott A. (2006).

by professional executives. It is sometimes said that the motion picture industry is a world where actors try to be CEOs and CEOs try to be actors!⁴⁰

The trick in filmmaking, as in so many pioneering activities where individual initiative needs to be given free rein, is to recognise this need and grant the required latitude. Effective managers will try to coax out of their creative employees all that they have to offer which can be transformed into a saleable product. If a manager goes too far in channeling creative thinking into precise work processes and into the precise organisational structure that often characterises industrial production this can have the consequence that the creative energy evaporates and the work comes to nothing. The only thing that has been achieved is that creative thinking has been forced into a rigid system. Flexibility is essential to the creative industries and particularly in the motion picture industry which is characterised by great uncertainty and risk.

Even though many enterprises in filmmaking are very large, there also is also room for many small companies. A common location, or close ties, can lead to the formation of a specialised core of homogeneous companies, as in the case of the theatres on Broadway in New York or the West End in London. In this kind of an environment knowledge flows more freely and rapidly between individuals and enterprises. This is known as external economies of scale.

One example of specialisation of this kind is the computer games industry in Iceland, which has grown rapidly in recent years with the companies involved benefitting from the mutual support of special computer game clusters. There are numerous other examples of the benefits of concentrations of companies in Iceland, starting with the urbanization of the country in the early 20th century and continuing with the establishment of large companies around the country which have become centres of economic activity for entire regions and attracted other business activity.

A strong motion picture industry will lead to the formation of new companies and create a specialised production environment which can become a power in its field, as in the case of the motion picture industry in Los Angeles. Another example of a group formation of this kind in the United States is the cluster of knowledge companies in Silicon Valley

⁴⁰ For a discussion of production in the motion picture industry, see, e.g., Lampel (2006).

near San Francisco. Concentrations of this kind can lead to reduced average costs of production, which is an advantage in the global competition. If the motion picture industry becomes powerful enough a concentration of this kind can result in the creation of knowledge and creative energy that will bring with it a significant creation of jobs and value.⁴¹

Information on films is not evenly distributed and sometimes there are some people who know more than others. To give an example, film director Robert Zemeckis and actor Tom Hanks came to an agreement on directing and acting in the movie *Forrest Gump* for free. Instead of accepting an agreed fee for their work, they bargained for a share in the income from the film. James Cameron did the same when he directed *Titanic*. All of them believed that they had a sure thing in their hands, and they were proven right.

Attempts to ride a popularity wave often have the effect that a number of similar films are produced at a similar time. Of that number only one or two may succeed, so sometimes it can pay to swim against the tide. Popular films such as *Saving Private Ryan*, *Bridges of Madison County* and *Notting Hill* are good examples of the latter approach. When they hit the market they represented a considerable departure from the most popular movies of their time and yet they became box office hits (Shamsie, 2006, p. 180).

It is only a very small proportion of the people who work in the sector that generate the most income – and that are also the best paid – but it is not the same people year after year. Nevertheless, although a star-studded film has a better chance of becoming a hit there is absolutely no guarantee.

Even though the U.S. motion picture sector is by no means the largest in the world as regards number of films – approximately 40-90% by number of films shown in most regions of the world – American films account for about 70% of world box office returns. The American motion picture industry in its early days was characterised by large company domination of production, distribution and exhibition. However, vertical mergers were banned in this industry in 1948 by the US anti-trust authorities, with the result that the large corporations from then on concentrated mainly on the production side of motion pictures.

⁴¹ For a discussion of specialised environments for production, see, e.g., Hall *et al.* (2002).

Much later, after 1985, there was a surge of mergers in the media industry in general. Huge corporations owned by the media mogul Rupert Murdoch, born an Australian but now an American citizen, expanded into all sectors of the media, movies, newspapers, periodicals, radio, television and sports, and even recreation parks. Other large corporations have taken similar paths, such as the American companies Time Warner and Disney and the Japanese company Sony. These are international companies owned by a number of stakeholders of various nationalities. However, almost all American motion picture production is still managed from California or New York and the motion picture industry in the United States is virtually dominated by only six large corporations.

From the outset, the American motion picture industry has been characterised by oligopoly and the U.S. antitrust authorities have frequently issued rulings against its vertical integration, i.e. joint control over production, distribution and exhibition. These companies have increasingly sought to diversify their business operations, both to comply with the requirements of U.S. antitrust authorities and to reduce their operating risk; the large media companies are examples of this effort.⁴²

These companies derive their income not only from box office returns, but also from sales of DVDs, subscription fees and advertisements, as well as sales of various other products ranging from soft drinks to computer games. Revenues are also generated from licence fees. In contemporary times, motion pictures are often produced for these giant companies by sub-contractors, which serves to distribute risk. When it is borne in mind that major American motion pictures will often spend some sixty million dollars in production, it is clear that the financial risk is significant. These large motion picture companies also have a strong grip on the distribution and screening of films throughout the world, which accounts for the strong position

Clark Gable was born in the United States in 1901 and died in 1960. He achieved his most lasting fame for his portrayal of Rhett Butler in *Gone with the Wind*, a period romance set in the South during the American Civil War and the Reconstruction era that followed, where he starred opposite Vivien Leigh, who portrayed Scarlett O'Hara. Clark Gable was the epitome of manly good looks and was extremely popular, especially among women. He starred in a number of films with Joan Crawford, one of the most popular contemporary actresses of her time, and in his last film, *Misfits* (1961), he co-starred with Marilyn Monroe. Gable won an Academy Award for his role in *It Happened One Night* (1934). He was a fighter pilot in the Second World War and reached the rank of major. Interestingly, his discharge papers were signed by another actor, Captain Ronald Reagan, who later became President of the United States.

⁴² For a discussion of concentration in the motion picture industry in the United States see, e.g., Gomery (2004), Wasko (2005) and Bell (2008).

of American films. No other country in the world has such an efficient organisation of all the aspects of motion pictures as the United States which is reflected in their huge revenues from film exports.

It can be demonstrated that films which cost a great deal to make are more likely not to fail in terms of attendance. Channelling large sums of money into single films is therefore actually a form of risk-averse behaviour, since it can reduce the risk of huge losses, even if it cannot guarantee success. Research indicates that a director's experience and reputation will also greatly influence whether a film is a success or not.⁴³ Other spending brings rewards as well. A study was conducted to assess films that won the Oscar for 'best film' of the year based on other awards given for the same year. Five awards out of eighteen were selected, i.e. for actor in a leading role, for director, for screenplay, for costume design and for film editing. The long and short of it is that there was an overwhelming correlation between these factors and the award of best film.⁴⁴

Table 2.2 shows the countries that produced the largest number of full-length feature films in 2006 based on the UNESCO (the United Nations Educational, Scientific and Cultural Organization) database.⁴⁵

	Number of full-length feature films
India	1,091
Nigeria	872
U.S.	485
Japan	417
China	330
France	203
Germany	174
Spain	150
Italy	116
S-Korea	110
United Kingdom	104

Table 2.2: Countries that produced the greatest number of full-length feature films in 2006

⁴³ For a discussion of risk in motion picture production, see, for example, Ravid (2005) and Moul and Shugan (2005).

⁴⁴ This study is discussed in Ginsburgh and Weyers (2008).

⁴⁵ For information on motion picture production in individual countries and their language see *Nollywood rivals Bollywood in film/video production* (2009).

Table 2.2 shows that India is the largest producer of motion pictures in the world, with over one thousand films each year. India is followed by Nigeria, with almost nine hundred films, which comes as a surprise, and the United States are third, with just short of five hundred films.

It is a characteristic of many of the biggest filmmaking countries in the world that they produce their films in their own language or languages. Just over half of the motion pictures produced in Nigeria are in local languages, while the rest are in English, and in fact Nigeria exports a number of its films although mainly to other African countries.

A strong home market is of great importance for the motion picture industry in any country. This is evident from populous countries that produce films in large numbers, such as the United States, India, Japan and China, where domestic films command large audiences. Regional and international film markets have grown stronger in recent years and decades, but these markets are no less subject to uncertainty than the domestic markets. Nevertheless, there is a clear trend in recent years of increased multinational co-operation in motion picture production, partly because of the need for specialisation and specialised skills in the industry.⁴⁶

The United States dominate all other countries in the cinemas of the world and they dominate the motion picture market in many individual countries. In 2006 all ten of the most popular films in Australia, Bulgaria, Canada, Costa Rica, Namibia, Romania and Slovenia were American films. In France, on the other hand, there were seven French films on the list of the ten most popular films of 2006 and Japan and Morocco had five domestic films on their respective lists. In the same year, eight of the ten of the most popular films in the cinemas of Iceland were American.⁴⁷

Exports of American films throughout the world provide as much in box office returns in cinemas as exhibitions in the United States themselves. Some films have become industrial superpowers in themselves, such as Disney's *The Lion King* and *Pocahontas*. Both are animated films and intended chiefly for children and adolescents and both were box office hits in the United States and even more so in other countries.

⁴⁶ For a discussion of cross-border co-operation in motion picture production, see, for example, Lorenzen (2008).

⁴⁷ For a discussion of cinema attendance in Iceland and in other countries, see *Nollywood rivals Bollywood in film/video production* (2009) and *Origin of the most attended feature-length acted films* (2013).

Both films were followed by the marketing of a large variety of toys, in addition to sequels and home versions on DVDs.

The culture industry has gone through profound and far-reaching changes in the last thirty years. Companies have grown, have spread over a larger number of regions and their turnover has increased significantly. At the same time, however, the number of small and medium-sized enterprises in the culture sector has also grown sharply. Globalisation has had the effect that more and more culture products are sold across borders, and advances in computer technology and telecommunications have been extremely rapid over the same period. Government policy has also changed and is now increasingly shaped on a multinational basis. Consumer tastes have become more sophisticated and opportunities for global promotion of cultural products are greater than ever before.

Technological advances lead to a combination of reduced costs and enhanced possibilities for depicting action on the screen, as in the case of hybrids of animated and acted film sequences. All these advances open access to film-making, and distribution has also become easier over the Internet. In the future, making a film could become like writing a book, although such ease of access does not mean that more films will become box office hits. Best sellers in the book industry are just as rare as blockbusters in the film industry. Nevertheless, this trend could have the effect that motion picture enterprises will eventually reduce their own role in the production process itself and serve primarily as distributors for many small-scale producers. This was the trend in book publication, where large publishers in other countries, in particular the U.S. and the U.K. are primarily distributors.⁴⁸

Although feature-length acted films are the material that attracts most of the attention of all film production in most countries, film production is extremely varied. Among the first purposes that film was used for in the early days around the world, including Iceland, was to produce documentary films, preserving in visual form living illustrations of life in earlier times. Documentaries will traditionally have one of four forms. The first emphasises the story, usually told by a narrator. The second depicts actual events as faithfully as possible. The third speaks directly to the viewer, e.g. in the form of interviews and the

⁴⁸ For a discussion of production and advertisements in the cultural sector, see, e.g., Hesmondhalgh (2002), Weinberg (2005) og Ravid (2005).

fourth combines a number of forms, such as interviews and narratives.⁴⁹ But documentary films are not only invaluable for their preservation of cultural heritage; they are also important evidence of the progress of filmmaking itself and its advances in technology and cinematography. From 1944 to 1957 Icelandic filmmakers produced a number of documentary films, as well as acted films, and these films attracted a great deal of interest; however, as is so often the case, financing proved such a difficult obstacle that it was impossible to follow through on this interest after the late sixties.

Video disks which are rented out or sold to subscription television stations are becoming increasingly important for revenue from motion pictures and they greatly extend the life of motion pictures. Income from video disks and videotapes of films in the United States, whether sold or rented, are double the income from box office sales.⁵⁰ Early on, when videotapes for rent first arrived in Iceland, a video craze ensued. Sales of video players, or VCRs, soared and video rentals sprouted like mushrooms. However the market eventually found an equilibrium of supply and demand and video rental has since become a fixture of the motion picture industry as a whole.

DVDs have lives of their own, one of the reasons being that they often contain additional material related to the motion picture, such as interviews with the director and actors, scenes that were cut from the big screen version, ancillary information etc. This appeals to consumers other than those who simply wish to see one screening of the motion picture itself in a cinema. It also enlarges the market and increases revenue. DVDs, or films on any other media which are rented out are in fact separate products, because when people visit a video rental or switch to a VoD channel they will often do so without any fixed plans regarding the video they intend to rent; very often they are simply

Greta Garbo was born in Sweden in 1905 and died in 1990. She was an enigmatic character, both in her film career and in her private life. Born Greta Lovisa Gustafson, Garbo became a popular star who appeared in a number of films. She rose to stardom in *Gösta Berlings Saga* (1924), based on a novel by Selma Lagerlöf, after which she moved to Hollywood and began acting in silent films. Garbo's popularity continued after the introduction of talkies. She received numerous awards for her performances and is often counted as one of the best actresses of all time. A highly reserved person, Garbo gave few interviews during her career. She stopped acting at only 36, having appeared in 28 films, after declaring that she wanted to be left alone in her New York apartment. She died at the age of 85, having been rarely seen in public for fifty years.

⁴⁹ For a discussion of form in documentary films, see, e.g., Nicols (1983).

⁵⁰ For a discussion of revenue in films, see, e.g., Weinberg (2005).

determined to rent one or more films, depending on availability. Consumers visiting a video rental may also be making a choice for others, who will watch the film with them, which means that they might rent a film which they would not even consider watching otherwise.⁵¹

⁵¹ For a discussion of video CDs and their development, see, e.g., Wasko (2005) and Weinberg (2005).

3. Role of government in motion picture production

3.1 Why should the government support motion picture production?

It is not at all self-evident that public entities should support individual industries, as the title of this section would appear to imply. Most sectors of the economy and individual undertakings need to be self-reliant and are dependent only on the success of their products and product sales. Nevertheless, many sectors do benefit from direct or indirect public support, often for historical reasons, as in the case of the widespread support for agriculture across the world. The situation in motion picture production as regards public support differs greatly from one country to the next. In the United States, the country where the most popular modern films are produced, there is no public support at all, or very little public support, for the motion picture industry, whereas in Europe it is very common if not actually the rule, for governments to support the production of motion pictures.

In Iceland, government supports motion picture production in two ways: through financial contributions to the Icelandic Film Centre, which awards grants for motion picture production, and through reimbursement of the cost of film production. There are many arguments in favour of government support for the motion picture industry in Iceland. Some of them can be applied to other countries, while others apply specifically to conditions in Iceland. These arguments can be divided into seven categories, which are shown in Table 3.1, along with keywords for each respective category

Categories	Keywords
Economics	merit goods, externalities, comparative advantages, demand, creative industries
Culture	equal access, preservation, cultural policy, cultural scale
Employment	connection of industries, foreign filmmaking companies
Regional affairs	rural areas, use of regional fixed assets
Education	schools, clusters and cluster effects
Geography	tourist promotion as a public good, tourist industry
State finances	foreign currency revenue, taxes, returns

Table 3.1: Arguments for government support for the motion picture industry

There are several economic reasons why governments should support the production of motion pictures. The economic sciences use a concept known as ‘merit goods’. These are goods and services in the economy that are generally considered to be desirable and beneficial to the community, even though they cannot necessarily be measured in terms of monetary value. Goods and services of this kind are not always in sufficient demand for the market alone to provide a satisfactory supply, so governments are often called on to support the production of merit goods. Symphony orchestras are a good example, because they involve high operating costs and their music does not have mass appeal. Nevertheless, most people in Iceland would agree that their society would be poorer without a symphony orchestra, so the Icelandic government, like most other governments, contributes public funds in support of such operations. Motion pictures are well suited to this approach, as most people would agree that Icelandic society would be poorer and Iceland would be less desirable as a place of residence without the existence of Icelandic films, whether full-length, live-action films, documentaries, children’s material or domestic television programming, to mention just a few examples. It must be kept in mind, of course, that any support for this specific activity, e.g. by public funding, will always occur at the expense of support for something else, or at the expense of reduction of public expenditure by lowering taxes.

Externalities have been mentioned earlier, with positive externalities denoting the effect that the production of goods or services has on a third party, as in the case of education, which leads to increased productivity in the economy. Culture and cultural activities, such as motion pictures, enrich our community. Many aspects of filmmaking, such as the production of educational films, lead to improved education and increased productivity in various spheres of the economy. Government

will therefore often support various aspects of culture, such as motion pictures and broadcast programming, in order to make them more accessible and benefit from their positive externalities.

Comparative advantages in connection with supply and production have been discussed earlier in this book. For example, Icelandic natural surroundings for use as a backdrop in motion pictures enjoy a comparative advantage over some other countries, especially the more densely populated countries. Given that comparative advantages are decisive factors in determining where goods or services are produced, it is important to provide support to any factors that can create comparative advantages in important industries. To give an example, this could be done in the film industry by supporting specialised education in the field of motion pictures.

The demand for filmed material has increased greatly in recent decades and looks to continue to increase in the future. The proliferation of television, computers and the Internet is proceeding at a rapid pace and technology in the production and display of filmed material is advancing in huge strides. Growing numbers of people in the world have access to media that distribute motion pictures and other filmed material and in time there is certain to be a shortage of material, especially high-quality material. A similar trend occurred in book publishing. With the falling cost of printing books, and even the publication of online reading material at little expense, reading has increased and so has the production of books. This is not to say that quality has increased by the same token. There is always a demand for good books, which can become hits just like good films.

The creative industries have been discussed at some length in this book and it is the author's opinion that these industries, in particular the experience industries, will be an extremely important element of the economies of the 21st century. The international film industry is enormous in scope and any country or producer with something desirable to offer can expect to sell products without much difficulty.

In addition to their recreational value, motion pictures are among the best means of preserving the history and culture of a nation. Cultural heritage can be preserved permanently in documentary films, where past customs and industries, often staged, are captured on film and distributed via some kind of visual media. The preservation of culture is not normally a profitable activity in terms of cash generation, which

makes it a task for government. In Iceland government has a special role to play. Iceland is a very small community which was extremely poor for the greater part of its history and therefore possesses practically nothing of historic value from its past apart from its language and medieval literature, which must therefore be preserved with particular care. It can be argued that there is so much value inherent in the culture of every community that it should be made accessible to everyone. In addition, equal access to culture is in itself important for any community and it is the role of government to ensure equal access regardless of gender, class, income, residence or age.

Governments in most countries are increasing their efforts to support culture, although as public cultural policies vary from one country to another, so do the arguments underlying the policies. The United States have continued the tradition of earlier times in Europe, where aristocrats, kings and popes were patrons of the arts. Today wealthy Americans play a similar role and in turn often enjoy tax incentives, while public expenditure towards such ends is moderate. In continental Europe, on the other hand, much of the cultural sector is now supported by government, although Britain still maintains a rich tradition of allowing the market to exert a significant influence on cultural activities.⁵²

Many reasons have been offered, both economic and cultural, in defence of the right of countries to counteract the dominance of American films by supporting their domestic motion picture industry. Under the auspices of the Council of Europe attempts have been made to shape a policy designed to strengthen the position of European films against American films, but with little success.⁵³

Producing art and culture involves high fixed cost and efficient pricing is often not possible without government support. There is a risk that over time, public support for cultural activities may lead to discrimination, where incumbent institutions are given priority, making it difficult for new participants to gain a foothold. Government policy on support and subsidies therefore needs to be constantly re-evaluated. Public support for the film industry in particular serves to increase cultural

⁵² For a discussion of cultural policies in individual countries, see, e.g., Towse (1994), Netzer (2008), Champarnaud *et al.* (2008), Van der Ploeg (2008) and Valtýsson (2011).

⁵³ For a discussion of European films in comparison to US films, see, e.g., Finney (1996) and Wasko (2005).

activity in general in the economy and enables communities to invest in technology at a high level for use in a growing industry.⁵⁴

The motion picture industry has a considerable impact on the Icelandic labour market. About 750 people are employed in the sector in terms of man-years, as discussed in further detail later. This corresponds to about 0.5% of the labour market, and to put matters into perspective it corresponds to about 750,000 workers in the United States. Additionally, the motion picture industry is connected to most other branches of art and therefore forms an important supporting framework, e.g. for the music and theatre sectors. Technological advances in the film industry are increasingly connected with graphics software, which is a cornerstone of the computer games industry, another growing field in Iceland, where extensive knowledge and skill has been accumulated in recent years. This sector has close ties with the motion picture industry, and in many of today's films animation and live acting are seamlessly merged. Filmmaking and computer games are therefore mutually supportive industries.

When foreign motion picture companies come to Iceland to shoot films their work has a noticeable impact on the economy, and it is exactly this kind of activity that can easily multiply the number of jobs in a community. Filming of this kind has a much greater effect than can be measured by the direct expenditure of these foreign companies.

Motion picture production can be an important aspect of regional policy, i.e. as a vehicle to strengthen diversity of employment in rural areas. Iceland is set apart from many other countries in that it is large in area, but sparsely populated, with the majority of its population, or two thirds, concentrated in the Reykjavík area. The third of the population that lives outside the metropolitan area of Reykjavík is distributed over a very large and sparsely populated countryside. If the metropolitan area is defined as the area lying within an hour's drive from central Reykjavík, then it is accurate to say that a full three quarters of the nation are concentrated in this small area, which is virtually unparalleled anywhere else in the world. Since the remaining quarter of the population, amounting to a mere 80,000 people, resides in a countryside spanning over 100,000 square kilometres, it is clear that economic diversity in most of the country is limited.⁵⁵

⁵⁴ For a discussion of labour contribution and government support policy in the culture industry, see, e.g., Grampp (1989).

⁵⁵ For a discussion of the distribution of the Icelandic population, see Einarsson (2007).

Films shot in rural Iceland, whether by Icelandic or foreign companies, can play an important role in strengthening the economy of local communities. Jobs in the motion picture industry are rarely low-income jobs, and filmmaking requires a significant amount of temporary short-term labour, which is well suited as a supplement to other local economic activity. This leads to improved utilization of public assets, such as transport infrastructure, and to increased specialised skills and innovation. This is particularly beneficial for rural areas, where assets are often poorly utilised and there is little diversity in comparison with the metropolitan area due to the smallness of the population.

One of the principal tasks of government is to provide a good education to its citizens, as good education improves society in a number of different ways and increases economic productivity. Specialised education in the field of motion pictures is a necessary prerequisite for a thriving film industry. The Icelandic government could do better in this respect. The computer game industry in Iceland is a good example for comparison. The only government contribution to the computer-game industry has been to ensure high computer literacy in Iceland at all levels, from elementary school to university. This, in addition to an interest in technology and an open mind towards innovation in the information sector,

has resulted in a strong industry that sells products worldwide. With the right kind of support, filmmaking could become a similar industry.

Cluster formation in delimited areas can lead to the formation of strong companies with extensive knowledge and external economies of scale, as mentioned earlier. This can lead to comparative advantages. The promotion of Iceland as a tourist destination is conducted largely by means of material such as film and television material, which is a radical change from only a few decades ago when this promotion was largely in the hands of one or two airlines and was carried out exclusively by means of printed material. Although airline companies like Icelandair still play a vital role in the promotion of Iceland as a tourist destination abroad, this promotion

Jean-Luc Godard was born in Paris in 1930. He is regarded as a pioneer of the New Wave movement of the 60s and 70s. New Wave cinema was influenced by Italian Neorealism and classical Hollywood cinema and it placed Godard at the centre of the film-making world. Other New Wave directors include Francois Truffaut and Éric Rohmer. Godard, who became a citizen of Switzerland during the Second World War, is often considered one of the most radical of the New Wave directors. His first popular film, *A bout de souffle* (1960), starred Jean-Paul Belmondo and was influenced by Orson Welles. Godard's radicalism also surfaced in his far-left political work and in his opposition to the Vietnam war. Godard also participated in the student movement that upset the status quo of Western society in the second half of the 20th century.

is more diverse now than in the past. The work of promoting Iceland, as a mainspring of the tourist industry, has become a public good with many stakeholders benefiting from the work of one or a few, an illustration of the classic problem of the free rider that was discussed earlier in relation to public goods. Government therefore has an important role to play in strengthening the infrastructure of the tourist industry, where the promotion of Iceland in the form of films and television programmes is an important factor. Promoting Iceland as a tourist destination has a positive effect on the tourist industry and also on exports of goods, as familiarity with trading partners is always an advantage in international business.

The film industry has enormous significance for tourism. A great deal of informational material designed to promote interesting destinations to visit is produced using video for distribution through television and other media. Numerous perspectives are represented, such as natural beauty, fauna, people, museums, architecture and cultural and artistic events.

Most television stations in the world include travel and educational shows in their programming and there are even channels that focus exclusively on material of this kind. The people who see these programmes casually or seek them out to gather information often travel to the featured places to see or experience them for themselves. Tourism is an important industry in Iceland and films and other video material have great significance for the industry and generate high financial gains. Tourism generates economic gains in Iceland through the improved productivity of the workforce resulting from the creation of new jobs, especially in rural Iceland, and from the increased utilisation of private corporate assets connected with the tourist industry.⁵⁶

Motion pictures impact the revenues of the State Treasury in a number of ways. Films generate revenue in foreign currencies through foreign funding of projects and from tourists that are persuaded by films to visit Iceland. Foreign currency revenue is also generated through the distribution of Icelandic films abroad, through foreign-film festivals and Icelandic film festivals as well as through foreign companies that shoot scenes or entire films in Iceland, which can generate significant

⁵⁶ For a discussion of the importance of filmmaking for rural Iceland, see, e.g., *Aviation and tourist services in Iceland* (2005) and *Reimbursement of the cost of filmmaking* (2006).

economic activity. Foreign currency revenue is also generated through the production of advertisements shot in Iceland for foreign buyers. Government tax incentives in support of cultural activity are widely known although they vary from one country to the next.⁵⁷

Even though the government contributes to funding for motion pictures through appropriations to the Icelandic Film Centre and reimbursement of film production costs through the State Treasury, the outlays do not represent a net loss for the Treasury. The economic activity generated by the production of motion pictures is more than enough to offset any expenditures by the increase in tax revenues resulting from the films made, e.g. from personal income tax, value-added tax and other taxes, which generate income far in excess of expenditure; this will be discussed in further detail later.

An additional argument in favour of reimbursements and government support for filmmaking in general is that support for a budding industry will eventually lead to the formation of

a unit, or cluster, which is strong enough to have a positive effect on its environment, reduce production costs over time, generate increased business activity and improve productivity. An added benefit is that filming often takes place outside the traditional tourist season, which generates income in small rural communities that otherwise would not have been generated.

The attitude of public authorities to culture is best revealed in their financial appropriations. Figure 3.1 shows these figures for the Nordic Countries in 2000 and 2010.⁵⁸

Katharine Hepburn was born in 1907 in the United States and died in 2003. As one of the greatest actresses in the world, Hepburn received numerous awards, including four Academy Awards for Best Actress – an accomplishment that has yet to be matched. Her career spanned more than 60 years and she performed alongside many of the greatest actors in film history. She carried on a lengthy love affair with Spencer Tracy and performed with him in a number of films. Hepburn also co-starred with Humphrey Bogart in *The African Queen* (1951), now a timeless classic. She also portrayed Eleanor of Aquitaine, the queen of France and England, in the film *The Lion in Winter* (1968), where she starred opposite Peter O'Toole and earned an Oscar for her performance. Interestingly, Eleanor of Aquitaine was in actual fact an ancestor of Hepburn's.

⁵⁷ For a discussion of the various forms of tax incentives, see, e.g., Mazza (1994).

⁵⁸ For further information on public appropriations to culture in the Nordic countries, see *Nordic Statistics* (2013).

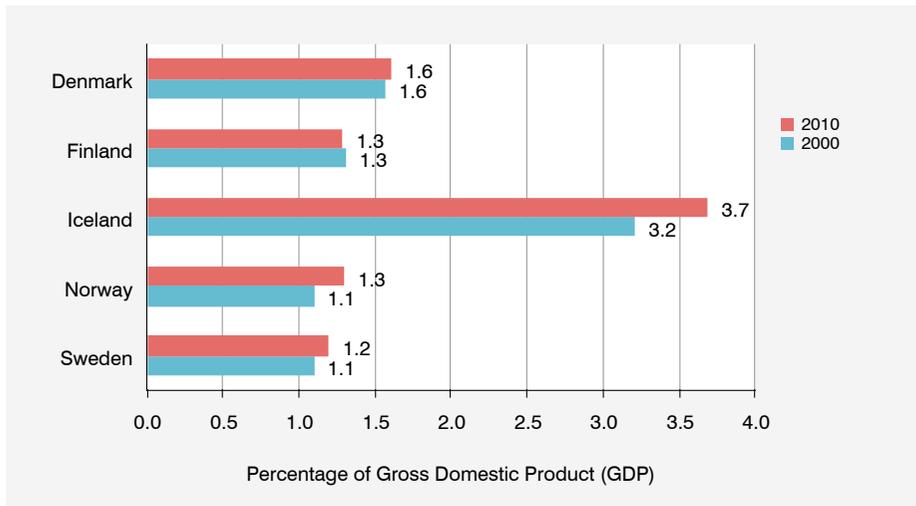


Figure 3.1: Public expenditure on culture, including sports, as a percentage of GDP in the Nordic countries in 2000 and 2010.

Figure 3.1 shows public expenditure on culture as a proportion of GDP. This proportion gives a clear picture of the weight of each respective factor in the context of the respective national economy. Iceland has by some distance the highest public contributions to culture, including contributions from the state and municipal governments. Sports, which constitute culture as defined by UNESCO, are included.

Icelanders spend more tax money on culture than any other country. In 2010, the public contribution to culture in Iceland was 3.7% of GDP, up from 3.2% in 2000. Public expenditure in Denmark was 1.6% of GDP, whereas the expenditure of other countries was near 1.3%. Iceland therefore spends proportionally three times more on culture than its Scandinavian neighbours, even though those countries place great emphasis on culture in an international comparison. One reason for this is that small nations have a greater need than large ones to foster their culture in order to preserve their independence and national identity.⁵⁹

Table 3.2 shows the labour force participation in the cultural sector in 15 countries in Europe in 2009.⁶⁰

⁵⁹ For a discussion of the emphasis of small nations on culture, see Einarsson (2008).

⁶⁰ For a discussion of labour force participation in the cultural sector in Europe, see *Cultural Statistics* (2011).

Rank	Country	Share (%) of employment in cultural sectors in 2009	Rank	Country	Share (%) of employment in cultural sectors in 2009
1	Iceland	3.2	10	Slovenia	2.0
2	Norway	2.6	11	Lithuania	2.0
3	Sweden	2.3	12	Croatia	1.8
4	Latvia	2.3	13	Hungary	1.8
5	Denmark	2.3	14	Estonia	1.7
6	Finland	2.3	15	Malta	1.7
7	Germany	2.2	16	Czech Republic	1.7
8	United Kingdom	2.1	17	France	1.7
9	Netherlands	2.0	18	EU-average	1.7

Table 3.2: Share of culture in labour force participation in seventeen European countries in 2009

As shown in Table 3.2 the labour force participation in Iceland in the cultural sector is very high. Iceland tops the list with 3.2% of the labour force employed in the cultural sector. Other Nordic countries range between 2.3% (Denmark and Finland) and 2.6% (Norway). The average of the 27 countries of the European Union is 1.7%, as shown in Table 3.2. If we look at motion pictures separately, Table 3.3 shows the average annual frequency of visits to cinemas in individual countries in 2009.⁶¹

Rank	Country	Admissions per capita	Rank	Country	Admissions per capita
1	Iceland	5.8	17	Belgium	2.2
2	United States of America	5.2	18	Switzerland	2.2
3	Australia	4.6	19	Sweden	2.1
4	Singapore	4.2	20	Italy	1.8
5	New Zealand	4.0	21	Netherlands	1.8
6	France	3.6	22	Germany	1.8
7	Republic of Korea	3.5	23	Mexico	1.8
8	United Kingdom	3.1	24	Malaysia	1.8
9	Canada	3.0	25	Israel	1.7
10	Norway	2.9	26	Belarus	1.7
11	Luxembourg	2.8	27	Portugal	1.6
12	Denmark	2.8	28	Lebanon	1.6
13	India	2.7	29	United Arab Emirates	1.5
14	Spain	2.7	30	Slovenia	1.5
15	Malta	2.6	31	Japan	1.5
16	Austria	2.4	32	Estonia	1.5

Table 3.3: The number of films seen on average by each inhabitant in 2009.

⁶¹ For a discussion of cinema attendance in individual countries, see Tuttle (2009), Focus 2012 – *World Film Market Trends* (2012), *Nordic Statistics* (2013) and *Attendance frequency per capita* (2013).

As shown in Table 3.3, Iceland tops the list with the highest cinema attendance per capita, with the table showing the thirty-two countries with the highest cinema attendance in the world. This comparison is important because it illustrates the very fertile soil for motion pictures in Iceland and for related business activities. Films are therefore already an important element of Iceland's culture and have the potential to become even more important.

Table 3.3 shows a significant difference between the listed countries. The countries that come closest to Iceland are the United States, Australia, Singapore and New Zealand; all of these countries can be called big 'movie countries' where films and film exhibitions are an important element of the community.

Figure 3.2 shows this same context, i.e. per capita cinema attendance in the Nordic countries in 2011.

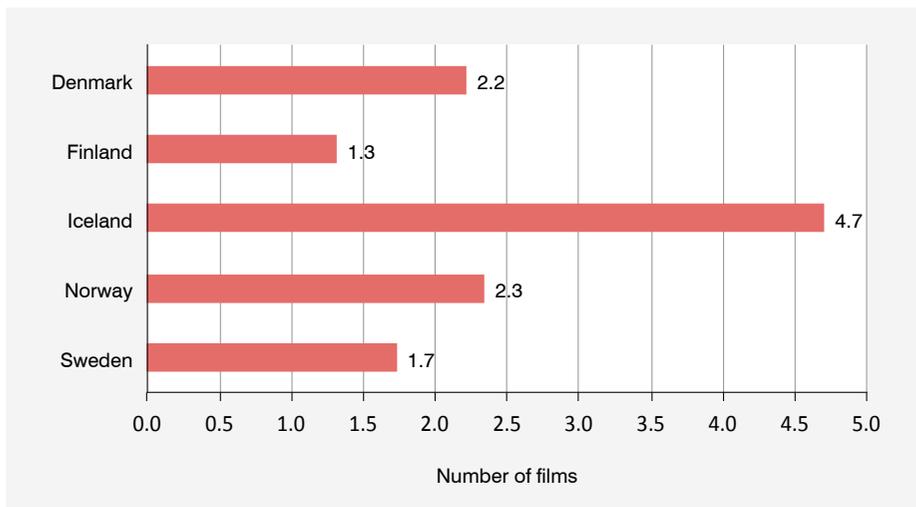


Figure 3.2: Number of films seen on average by each inhabitant in the Nordic countries in 2011

Figure 3.2 reveals the significant difference between the Nordic countries. Iceland has twice the cinema attendance in comparison with Denmark and Norway, nearly three times that of Sweden and almost four times that of Finland. There are several reasons for Iceland's high cinema attendance: there is a long movie-going tradition in Iceland, there are fewer recreational activities available in comparison with larger countries, weather conditions are worse in comparison with other countries, which makes indoor activities more attractive in comparison with

outdoor activities, and there is also a widespread interest in culture which is reflected, among other things, in the high cinema attendance. The level of film literacy in the country is also high due to the high attendance rate, which, as previously noted, tends to increase demand. All of this makes the film industry a sector of many and diverse opportunities.

Conditions for filmmaking in Iceland are in many ways favourable, but the main problem is a lack of capital and a scarcity of financially strong production companies. Public authorities should recognise filmmaking as a prospect for development in the economy that is well suited to the on-going economic revolution involving the creative industries, especially the experience industry, and the growing share of these new industries of the global economy. This is a challenge worth accepting.

3.2 Financing of motion pictures

Companies involved in the film industry in Iceland are numerous and operate mostly in four branches of the industry, i.e. film and DVD production, film and DVD distribution, cinema operation and video rentals.

Alfred Hitchcock was born in Britain in 1899 and died in 1980. Hitchcock's career as a director spanned both silent films and talkies and he gained a reputation as a master of suspense. He was considered especially brilliant in his use of the camera to build tension, which is particularly evident in his film *Psycho* (1960), a powerful and now classic psychological thriller. Throughout his career he worked frequently with James Stewart and Grace Kelly, who would later become the Princess of Monaco, in films such as *Rear Window*. In his later work, Hitchcock often appeared himself in cameo roles. When the audience had noticed this habit, he made sure his cameos appeared early in the film so as not to keep the audience waiting – once his cameo was a mere photograph! Hitchcock was knighted by Queen Elizabeth in 1980 for his achievements in film.

Financing in the motion picture industry is in many ways unusual in comparison with other business operations. Normally, companies will finance their operations by contributing their own funds, often in the form of share capital or loan capital or both. When companies have been in business for some time and become established they can also partially, or even fully, finance all of their operations through accumulated earnings or through sales of assets. With regard to the latter three branches of the film industry, i.e. film distribution, cinema operation and video rentals, financing does in fact take this traditional form. Film production, however, does not, especially not in Europe, where film producers generally have access to significant government support.

Whereas in the United States public support for film production is the exception rather

than the rule, it is the policy of most governments in Europe to support their respective film industries, partly to counteract the overwhelming cultural influence of American films, but also to promote positive externalities in an important business sector. Unlike in Europe, it is difficult to sell foreign films in the U.S. market, as the market for foreign films is limited and therefore there is no need for any government action to counteract foreign influence. Films from English-speaking countries such as the U.K. and Australia can and do achieve box office success, but there is very little interest in subtitled or dubbed foreign films.

3.2.1 Icelandic Film Centre, government appropriations and allocations

The Icelandic Film Centre operates on the basis of statutory law on the motion picture industry (the Motion Pictures Act). The Centre is run by a director and its role is primarily to support the production and distribution of Icelandic films and assist in their promotion, both in Iceland and elsewhere.

Figure 3.3 shows the government appropriations to the Icelandic Film Centre from 1979 to 2013, based on annual government accounts and adjusted to 2012 price levels in line with changes in the consumer price index.⁶²

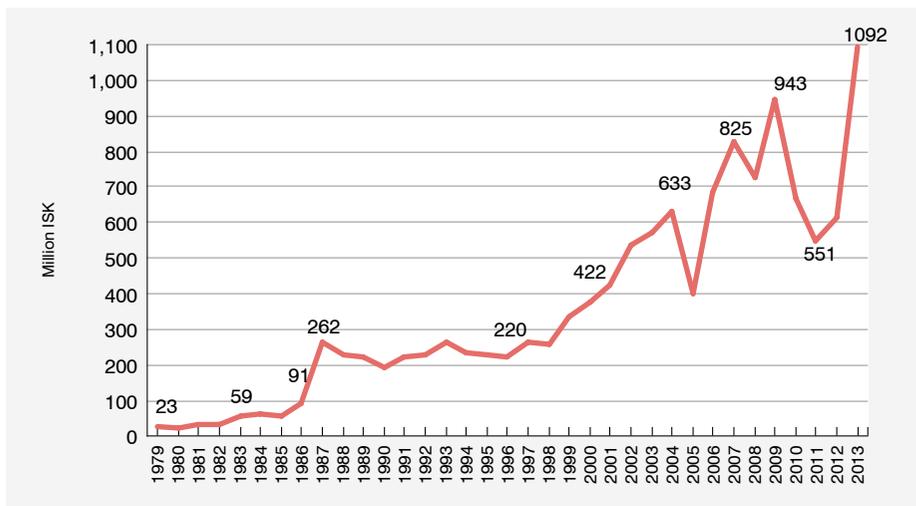


Figure 3.3: Government appropriations to the Icelandic Film Centre 1979 to 2013 at 2012 price levels.

⁶² For information on public funding for the Film Centre, see Karlsson R. (2003), *Government Accounts 2000–2011* (2013) and *Iceland Fiscal Budgets 1979–2013* (2013).

Looking at State appropriations to the Icelandic Film Centre is interesting for a number of reasons. In 1979 appropriations totalled 23 million ISK at 2012 price levels as shown in Figure 3.3 and this spurred a series of film productions.

Appropriations more than doubled in the first four years, totalling 59 million ISK in 1983 and increasing to 91 million ISK in 1986 with a subsequent surge to 262 million ISK in 1987. The increased appropriations were partially intended to pay for the purchase of permanent premises for the Centre. Appropriations remained relatively stable over the next decade and totalled 220 million ISK in 1996.

There was a second surge at this time and over the next five years appropriations nearly doubled, reaching 422 million ISK in 2001. The reason for the increase was a report on the motion picture industry prepared by the Institute of Business Research of the University of Iceland for Aflvaki, an investment firm owned by the city of Reykjavík. Among other things the report revealed that government contributions to filmmaking, including the Icelandic Film Centre, were more than recovered by the government. One reason was the tax revenue from tourists who made their decisions to travel to Iceland after seeing an Icelandic film or other Icelandic filmed material in cinemas or on television in their home countries. The report opened the eyes of many politicians to the economic advantages of filmmaking, which in turn led to an increase in appropriations.⁶³

The following years saw a substantial increase in appropriations in excess of inflation, up to 825 million ISK in 2007. In 2006 an agreement was made between the Ministry of Education, Science and Culture and motion picture associations providing for an increase in government funding for film production; the agreement of course contained reservations with regard to parliamentary budget appropriations, which is the norm in agreements of this kind. The contributions decreased after the collapse of the economy in 2008, from 943 million ISK in 2009 to 551 million ISK in 2011, a level comparable to the contributions of a decade before and a huge step backwards. In 2012, and in particular in 2013, there has been a substantial increase in State contributions to the Film Centre, as shown in Figure 3.3. The reason for the increase is the extensive public discussion of the importance of the film industry for the economy and the increased understanding among politicians of the sector's

⁶³ This study can be accessed in *The motion picture industry in Iceland* (1998).

significance. What makes this even more notable is that Iceland is at this time going through a period of severe economic hardship following the total collapse of virtually the country's entire financial sector in 2008.

The government has been earmarking funds for the Icelandic Film Centre for 35 years, from 1979 to 2013. These appropriations amount to an aggregate total of 11 billion ISK adjusted to 2012 price levels, which corresponds to an average of just over 300 million ISK annually. Assuming that the production cost of a feature-length, live-action film made in Iceland is on average 190 million ISK, or about 1.5 million dollars, this annual contribution suffices for the production of a little over one film each year. Of course, film production costs will vary greatly but in any case the figure shows that producing full-length, live-action films is an expensive business.

Grants from the Icelandic Film Centre are entirely dependent on annual government budget appropriations. A part of the government's appropriations is used for the operation of the Fund itself, which in recent years has amounted to 15% of the total appropriation for each year.⁶⁴ Grants are awarded annually. In recent years pledges of grants have been given one year following the year of appropriation in an attempt to adopt a longer-term perspective. This system has proven useful, as the pledges can be used to attract additional financing. However, if no additional financing can be obtained for the project the pledge may be withdrawn.

Interestingly, the Film Centre did not begin supporting films made for television until 2002, with allocations rising gradually to 17% of total allocations in 2010. The production of televised films and series has been increasing steadily in recent years and it is quite possible that at some point Iceland could experience a similar breakthrough as Denmark and Sweden, for example, where television series have achieved popularity and surmounted language barriers in the process, as in the case of the immensely successful Danish television series *Matador* and the Swedish television series *Wallander*, featuring Henning Mankell's character of the same name.

The economic crash in 2008 dealt a heavy blow to the Icelandic film industry, not only because appropriations to the Film Centre were cut, but also because the Icelandic National Broadcasting Service substantially reduced its purchases of Icelandic filmed material. In addition,

⁶⁴ For a discussion of the operating cost of the Icelandic Film Centre, see *Government Accounts 2000–2011* (2013).

there was a decline in the production of acted advertisements, an important source of income for many film producers. The development of the film industry in Iceland has taken decades, but it only takes a very short time to cause extreme harm to such a delicate and high-risk industry.

3.2.2 Reimbursement of motion picture production cost

In 1999 legislation was passed in Iceland on the temporary reimbursement of film production costs. The legislation provided for the partial reimbursement of film production costs from the State Treasury. There are various arguments that support this arrangement, including the argument that reimbursement will attract foreign film companies to Iceland while at the same time supporting the domestic film industry. A number of countries have set up similar systems of reimbursement. Originally, the reimbursement amounted to 12% of production cost, but the proportion was raised to 14% in 2006 and to 20% in 2009.

John Huston was born in the United States in 1906 and died in 1987. He directed numerous popular films, including *The Maltese Falcon* (1941), *Key Largo* (1948) and *The African Queen* (1951), all starring his close friend Humphrey Bogart. Huston received two Academy Awards in his career and wrote the screenplays for most of his own films. He directed his father, Walter Huston, who won the Oscar for his role in the critically acclaimed *Treasure of Sierra Madre* (1948). He also directed his daughter, Anjelica Huston in the film *Prizzi's Honor* and she also won the Oscar for her role. Huston directed *The Man Who Would be King* (1975), co-starring Sean Connery and Michael Caine. Towards the end of his career, Huston acted a few parts and his performance in Roman Polanski's *Chinatown* was hailed as powerful. Huston was a friend of Orson Welles and Ernest Hemingway. He eventually moved to Ireland where he became a citizen in protest against McCarthyism.

Reimbursement is subject to a number of conditions; for example, a domestic company must be established for the production and a committee of four members under the supervision of the Ministry of Industries and Innovation is set up to review reimbursement applications. Films which are reimbursed must have cultural value in some form and serve to promote the country, its nature and history.

The reimbursement legislation was provisional and did not enter into force at the intended time due to observations made by the European Free Trade Association (EFTA) to the effect that grants constituted illegal state aid since they discriminated between domestic and foreign entities. Also, it was contended that the definition of the cultural aspects of supported films was not sufficiently clear. The legislation was amended in 2000 in response to these observations.⁶⁵ Iceland is not a Member state of

⁶⁵ Regarding the legislation on reimbursement, see *Capital Movements, Imports and Foreign Investments* (2013) and Einarsson (2006).

the European Union, but with Norway and Liechtenstein it is a party to the Agreement on the European Economic Area (EEA) and thereby required to adapt its national law to EU legislation in matters covered by the EEA Agreement, such as state aid, competition etc.

The 'Act on temporary reimbursement in respect of filmmaking in Iceland', as it is titled in its official translation, has been advantageous to Iceland and in fact there are similar provisions of law in effect in a number of countries. The Act has led to the reimbursement of production costs for a number of foreign films that would not have been shot in Iceland were it not for the legislation. Foreign films which are partially filmed in Iceland bring with them business of various kinds for domestic companies in the motion pictures industry as well as a demand for a variety of services. A number of major films have been shot in Iceland, including *Lara Croft: Tomb Raider* and *Batman Begins*. Scenes for two James Bond films, *A View to a Kill* and *Die Another Day*, were filmed in East Iceland, near Jökulsárlón, a well-known scenic area. The films *Flags of our Fathers* and *Letters from Iwo Jima* directed by Clint Eastwood were largely filmed in the vicinity of Grindavík near Reykjavík.⁶⁶

The amount of the funds available for reimbursements of this kind is decided in the State Budget Act for each year. Since it is not known at the time of enactment of the Budget Act how many or which films will receive reimbursement, and since the reimbursement is a percentage of production cost, the amounts to be spent cannot be determined until the year has passed, which means that the amount in the Budget Bill or the Budget Act is likely to be somewhat wide of the actual mark.

Reimbursement can amount to a maximum of 20% of the production cost, with any contribution obtained from the Icelandic Film Centre deducted. For example, assuming that a film costs 100 million ISK and that the Film Centre contributes 30 million ISK to the project, then the reimbursement of cost can at a maximum amount to 14 million ISK, i.e. 20% of the 100 million ISK, net of the 30 million ISK, that is to say 20% of 70 million ISK. On the other hand, if the project received no grant from the Film Centre the reimbursement could amount to 20 million ISK, or 20% of the entire cost of 100 million ISK. Film producers will normally aim to achieve a favourable balance between grants from the Film Centre and cost reimbursement from the State. It is commonly

⁶⁶ For further discussion of filming by foreign film companies in Iceland, see, e.g., Karlsson H. (2005).

assumed that a financial contribution from the Film Centre of about 37,5% and a reimbursement of about 12,5% is the optimal ratio, considering that the ceiling for domestic grants is 50% of cost.

The increase of the reimbursement ratio to 20% in 2009 had the effect of attracting more foreign films to Iceland. Foreign motion pictures filmed in Iceland after 2009 include *Noah*, featuring Russell Crowe, *Oblivion*, featuring Tom Cruise, *Prometheus*, featuring Noomi Rapace, the *Secret Life of Walter Mitty*, featuring Ben Stiller, and several episodes of the television series *Game of Thrones*.

Reimbursements are widely practised and in Britain, for example, the reimbursement is 25% of cost. It is even higher in some other countries.⁶⁷ In recent years, about 15 projects have received cost reimbursements annually in Iceland. Feature-length acted films comprise the majority, both in terms of number of projects and amounts. Production costs of television programmes are also reimbursed in accordance with the same legislation.

3.2.3 Other funding

Financing for the production of filmed material in Iceland takes different forms depending on the type of production. Full-length, live-action films receive the lion's share of the Film Centre's allocations, or about 70% of the allocations of recent years. Documentaries receive a considerably smaller share, although grants to documentaries have increased recently. Television material receives the smallest proportional share from the public grant system, at least to date. Studies of the financing of full-length, live-action films in Iceland from 2004 have revealed that about a quarter of the cost, or slightly less, was financed by the Film Centre. Other studies have confirmed these findings.⁶⁸

Reimbursement can amount to a maximum of 20% of production cost, as previously noted. According to international rules, by which Icelanders are bound, domestic grants cannot exceed 50% of production cost, as larger grants would be seen as anti-competitive. In reality, exemptions can be obtained from this ceiling and Norwegians, for example, have been granted an exemption on the grounds that Norway is a small

⁶⁷ For a further discussion of the reimbursement of film production cost in Britain, see, e.g., *Value of UK tax relief* (2013).

⁶⁸ The surveys cited are *The motion picture industry in Iceland* (1998) and *Who is funding Icelandic films?* (2010).

language area. The same argument should apply with even more force to Iceland if such an exemption were sought and if government authorities were inclined to support Icelandic films with grants exceeding 50% of production cost. It is not uncommon for 40-45% of the financing for full-length, live-action films in Iceland to derive from the Film Centre and from reimbursement of production cost. This means that 55-60% of the cost needs to be funded by other means and an even higher percentage in the case of television programming. This is in most cases a difficult obstacle for Icelandic film producers.

In addition to domestic public grants from the Film Centre and cost reimbursement, grants from foreign funds are an important source of financing, as well as funding from foreign production partners or buyers such as television stations, whether domestic or foreign.

Media 2007 is the name of the support programme of the European Union for the production and distribution of filmed material.⁶⁹ *Media* is intended to strengthen the European film, television and media industry. Through the EEA Agreement, which took effect in 1994, several member states of the European Free Trade Association, i.e. Iceland, Norway and Liechtenstein, became full members of the *Media* programme. The current *Media* programme, *Media 2007*, previously the '*Media Plus*' programme, will remain in effect from 2007 through 2013. Over the seven-year period that the *Media 2007* programme is in effect it is estimated that 755 million euros will be allocated, or about 120 billion ISK, an increase of 35% from the previous *Media Plus* programme.

A *Media* programme information service is operated in Iceland by the *Media* headquarters in Brussels and the Icelandic Film Centre, representing the Ministry of Education, Science and Culture. The information service also handles relations with *Eurimages*, the Council of Europe's fund for the co-production, distribution, exhibition and digitisation of European cinematographic works. The contributions by Icelandic parties to the *Media 2007* programme and the former *Media Plus* programme correspond to only a part of the funding awarded through these programmes to the production of Icelandic film material. *Media 2007* grants are of various kinds, including grants for preparatory work, production, borrowing and insurance costs, distribution and film

⁶⁹ *Media* is an acronym for 'Mesures pour encourager le développement de l'industrie audiovisuelle', i.e. 'Measures to encourage the development of the audiovisual industry'.

festivals. In the years prior to 2007, contributions from the *Media* programmes were partially in the form of loans.

For 15 years the annual contributions from the *Media* programme to Icelandic projects, i.e. from 1996 to 2011, totalled on average 75 million ISK per year at 2012 price levels. If these figures are compared to the Icelandic government's contributions to the Film Centre in 2011 of 665 million ISK and cost reimbursements in 2011 of about 165 million ISK, then it is obvious that *Media* programme contributions are of significant importance to Icelandic film producers.⁷⁰

Eurimages, the Council of Europe's film fund, usually does not award grants unless the filmmakers applying for the grants also receive grants in their home states. Under the *Media 2007* programme, on the other hand, it is possible to apply for preparation grants without any matching domestic grants, although domestic grants are normally prerequisites for any additional grants.

In the course of the 22-year period from 1990 to 2011, the contribution of *Eurimages* to Icelandic filmmaking has totalled 1.7 billion ISK, adjusted to 2012 price levels, or on average 77 million ISK annually. This is a slightly higher amount than awarded through the *Media* programmes of the European Union. These two foreign film funds therefore support Icelandic production annually in an amount similar to the annual reimbursement of cost by the Icelandic government.

Akira Kurosawa was born in 1910 in Japan and died in 1998. He is regarded as one of the most influential directors in film history and with him Japanese filmmaking reached its highest pinnacle. His films include *Seven Samurai* (1954), which tells the story of 16th century warriors hired to protect villagers against bandits; it had a lasting influence on directors across the world and inspired several re-makes, including *The Magnificent Seven*, directed by John Sturges and starring Yul Brynner and other big-name stars. One of Kurosawa's last films, *Ran* (1985), now a classic, is based on King Lear, the character immortalised in Shakespeare's tragedy. Kurosawa was famous for his precision and he is said to have personally scrutinised every single scene of every film that he made.

There are other public film funds, such as the Nordic Film and Television Fund (*Nordisk Film & TV Fond*), which funds films through contributions which are often linked to funds in the countries of the respective co-producers. It is extremely rare for Icelandic films to be produced by Icelanders and Icelandic companies alone, and in fact the Icelandic participants are often minority partners in any given production. An examination of the 34 films which received grants from

⁷⁰ For more on Media programmes, see for example *About the Media Programme* (2013).

Eurimages from 1990 to 2007 with Icelanders as co-producers reveals that Icelandic companies have covered on average slightly over 40% of the production cost while foreign parties have covered just short of 60%.⁷¹ These foreign co-producers, which are often film funds from various countries in multinational productions, are responsible for a part of the financial contribution. Funding by foreign parties, e.g. through public foreign funds, can therefore correspond to about half of the cost of the production of Icelandic films. Other surveys have confirmed these findings.⁷² This significant foreign participation underscores the importance of the film industry for revenues in foreign currency.

Even though grants for filmmaking are available from a number of sources, there is no guarantee for such funding, and so financing prospective films remains one of the most, if not *the* most, difficult problem that Icelandic film producers face and this has been the case for decades. As noted earlier, few films yield profits, which applies both to Icelandic films and films produced in Iceland's neighbouring countries. For many production companies supplementary activities, such as producing advertisements for domestic and foreign markets and renting technical equipment to foreign film crews in Iceland, are quite crucial for generating revenues to produce films.

A Danish model showing how films are financed in Denmark assumes a contribution from the Danish Film Institute (DFI) amounting to 40% of the production cost and own contributions amounting to 25% and 35% from partners. The greatest difference between Denmark and Iceland is that in Iceland the proportion of own funds is much higher, whereas in Denmark the television stations such as the state-owned Danmarks Radio (DR) actively fund films and pay substantial amounts for the right to run and rerun films. Icelandic film producers have often severely criticised the Icelandic National Broadcasting Service (RÚV) for its meagre contribution of funds to filmmaking.

In Denmark, like in Iceland, film producers are last in line when it comes to being paid, as the distribution companies and cinema owners are paid before the producers. The fact that only a few films yield profits once again confirms that returns on motion picture production in Iceland are poor and the risk is high. In terms of risk, film production

⁷¹ For a discussion of *Eurimages*, see, e.g., Einarsson (2011).

⁷² The surveys cited are *The motion picture industry in Iceland* (1998) and *Who is funding Icelandic films?* (2010).

can be compared to the pharmaceutical industry, where the risk of developing new medical products is high and few products achieve the volume of sales required to cover development costs and return a profit despite the occasional breakthrough that keeps the industry viable. The pharmaceutical industry requires and possesses a great deal of very patient capital, a type of capital not often available to the motion picture industry.⁷³

3.3 Impact of the film industry on the job market, tourism and government finances

Jobs in the film industry are spread over a wide range of economic activities. In addition to the production itself of filmed material and its distribution, there are jobs in cinemas and in video rentals. There are also jobs connected with filmmaking in the advertisement industry, in television stations, public and private, and in the public sector, for instance the Icelandic Film Centre and Film Archive. In addition to these jobs, there are jobs which are indirectly linked to motion pictures involving supplies and services from undertakings outside the film industry itself, such as hotels, transport services, catering services and numerous other service providers. Finally, there are induced jobs which result from the increased consumption made possible by the income of the people in the direct and indirect jobs.⁷⁴

Sophia Loren was born in Italy in 1934. By far the most famous Italian actress, Sophia Loren is an internationally renowned film star who has won numerous awards for her acting, including an Oscar for best actress in the film *Two Women* (1960). She grew up in poverty in southern Italy, but with hard work and talent she rose to fame and success. Her beauty has been lauded the world over and she is a virtual goddess in her hometown of Napoli. Loren starred in a number of popular films, such as *El Cid* (1961) with Charlton Heston and *Yesterday, Today and Tomorrow* with Marcello Mastroianni. In a documentary about her own life she portrayed both herself and her mother.

In economics, these jobs are often linked using multipliers, where the direct effects are seen as external demand, which drives the economy in both a direct, indirect and induced context. If direct employment in motion picture jobs is denoted as v_a , indirect jobs as v_i and induced jobs as v_s and the multiplier is denoted as M , equation 3.1 gives us the following context:

⁷³ For a discussion of film financing in Denmark, see, e.g., Filmproducenterne (2001).

⁷⁴ For a discussion of the reimbursement of cost in Iceland, see *Reimbursement of the cost of filmmaking* (2006).

Equation 3.1: $v_d + v_i + v_s = M \cdot v_d$

The context described in Equation 3.1 relies on linking together supplies and products within a specific sector of the economy. This gives rise to the argument that jobs create other jobs, which can be demonstrated to be true. This methodology is often used to multiply the number of jobs, or the economic activity, in a sector by a coefficient, frequently in the range of 1.5 to 3. This approach is supported by the reasoning that if an industry in whose interests one is working can be shown to ‘create’ jobs it is possible to increase the weight of that industry in the public discourse and argue for the contribution of public funds to the industry. Some discretion needs to be exercised, however, as jobs will normally be created where there is competition in the market and where the success of a sector is dictated by productivity or performance. Jobs will normally create themselves and no government intervention is needed other than support for a normal, barrier-free working environment.

It also needs to be kept in mind that in any economy jobs will disappear and others will appear, all depending on trends in demand and productivity. The job market will seek equilibrium, including in real-term wages. Government can encourage demand using methods such as increased spending on public works or tax reductions, or it can reduce demand through cutbacks in public works and tax increases. Government finances therefore play an important role in economic management and the monetary policy of public authorities, just as central banks determine the principal aspects of public economic management.

Notwithstanding the warnings above against overestimating the role of individual industries on the sole grounds of multiplication of jobs, it must be kept firmly in mind that the motion picture industry, just like any other economic activity, is one mesh in the large network of the economy and it has a widespread impact. The first argument stands unchanged as regards the need for government to support cultural activities, including the motion picture industry, among other things because they are merit goods, and cultural activities are an important element of the self-image of any nation, over and above their economic importance. Governments will also recover most of their contribution, and often more, in the form of taxes on the economic activities, whether these take the form of trade in goods and/or services or payment of wages.

By its nature the production of a motion picture is a personnel-intensive undertaking, and for this reason an active motion picture industry in any country will employ a large number of people. Table 3.4 provides an overview of man-years in the industry in Iceland. In looking at these figures, a non-Icelandic reader should bear in mind that 750 people is not an inconsiderable figure when it is borne in mind that the total number of fishermen in Iceland is 4,900 and fisheries are a large and important industry in Iceland.

	Man-years
Production of filmed material	250
Distribution and performances	120
Video rentals	50
Public sector work	80
Indirect and induced jobs	250
Total	750

Table 3.4: Breakdown of man-years in the motion picture industry in Iceland

Based on turnover figures in the production of motion pictures and other filmed material, excluding filmed advertisements, it can be estimated that this segment of the motion picture industry comprises approximately 250 man-years, which is consistent with previous estimates,⁷⁵ see table 3.4. It should also be noted that many jobs in the motion picture industry are part-time jobs. For example Sagafilm, Iceland's largest motion picture company, made payments to approximately nine hundred individuals in the form of direct wages or contractor payments in 2010, while permanent employees were only about forty.

In addition to the 250 man-years in the production of filmed material, employees of motion picture distributors and cinema operators are 350 in 120 full-time position equivalents, or man-years, according to data from Statistics Iceland. It may be assumed that the number of man-years in video rentals is approximately 50 and that other operations of private and public entities, e.g. television stations, which are directly connected to the film industry, are about 80. This corresponds to a total of 500 jobs in the motion picture industry. The indirect and induced impact can be set at 250 man-years, which corresponds to a multiplier of 1.5 in Equation 3.1, putting the total number of man-years in the motion picture industry at approximately 750, see Table 3.4. It is therefore assumed in

⁷⁵ For further discussion of jobs in the film industry, see, e.g., *Reimbursement of the cost of filmmaking* (2006).

this scenario that each job in the motion picture industry will create a half additional job in indirect and induced employment, at a conservative estimate.

The turnover in the motion picture industry is significant. Table 3.5 gives an overview of the turnover at 2012 price levels based on the annual financial reports of companies obtained from Statistics Iceland, as further discussed below.

	Annual turnover in ISK million
Production of filmed material	4,700
Distribution	800
Cinemas	3,000
Video rentals	400
Other activities	700
Indirect and induced impact	2,900
Total	12,500

Table 3.5: Breakdown of annual turnover in the motion picture industry

The annual turnover in the motion picture industry in Iceland is approximately ISK 4,700 million in the production of filmed material, ISK 800 in distribution, ISK 3,000 million in cinemas and ISK 400 million in video rentals, which adds up to a total of ISK 8,900 million at 2012 price levels according to the annual financial reports of companies operating in the sector. The annual turnover of other business activities linked to the motion picture industry is estimated at ISK 700 million, bringing the total turnover generated by the 500 man-years in the motion picture industry to an estimated ISK 9,600 million. Indirect and induced jobs are 250 as mentioned earlier and the turnover of these jobs is estimated at ISK 2,900 million. This is, once again, a conservative assessment of economic statistics relating to the motion picture industry, with the economic impact multiplier set at approximately 1.3. In total, including indirect and induced impact, the number of man-years is estimated at approximately 750 and the turnover at approximately ISK 12,500 million, as shown in Table 3.5. Of the ISK 12,500 million turnover, wage payments amount to approximately ISK 4,600 million, assuming 750 man-years in the sector and based on the total average wages in several sector of the economy in 2011.⁷⁶

⁷⁶ For information on wages in the labour market in Iceland, see *Earnings in the private sector for full-time employees* (2013).

Tax revenues of the State resulting from business activities in the motion picture industry are significant, as shown in Table 3.6.

	Million ISK
Income tax from wages in the motion picture industry	510
Value-added tax from business in the motion picture industry	1,410
Total State income	1,920
State contribution to the Icelandic Film Centre	665
Reimbursement of cost of motion picture production	165
Total State cost	830
Direct annual State profit from motion picture industry	1,090

Table 3.6: Direct State profit per year from motion picture industry

The State tax revenue from the combined turnover and wage payments is estimated at approximately ISK 1,920 million per year at 2012 price levels. This revenue is generated, among other things, from income tax on wages, with the income tax estimated as 11% of ISK 4,600 in wage payments, or ISK 510 million. It is reasonable to assume an 11% tax ratio, which is the ratio of wages and related payroll costs to individual income tax in 2011.⁷⁷

The State derives significant income from value-added tax, which is levied on value creation in the economy and wage payments are part of the value creation. The value-added tax on ISK 4,600 million in wages in the motion picture industry is approximately ISK 780 million and it is estimated that other business activities in the motion picture industry, with its turnover of ISK 7,900 million, will return an additional ISK 630 million in value-added tax, bringing the State revenue from value-added tax deriving from the motion picture industry and related activities to ISK 1,410 million per year. In aggregate, this exceeds by far the combined ISK 830 million contribution of the State to the Icelandic Film Centre (ISK 665 million) and reimbursement of cost (ISK 165 million). The direct benefit to the State from the motion picture industry is therefore ISK 1,090 million, as shown in Table 3.6.

In addition to all of the above, the State Treasury derives significant income from tourists who visit Iceland as a result of the influence of Icelandic filmed material and as a result of services provided to foreign film companies. Tourism is among the largest business sectors in the

⁷⁷ See *National accounts and public finances* (2013).

world and is an extremely diverse sector. Services range from group tours to sunny beaches to specialised wilderness nature tours. Tourism is a growing business in Iceland, generating significant revenues in foreign currency that amounted to about ISK 158 billion in 2009. These foreign currency revenues support a significant amount of value creation in the Icelandic economy. Most foreign tourists who travel to Iceland are familiar with Icelandic filmed material, whether in the form of motion pictures, television programmes or filmed promotions of the country. The number of foreign tourists visiting Iceland has grown significantly in recent years, from approximately 142,000 in 1990 to 303,000 in 2000 and 670,000 in 2012.⁷⁸ The number of foreign tourists thus doubled in the space of only ten years, from 1990 to 2000, and increased by 120% in the subsequent twelve years, from 2000 to 2012. This is a tremendous increase in a very short time.

Even if we bear in mind the often overlooked fact that most jobs in the tourist industry are low-income jobs and that investments in lodging and other services are cost-intensive, it must be kept in mind also that tourism is often a supplement to other business activities in many locations, especially in rural areas, where economic diversity can be limited.

Income from foreign tourists is generated by air fares to and from Iceland, lodging, food and drink, local tours, participation in events, including cultural events, and shopping. The volume of business can be large, and for the State foreign tourists are a rich source of tax revenues, among other things as a result of value-added tax on the goods and services purchased by tourists in Iceland and as a result of the general increase in economic activity. The State and municipalities take their share of this value creation and that share is not inconsiderable.

Iceland has much to offer to foreign tourists, in particular its unique natural environment. However, the tourist industry has become much more diverse than it was in the past and the current buzzword is cultural

Marilyn Monroe was born in the United States in 1926 and died in 1962. Born Norma Jeane Mortenson, Marilyn Monroe began her career in modelling and later became an actress. With her trademark blonde hair, Marilyn often portrayed beautiful, fair-haired women who had little in the way of intelligence. She starred in films such as *Gentlemen Prefer Blondes* (1963) and *How to Marry a Millionaire* (1953). As a talented actress, she disliked being typecast as a blonde but could never rid herself of her status as a sex symbol. Her private life was marred by mental illness. She married Joe Di Maggio, one of the most famous baseball players in America, and later the world-renowned playwright Arthur Miller. Monroe died at age 36; it is believed that she committed suicide.

⁷⁸ See *Number of foreign visitors* (2013).

tourism. This refers to the offering of cultural experiences, such as artistic exhibitions and performances. Music festivals and film festivals are typical examples. Globalisation has contributed significantly to growth in tourist services in the world and it can be argued that tourism is in reality an experience industry, much like the motion picture industry. Tourists who are primarily seeking cultural experiences will on average spend more money on their travels than other tourists and for this reason there is some profit to be made in this field.⁷⁹

The influence of films and other filmed material was highlighted in a report on the film industry in Iceland published by Aflvaki in 1998, which revealed that the State revenue from foreign tourists who decided on their trip to Iceland after watching Icelandic filmed material far exceeded the State appropriations to the Icelandic Film Fund over the same period.⁸⁰ A survey revealed that for 10-15% of foreign tourists the idea of visiting Iceland had its origins in a radio or television programme. Subsequent surveys have confirmed these figures and a survey of foreign tourists in 2010 revealed that the incentive for an Iceland trip was television or radio programming material on Iceland for 5-7%, and for another 5-7% the incentive was Icelandic literature or films, which adds up to a total of 10-14% of all foreign tourists.⁸¹ In the calculations below, the lower figure is used for reference as regards the influence of the media on tourists, i.e. 10%, to estimate the probable influence of films alone.

Table 3.7 shows the annual financial benefit to the State from the influence of the motion picture industry on tourist arrivals in Iceland.

	Million ISK
Spending by foreign tourists in Iceland	111,000
Net income from foreign tourists as a part of GDP	80,000
Influence of films, 10%	8,000
State tax revenues	2,500

Table 3.7: Benefit to the State from the influence of films on tourists

Of the total business generated by domestic tourist services in Iceland in 2008, some 61% derive from foreign tourists. Foreign tourists purchased goods and services in Iceland for ISK 111 billion in 2009.⁸² Spending by

⁷⁹ For further discussion of cultural tourism, see, e.g., Richards (2007).

⁸⁰ The report is titled *The motion picture industry in Iceland* (1998).

⁸¹ For a discussion of reasons for visiting Iceland, see Gudmundsson (2010).

⁸² For information on tourist spending in Iceland, see *Total internal tourism consumption* (2013).

foreign tourists in Iceland constitutes final demand and final exports, which are reflected in their entirety as an increase in GDP. To arrive at a net figure, we need to deduct all imports that relate to these same tourists. This calculation is based on the proportion of imported consumer goods of the total domestic consumption in the economy, which is added to the income from foreign tourists to form our denominator. This share is multiplied by the export revenues from foreign tourists, which gives us the imports associated with these foreign tourists, which we then deduct from the exports. The resulting figure is the net income from foreign tourists which accrues to GDP, i.e. ISK 80,000 million, as shown in Table 3.7. Assuming that 10% of this figure results from the influence of films, as suggested earlier, the influence of the motion picture industry accounts for ISK 8,000 million of this income. State revenue as a proportion of GDP was 31.5% in 2012.⁸³ If this proportion is calculated from the income generated by the motion picture industry, the conclusion is that State revenues of ISK 2,500 million derive from the influence of film on tourism, see Table 3.7.

Summarising the income and expenses of the State from motion pictures in Tables 3.6 and 3.7 gives us the conclusion shown in Table 3.8.

	Million ISK
Income tax from wages in the film industry	510
Value-added tax from economic activity in the film industry	1,410
Income from tourists resulting from the influence of film	2,500
Total State income	4,420
State contribution to the Icelandic Film Centre	665
Refunding of cost from motion picture production	165
Total State expense	830
Annual State benefit from motion picture industry	3,590

Table 3.8: Total State benefit per year from motion picture industry

As revealed in Table 3.8, the total benefit to the State from the motion picture industry amounts to ISK 3,590 million per year. It is therefore evident that for each króna contributed to the film industry, the State receives four back; there are few, if any, economic sectors that can equal the film industry in profitability for the State.

⁸³ See *Public finance* (2013).

Even adding the ISK 100 million cost of the State's participation in running the Icelandic Film Archive and other public administration relating to films changes nothing in the big picture, and in fact these calculations do not take account of the State income from the activities of foreign film companies in Iceland. In the absence of reimbursements to filmmakers in Iceland it is virtually certain that there would be precious few foreign companies that would consider filming their motion pictures in Iceland, which would deprive the State of a significant source of income.

It should be noted in this context that the State has a wide range of responsibilities in the community and needs to fund the welfare system, health services and educational system. It is therefore not unnatural to expect individual sectors of the economy to contribute to State revenues. However, it is clear in light of the above conclusions that the motion picture industry is a significant source of income for the State. The role of government is not least to promote a strong infrastructure so that enterprises can flourish. This applies to tourism and its supporting industries where the motion picture industry is undeniably a major supporting industry. State support for motion picture production is therefore

nothing but an element of strengthening the Icelandic infrastructure with the objective of enabling a profitable and growing industrial sector, like the tourist industry, to prosper.

Films and television programmes can have a significant impact on the decision of foreign tourists to visit Iceland, and in addition a number of tourists make a point of visiting sites where major motion pictures have been filmed. To give an example, the *Lord of the Rings* trilogy, which was filmed in New Zealand, resulted in a surge tourist arrivals in New Zealand and an array of industries was created following the premières of these immensely popular films.⁸⁴ Included in the direct impact of films on tourism could be the desire of travellers to visit filming sites, film studios and haunts, lodgings or residences of famous film stars.

Paul Newman was born in the United States in 1925 and died in 2008. He was one of the most celebrated American actors of his time, but he always had a number of other irons in the fire. He not only received numerous awards as an actor, including an Oscar, but also competed in auto racing where he won several prizes. Newman founded the food company Newman's Own, a for-profit company that has donated hundreds of millions of dollars to charity. Newman fought in the Second World War and he also earned degrees in English and Drama. He starred opposite Elizabeth Taylor in *Cat on a Hot Tin Roof* (1958) based on the play by Tennessee Williams. As an active participant in politics and a liberal reformer he was placed ninth on former president Richard Nixon's enemies list; Newman boasted that this was his greatest accomplishment.

⁸⁴ For a discussion of tourist services connected to the motion picture industry, see, e.g., *Beeton* (2006).

One example of the impact of filming sites on tourism in Iceland is that in Reykjavík a number of foreign tourists make a special point of visiting Nordurmýri, the rather unspectacular location of a large part of Arnaldur Indridason's novel *Jar City*. The novel was extremely popular, both in Iceland and abroad, and attendance of the motion picture based on the novel was extensive. The same applies to the widely-read novel *I Remember You* by Yrsa Sigurdardóttir. There is a current trend to visit Hesteyri in North West Iceland, the principal scene of the novel.

In addition to all of the above there is the economic impact of foreign motion pictures filmed in Iceland, which involve extensive activity that can have considerable significance. The expenditures of foreign motion picture companies that produce individual scenes for major films in Iceland run in the hundreds of millions of krónur. In addition, the sites selected for such foreign films are usually located in rural areas in order to take advantage of Iceland's unique natural features. The activities surrounding the filming of major motion pictures at places such as Jökulsárlón, Grindavík and Dettifoss have been extensive and beneficial for the small settlements in the vicinity of the filming sites.

A careful attempt has been made not to overestimate the role of the motion picture industry, but even so the conclusion of this discussion is that increased business activities in the motion picture industry are a good investment for the State and as an added bonus they contribute to the diversification and depth of Iceland's culture.

4. Production, distribution and exhibition

4.1 Production

This chapter is divided into sections on production, distribution, exhibition and company management and finances. The sections describe the facts and figures deriving from the production of, and demand for, motion pictures. The following discussion is therefore a rather concrete economic description of the film industry in Iceland based on the more theoretical discussion in the preceding chapters.

Foreign films are the staple of Icelandic cinemas, in particular American films. Figure 4.1 shows the number of films released in Icelandic cinemas from 1965 to 2010 arranged by origin in the United States and other countries.⁸⁵

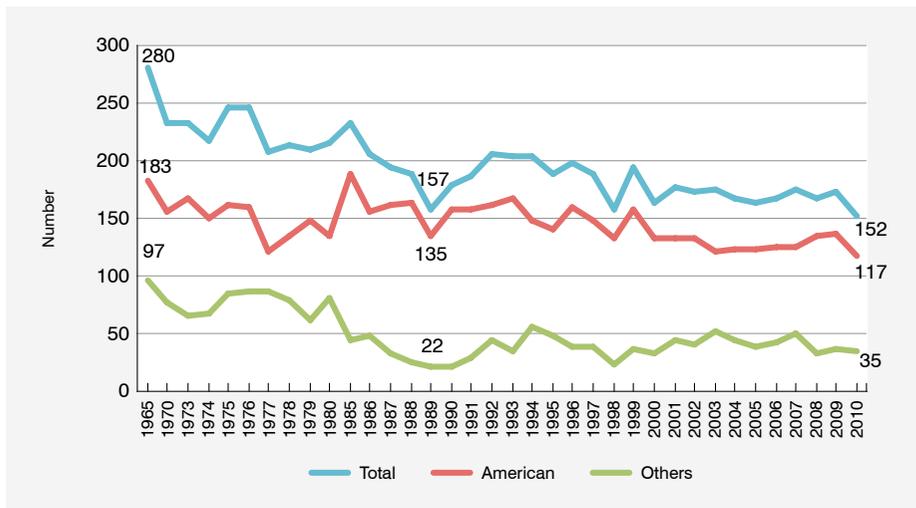


Figure 4.1: Number of feature-length films from 1965 to 2010

⁸⁵ For a discussion of screened films in Iceland, see Karlsson R. (2003) and *Releases of full-length feature films by country/region of origin* (2013).

The majority of films shown in Icelandic cinemas are American films, as shown in Figure 4.1. However, the number of films released in Iceland in the past decades has fallen. In 1965 a total of 280 feature-length films were released in Iceland. Of this number 183 were American and 97 originated in other countries, including Iceland. By 1989 the number of released films was down to 157, with 135 American and 22 from other countries. This number remained relatively stable for the next few years and in 2010 the number of films released in Icelandic cinemas totalled 152, of which 117 were American and 35 from other countries, as shown in Figure 4.1 This is an extraordinarily high proportion from the U.S. and if it is kept in mind that televised material in Iceland, whether situation comedies, drama series or action series, is mostly American, it is clear that American films exert an overwhelming influence in the country.

The Nordic countries other than Iceland are highly regarded and prolific film-producing countries, but their films are rarely exhibited for general viewing in Icelandic cinemas nowadays. The Icelandic market is in fact quite undiversified, with its preponderance of American material. The same can be said of a number of other countries, but it should be noted that films from the Nordic countries and other film-producing countries outside the United States feature prominently in film festivals and the number of film festivals has grown quite markedly in the past ten years.

In Denmark, 211 feature-length films were premièred in 2009, as compared to 173 in Iceland. The difference is a mere 38 films, even though the Danes outnumber Icelanders by a factor of seventeen, illustrating the fact that the greatest number of international films is shown in Icelandic cinemas. Table 4.1 shows the country of origin of the films released in 2009 in Denmark and in Iceland.⁸⁶

	Total number of films	Icelandic/Danish	Other European countries	USA	Other countries
Iceland	173 (100%)	2%	17%	79%	2%
Denmark	211 (100%)	13%	30%	52%	5%

Table 4.1: Country of origin of feature-length films released in 2009 in Denmark and Iceland (ratios)

⁸⁶ See *Facts & Figures* (2010) and Einarsson (2011).

Of the films released in Iceland in 2009, 2% were Icelandic. This ratio was 13% for Danish films in Denmark. The proportion of other European films was 17% in Iceland and 30% in Denmark, as shown in Table 4.1. With regard to American films, the proportion was 79% in Iceland in 2009, but only 52% in Denmark. The total number of non-U.S. films screened in Denmark was 5% in 2009, including films from Asia, Africa, Australia and non-U.S. America, whereas this ratio was only 2% in Iceland.

The number of released films from influential film countries, such as Britain and France, has decreased over the past decades. A total of thirty-six British films were released in Icelandic cinemas in 1965. In 1977 this number grew to forty-six, but fell to seven in 2010. The same could be said of French films: nineteen French films were released in 1965, six in 1977 and seven in 2010.

Films from other countries than the ones mentioned above, i.e. countries outside Scandinavia, the United States, Britain or France, were thirty in 1965, twenty-one in 1977 and six in 2010. This includes some countries with a strong tradition of filmmaking, such as Italy, Germany, Japan and India.

Looking at the number of feature-length films that have been shown in Icelandic cinemas, including premières and re-runs, based on country of origin, the same pattern emerges as before, i.e. a visible increase in the number of U.S. films and a decrease in the number of films from other countries. There is thus a clear trend as regards the cinemas in the mainstream of public film screenings in Iceland and elsewhere.

One salient fact regarding films in general is that the vast majority of directors are men. This applies equally to Icelandic films and films elsewhere. The entire crop of 210 films produced in Iceland until the year 2011 was made under the direction of 234 listed directors, of whom 206 are men (88%) and eight are women (12%). This proportion has not changed to any significant degree for the past ten years, with women directors comprising 15% of the total number of Icelandic directors during this period. Obviously, there has been little progress in the direction of gender equality among directors in the Icelandic film industry. However, the same holds true elsewhere in the world. Women directed only 7% of the 250 highest-grossing films of 2009 in the United States. During the production of these 250 films only 16% of the key positions (directors, producers, screen-writers and cinematographers)

were held by women, while 83% were held by men. Out of the seven art forms, gender equality appears to have made the least progress in the film industry. In response to this, some countries, such as Norway, have taken special measures to counterbalance the gender inequality in the film industry.⁸⁷

Attendance of Icelandic films in Iceland is usually quite good, with some 13,000 people (4% of the population) attending an Icelandic film each year in the period from 1996 to 2011. For the six years between 2005 and 2010 the average turnout for Icelandic films was about 19,000, which represents 6% of the population. About one fifth of the population never goes to the movies and about 30% go rarely. This means that about 50% of Icelanders are frequent cinema goers. However, it is much more than half the population that is interested in films shown in cinemas, since the 50% figure includes the whole population from infants to the elderly. But the basic conclusion is that films are of interest to a great many people in Iceland and this conclusion is also supported by comparison with international turnout figures, as discussed earlier, and by the size, number and diversity of Icelandic film festivals.

4.2 Distribution and exhibition

4.2.1 Distribution of films

The important factors that influence the distribution of films to cinemas are consumers, exhibitors and competition. Consumer demand, as mentioned earlier, is dependent on a number of different factors. Other influencing factors include running time, advertisements, the film's genre (action, comedy, romance, etc.), actors, director, critical reception and quality of cinema facilities.⁸⁸

The uncertainty of the demand for films becomes evident when it is considered that even though it is possible to estimate overall demand, e.g. annual per capita cinema attendance, the matter becomes more complicated when it comes to individual films. It is also important to note that most film ideas rarely reach the production stage, especially in the case of ideas for television shows. There is often relatively little connection between producers, distributors and cinema companies.

⁸⁷ See Lauzen (2010) and *Icelandic Filmmaking for Icelandic Culture, Audience and Language* (2010).

⁸⁸ For a discussion of the factors that influence the distribution of films, see, e.g., Moul and Shugan (2005).

Producers simply rely on distributors to circulate products for screening and exhibitors trust distributors to provide an adequate number of saleable films.

The greatest share of box-office revenue goes directly to the distributor, net of the cinema's agreed cost. It is not uncommon for a third of the ticket sales to pay for the cinema's expenses and out of the remaining two thirds, 90% go to the distributor and 10% to the cinema. The distributor needs to pay for advertising and to bear distribution expenses and also to pay the producer his share, which is either a proportion of the profit or, more usually, a specific commission for the production of the film. U.S. film producers enjoy a strong position with regard to distributors, which ensures them a hefty slice of the distributor's box office revenue. Also, large American film producers often distribute their own films in order to increase their share in income generated, whereas such arrangements are uncommon in Europe.

The creative work behind filmmaking in the U.S. is driven by the hope of profit, with efforts centred on ensuring the film's financial success and mass appeal, since government financial support is non-existent or limited. In Europe, financial success, although not unwanted, is not always the driving force, since funding from public sources will not depend on prospective profit but on contribution to culture. This means that artistic elements can be placed in the foreground, as opposed to financial gain or popular appeal. Over-generalisation can obviously lead us astray, but there are nevertheless clear and distinct features that separate the film industries on either side of the Atlantic. This also means that in Europe there is more room for small, independent film makers who produce films at relatively low cost. They are more flexible and can often focus on a specific demographic group or area in their native countries as a market for their work.

The timing of cultural events such as film exhibitions is an important aspect of corporate strategic planning. Any business operation needs to distinguish itself from competitors in one way or another and the means of doing so is a classic topic in the study of corporate strategy. Managers and scholars alike have long tried to identify the advantages and disadvantages of the various policies advocated by companies in the market, but with mixed results.⁸⁹

⁸⁹ For a discussion of corporate strategy, see, e.g., Porter (1980) and Shamsie *et al.* (2006).

Decisions on time and place are important factors in corporate strategy. The question of timing can be very important for example with regard to television shows, i.e. finding the evenings and time slots that have the most viewers, especially in the case of competing television shows. These are important decisions for the big television networks in the U.S. and as such are applicable to other cultural production, such as concerts or the publication of books and disks. The importance of timing is a particularly prominent feature of the Icelandic book publishing industry, where it is virtually impossible to publish books other than seasonal books such as travel books, at any other time other than just before Christmas. Numerous attempts have been made by publishers and bookstores to spread the publishing season evenly throughout the year, but with limited success.

A cinema owner will need to decide how many screens he will show a film, at what times of the day, how much the ticket will cost and for how long the film will run in his cinema or cinemas. The decisions include whether the running period can be extended by moving the film into a smaller auditorium. A cinema owner must also decide whether or not to

build, buy or lease new cinemas. He needs to conclude contracts for films and premises, design cinemas and decide on technical equipment and hire and train staff. These are not simple decisions and there is much uncertainty, just as in the case of filmmaking in general.

Films are run repeatedly at many and different stages of their lifetimes, first in cinemas in their countries of origin, then in cinemas abroad, then on video disks or other media, which consumers can either buy or rent, then on television or subscription-based television channels, in video rental shops, in on-line video rental shops, or at film festivals. These stages are normally separated by several months.⁹⁰

Leni Riefenstahl was born in Germany in 1902 and died in 2003 at the age of 101. She was an actress, a director and a photographer. Riefenstahl is most notably known for films that she made for the Nazi party during the Third Reich. Her film *Triumph des Willens* (1934) about the Nazi Party congress made use of various film techniques to capture the extravagant Nuremberg Rally. She also directed a famous film on the Berlin Olympics in 1936. Riefenstahl is regarded as one of the greatest female directors in history. She was a friend of Adolf Hitler, which damaged her reputation and made it difficult for her to find work after the war. As a consequence, Riefenstahl turned to photography with great success; however, her association with Hitler and the Nazi party haunted her for the rest of her life.

⁹⁰ For distribution of films, see Hoskins *et al.* (1997), Moul and Shugan (2005), Eliashberg (2005) and Shamsie *et al.* (2006).

Market concentration in the media has increased significantly over the past decades. In the United States, fewer and fewer companies control more than half of the media sector. This trend coincides with the advent of the new, large and universal companies in the sector that are so prominent in the American film industry, as discussed earlier. The same is happening in Europe but the trend should not be overestimated, considering that there were very few television stations in the world a few decades ago and their number has greatly increased. Even so, the increase in the number of companies has been accompanied by an increase in the number of mergers.⁹¹

Over the past few years American films have often premiered virtually simultaneously in the United States and in other countries. One of the reasons for this trend is the fear that piracy will undermine foreign marketing. This can be as easy as bringing a camcorder into the cinema and recording the film from the screen. The film is then sold on the black market, e.g. on the Internet. The quality of such recordings is of course extremely poor, but even so, the market for them is large. Premiering films in different countries at the same time is therefore a practical defence, in addition to the fact that this approach affords the possibility of coordinated international promotional campaigns.⁹²

The distribution of foreign films in Iceland, which comprise the majority of the films shown in the country, begins with foreign distributors who distribute the films to one of the three cinema companies in Iceland, sometimes by exclusive contract to a single company and sometimes to more than one distributor who will then compete for audiences. The cinema companies usually purchase the right to show a film in cinemas, on DVD or other electronic media, or on television; films for aircraft entertainment systems are usually sold directly to airlines. Apart from the large distribution companies and the direct agreements with producers, there are also independent companies in the market that handle sales for small film producers. Special trade fairs are held for films, most notably in Cannes in connection with the annual film festival held there at the same time, in Los Angeles and in Berlin. Trade fairs of this kind will usually last for a week or so each time. The films screened at film festivals will normally be borrowed rather than bought.

⁹¹ For a discussion of company mergers in the cultural sector, see, e.g., Hesmondhalgh (2002).

⁹² For a discussion of the timing of film premières, see, e.g., Weinberg (2005).

In Iceland it is common for distribution fees to account for 50-80% of the box office income, excluding advertising costs and sometimes also the Icelandic 'film tax' which may total around 20% of box office revenues. The income received by the cinemas includes all the sales of snacks in the foyer and the advertisements shown before the film and during intermissions and any other sales unrelated to the film itself. It is not uncommon for box office revenues to account for 80% of the cinema's total income, while other sales, such as snack sales, total around 20%. Often about 50% of the total revenue will accrue to foreign distributing companies.

It can be quite expensive for cinemas to show films made by small producers, since their films will tend to run for only a short time. To make up for this extra cost, a special fee will sometimes be charged for films from small producers in addition to a share of the box office returns. Sometimes several films will be packaged together for distribution. This is frequently the case with films from small producers.

In 2013 there are three film distribution companies in Iceland: Sambíóin, Sena and Kvikmyndahöllin. They mostly distribute foreign films and all of them own cinemas. Sambíóin is the collective name of cinemas owned by Sam-félagid. Sena operates cinemas and distributes films under the same name. Kvikmyndahöllin operates the Laugarásbío cinema and owns Myndform, which specialises in film distribution. Out of the approximately 170 films distributed in Iceland annually, each of these three companies has a 25-40% share, with Sambíóin the largest and Kvikmyndahöllin the smallest.

In 2008, Kvikmyndahöllin had plans to buy a 50% share in the management company of a large cinema in Reykjavík (Háskólabío) in partnership with Sena, but the Icelandic Competition Authority barred the acquisition in 2009 on the grounds that it would give Sena and Kvikmyndahöllin a dominant market position, similar to that of Sambíóin, which could lead to market abuse. This is mentioned here as an illustration of the oligopoly that characterises the Icelandic cinema market.⁹³

In countries other than Iceland it is more usual for film distribution to be in the hands of companies which specialise in distribution within their countries and do not themselves own cinemas. However, it should be noted that all the Icelandic cinemas, where three companies are

⁹³ For further information on the Icelandic film distribution market, see *Decision of the Competition Authority No. 15/2009* (2009).

dominant in the market, do business mainly with foreign distributors and concentration among foreign distributors is significant. An analysis of the revenue of distribution companies shows that more than 90% of the income accrues to only 10% of the companies.⁹⁴

Market concentration is usually described using the Herfindahl-Herschmann Index (HHI), which is calculated using equation 4.1.

Equation 4.1:
$$HHS = \sum_{i=1}^I s_i^2$$

In equation 4.1 s_i refers to the market share of company i with I denoting the number of companies in the market. Squaring the market share of a company gives larger companies added weight. If there is only one company in the market, the HHI is equal to 10,000. If the market is divided equally among innumerable small companies the HHI is close to 0. The HHI therefore ranges between 0 and 10,000.⁹⁵

Table 4.2 shows the HHI for the exhibition of films in all of Iceland in 2008 and the market share (MS) for the largest company (MS(1)) and the three largest companies (MS(3)). The market share of Sambíóin in 2008 was 53%, Sena's was 35% and Kvikmyndahöllin's was 13% (*Decision of the Competition Authority*, 2009, p. 16).

	HHI	MS(1)	MS(3)
2008	4,203	53%	100%

Table 4.2: The Herfindahl-Hirschman index and the market share of cinema exhibitions in Iceland in 2008

The index reveals a high concentration of film exhibitors in Iceland. The concentration among cinema companies in other countries is high as well, but not quite as high as in Iceland. To give an example, the five largest cinema chains in the U.K. control more than 60% of the market share as regards total number of screens. This concentration is much lower in the U.S., about 50% (Eliashberg, 2005, pp. 143-144).

⁹⁴ For more on the revenue of distribution companies, see De Vany (2005).

⁹⁵ If five companies divide the market among themselves so that two companies own 25% of the market share, two companies own 20% of the market share, and one company owns 10% of the market share, then the $HHI = 2,150 = (25^2+25^2+20^2+20^2+10^2)$.

Icelanders are not unaccustomed to oligopolies in a number of commercial sectors, e.g. food retailers, insurance companies, oil companies, transportation companies and various other sectors. This is a natural consequence of the country's small size and sparse population. Oligopoly is a market state that does not favour consumers, which is why competition authorities have been established in most countries to ensure that business operators do not abuse their dominant positions.

The market concentration of cinemas in the metropolitan area of Reykjavík is similar to the market concentration in the rest of the country. U.S. competition authorities, like other competition authorities, use the Herfindahl-Hirschman index in their evaluations of prospective mergers. In the U.S. an HHI value between 1,000 and 1,800 is believed to indicate limited concentration. If the value exceeds 1,800, then there is a risk of high concentration and prospective mergers in such circumstances are carefully scrutinised. It is clear that an index of around 4,000, as in the case of Iceland, would be considered extremely high by

foreign standards. In any case, film distribution and production is commonly in the hands of relatively few companies, especially in the United States, as mentioned earlier.⁹⁶

Peter Sellers was born in Britain in 1925 and died in 1980. Sellers was primarily a comedy actor, although he occasionally appeared in more serious roles. He began his career in radio, where his remarkable knack of imitating accents from different countries attracted attention; such were his skills that Bette Davis once likened him to a chameleon. He earned praise for his performance as Inspector Clouseau in the *Pink Panther* (1963), directed by Blake Edwards. A number of films about Clouseau followed. Sellers starred in multiple roles in *Dr. Strangelove or: How I Learned to Stop Worrying and Love the Bomb* (1964), a Stanley Kubrick film. One of his greatest films was *Being There* (1979) where he portrayed the obtuse gardener Chance. Although Sellers was reputedly difficult to be around he had many loyal friends, including George Harrison and Ringo Starr of the Beatles and the director Roman Polanski.

4.2.2 Distributors, cinemas and multiplexes

Initially, there were not many cinemas in Iceland. In 1906, there was only one, *Fjalakötturinn* and the second, *Nýja Bíó*, opened in 1912. By 1945, the total number of cinemas in Iceland was four. This number grew to eleven in 1965 and stood at ten in 1977. Until that time each cinema only had one screen. After 1977 a trend began where cinemas housed more than one screen and multiplexes became more common. This significantly reduced the number of cinemas while increasing the number of screens

⁹⁶ For a discussion of market concentration in film distribution, see, for example, Björkegren (1996) and Litman (1998).

The seating capacity of cinemas in Reykjavík and its near vicinity has fallen slightly over the 45-year period from 1965 to 2009 and per capita seating capacity has decreased even more over the same period. In 1965 there were 56 seats per 1,000 inhabitants while in 2010 the ratio had declined to 21 seats per 1,000 inhabitants. One of the main reasons for this trend is that the diversity of available recreational activities has increased. The trend in rural Iceland has been similar.

One third of the Icelandic nation now lives in rural areas and two thirds live in the metropolitan area of Reykjavík; there are more cinemas per capita in rural Iceland in comparison with metropolitan Reykjavík and there are also more screens. This is slightly misleading, as most of the cinemas in rural Iceland offer fewer screenings and are also used for other purposes such as meetings and various public gatherings. The seating capacity of rural cinemas has also decreased over the past years and the same is true of seats per 1,000 inhabitants.

There are numerous cinemas that attract little business and therefore it can be argued that out of the seventeen cinemas operating in Iceland in 2011, only ten, all of which are multiplexes, could be considered real cinemas. Out of these ten cinemas, six are owned by Sambíó, two by Sena, one by Kvikmyndahöllin and one jointly by Sena and Kvikmyndahöllin. Seven cinemas have very few exhibitions per year, perhaps a few dozen, which means that there is barely an average of one exhibition a week.

4.2.3 Cinema attendance

Figure 4.2 shows the trend in cinema attendance in the metropolitan Reykjavík area from 1928.⁹⁷

⁹⁷ For a discussion of cinema attendance, see *Admissions to full-length feature films by country/region of origin* (2013).

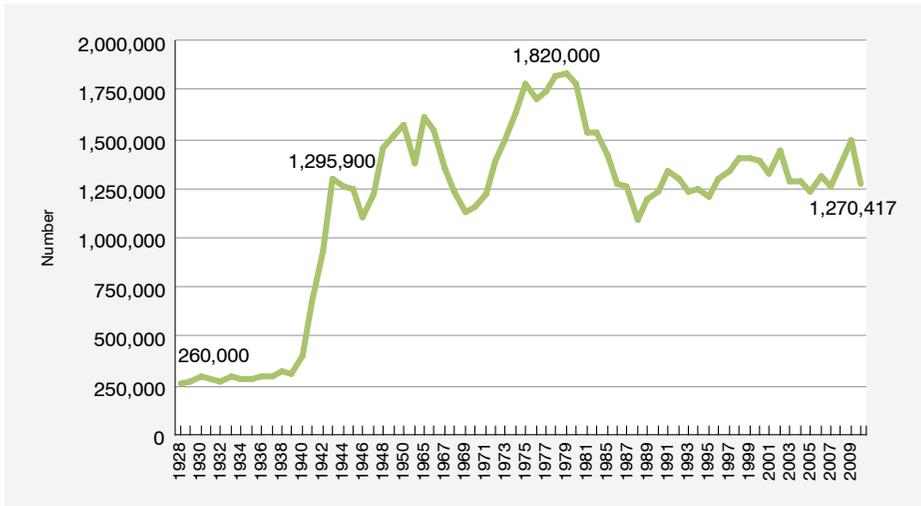


Figure 4.2: Cinema admissions in the metropolitan area of Reykjavík from 1928 to 2010

The number of cinema-goers in the metropolitan area of Reykjavík in 1928 was 260,000 and attendance grew swiftly. In 1943, in the middle of the Second World War, the number had reached 1,295,900 and it peaked at 1,820,000 in 1978. Since then attendance has dwindled in comparison with previous years, with 1,270,417 cinema-goers in 2010, as shown in Figure 4.2.

The population of the metropolitan area of Reykjavík grew substantially over the years, and after 1980 recreational activities had become more varied so there were plenty of things to do besides going to the cinema. The advent of video tapes and other subsequent electronic media meant that films could be viewed without going to the cinema.

The rural trend was different, as shown in Figure 4.3.

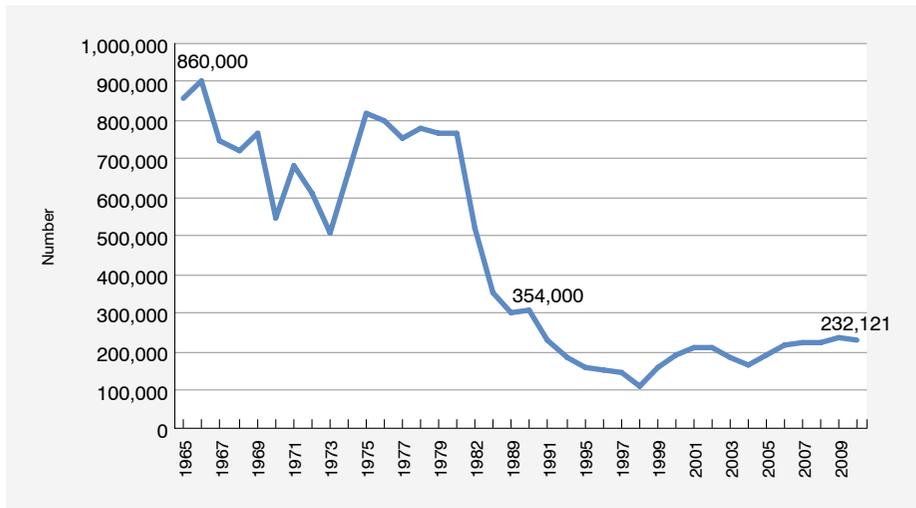


Figure 4.3: Cinema admissions in rural Iceland from 1965 to 2010.

Cinema attendance in rural Iceland was 860,000 in 1965, but fell to 354,000 in 1985 and 232,121 in 2010. This is a substantial decrease and far in excess of the decrease in the rural population resulting from urbanisation.

The statistic that provides the clearest picture of cinema attendance and public interest in films in cinemas, and which is used for international comparison as discussed in the first chapters of this book, is a measurement of the number of times each individual goes to the cinema on average per year. This trend in the metropolitan area of Reykjavík area and in rural Iceland is shown in Figure 4.4.

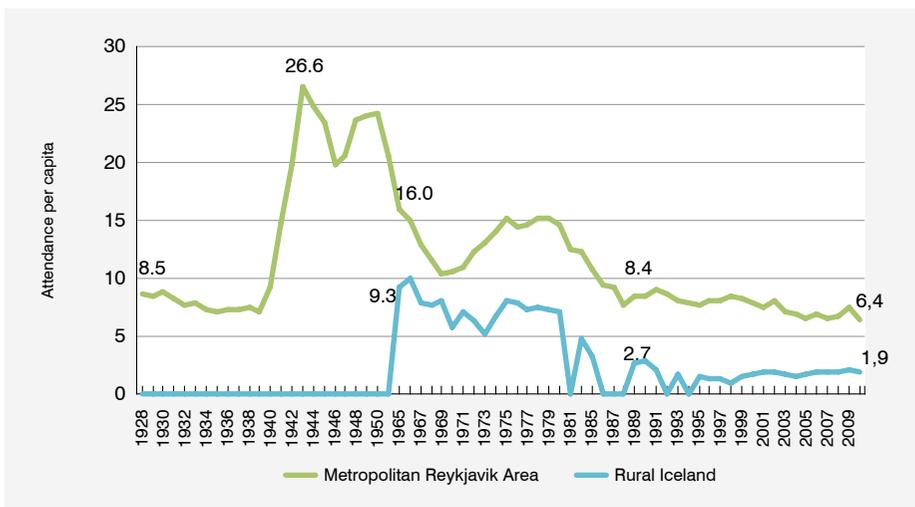


Figure 4.4: Cinema attendance per capita in the metropolitan area of Reykjavik from 1928 to 2010 and in rural Iceland from 1965 to 2010.

Frank Sinatra was born in the United States of America in 1915 and died in 1998. Sinatra was a singer and actor of fame who won an Academy Award for his role in the film *From Here to Eternity* (1953). He founded his own record company, was a well-known socialite and associated with other celebrities and powerful political figures, including President John F. Kennedy. Sinatra was a member of a group of actors and entertainers known as the 'Rat Pack', which also included Dean Martin and Sammy Davis Jr. The group played an active role in the Civil Rights movement and boycotted hotels and casinos that denied entry to African Americans. The name 'Rat Pack' can be traced to Humphrey Bogart who had previously founded a group with the same name. Sinatra's songs such as 'My Way' and 'New York' continue to be played on radio stations across the world, not as relics of the past but as hit songs, to this day.

The trend in the metropolitan area of Reykjavik from 1928 is interesting, as illustrated by Figure 4.4. When measurements began in 1928, the attendance was 8.5 films per year, which remained relatively stable until the occupation of Iceland by allied forces in 1940. Cinema attendance then rose sharply in 1943 to 26.6 films annually per individual, with infants and the elderly included in the count. During the occupation the population of the country grew by almost fifty per cent with the addition of 50,000 soldiers to the existing population of 120,000.⁹⁸ The increased cinema attendance can therefore be attributed partly to the fact that soldiers frequented the cinemas. The attendance then declined significantly in 1950 and by 1965 it had dropped to 16 films per year. The attendance figure declined to 8.4 in 1989 and by 2010 it was down to 6.4 films per year.

⁹⁸ For information on the population in Iceland during the occupation era, see Tryggvason (1977).

The attendance figures in rural Iceland were much lower. Figure 4.4 shows that in 1965, which is the first year that statistics were collected for rural Iceland, the attendance was 9.3 films per year, as compared to 16 films for the metropolitan area of Reykjavík. In 1989 cinema attendance in rural Iceland was 2.7, as compared to 8.4 in the metropolitan area of Reykjavík. In 2010 cinema attendance was only 1.9 in rural Iceland, as compared to 6.4 in the metropolitan area of Reykjavík.

It would be incorrect to draw the conclusion that rural inhabitants hardly ever go to the cinema, because many of them would obviously seize the opportunity when visiting Reykjavík to take in a film or two. Nevertheless, residents of the metropolitan area of Reykjavík are far more frequent cinema-goers than rural residents.⁹⁹

Looking at the country of origin of the films attracting the largest audiences annually, the predominance of American films becomes evident. Figure 4.5 shows this in context.¹⁰⁰

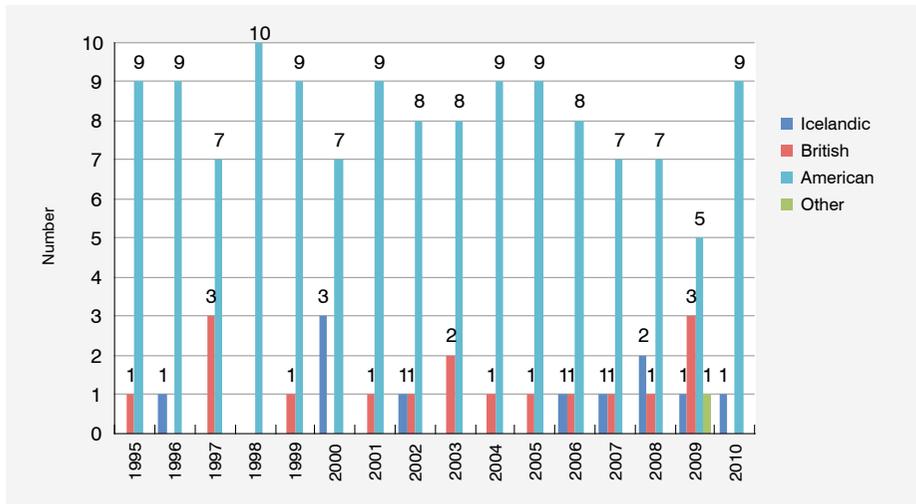


Figure 4.5: Country of origin of the top-ten grossing films in cinemas from 1995 to 2010

⁹⁹ For a discussion of cinema attendance by residents of the metropolitan area of Reykjavik area rural Iceland, see Dofradóttir *et al.* (2010).

¹⁰⁰ For a discussion of the country of origin of screened films, see *Origin of the most attended full-length feature films* (2013).

As shown in Figure 4.5, American films attract by far the largest audiences, with nine out of the ten top-grossing films in 1995 being produced in the United States. One British film made the list that year. Over the fifteen-year period shown in the chart, the United States produced seven to ten films on the list, except in 2009, when they produced ‘only’ five. That year, there was one Swedish film on the list, and during the entire period of reference not a single film from France, Italy or Germany made the list.

These top-ten grossing films received over 30% of the total annual audience, and considering that about 170 films are shown each year this means that 160 films share 70% of the market. The top-ten grossing films also earn 30% of the annual box office revenue. Icelandic films make the list in eight of the sixteen years, but the number of Icelandic films was small.

An examination of the top-twenty grossing films reveals a similar picture, see Figure 4.6.

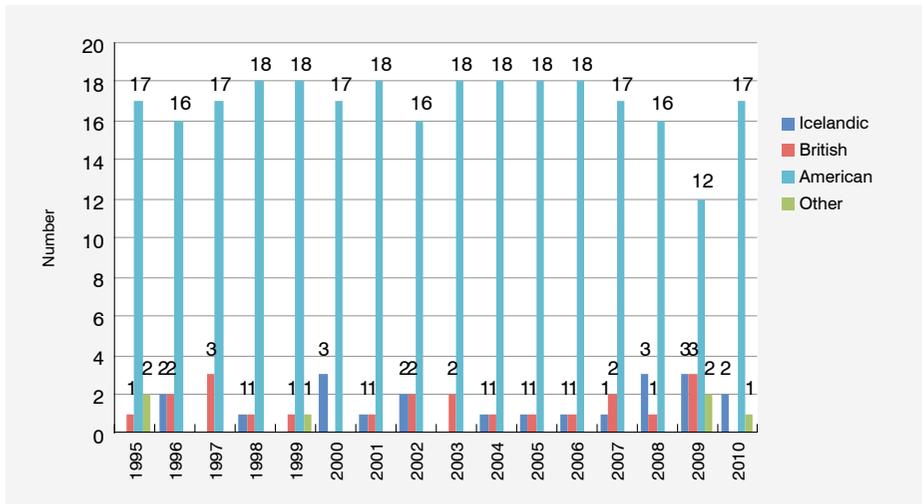


Figure 4.6: Country of origin of the top-twenty grossing films in cinemas from 1995 to 2010

Out of the top-twenty grossing films in cinemas annually, 16-18 films originated in the U.S. with the exception of 2009 when they were 12. Britain and Iceland normally have one film on the list every year, whereas other countries hardly ever make the list. The popularity of American films is overwhelming and obvious. This comparison shows a substantial

uniformity among the most popular films. However, one must keep in mind that American films can be quite dissimilar even though they often share similarities in terms of their approach to their subject.

The films that are ranked 11th to 20th on the list over the top-grossing films had 15% of the audience. This means that the 20 films that attract the largest annual audiences share 45% of the market, both in terms of audience and box office. This is a significant concentration of a relatively few films, considering that 20 films correspond to just over 10% of the 170 films that are shown annually.

4.2.4 Film festivals

Film festivals are international events where films are exhibited and discussed, business is done, and in many cases prizes are awarded in various categories. These festivals are important venues for professionals and amateurs alike and they afford viewers the opportunity to see films that are usually not available for public viewing in cinemas. Film festivals are quite common in Iceland and they are often held in cooperation with foreign partners. The first international film festival in Iceland was held under the auspices of the Reykjavík Arts Festival in 1978.

The Reykjavík International Film Festival (RIFF) is the largest film festival held in Iceland. It has been held since 2004 and has grown each year. Between 100 and 150 films are shown at RIFF annually. Each year the festival awards the Golden Puffin for the best film, a tongue-in-cheek allusion to Icelandic nature. A number of foreign professionals, including directors, journalists and representatives from distribution and production companies, attend the festival each year. Festivals of this kind allow people to meet, network and form relationships that may later lead to collaboration on production or distribution. As an added bonus, foreign guests spend currency on travel, accommodation and various other purchases. Film festivals therefore generate a considerable amount of revenue in Iceland, as mentioned earlier.

Steven Spielberg was born in 1946 in the United States. He is one of the most successful commercial directors in the world. His early career focused mainly on adventure films and thrillers such as *Jaws* (1975), *E.T.* (1982) and *Jurassic Park* (1993). He has received two Academy Awards as Best Director for *Schindler's List* (1993), a film about the Nazi extermination of Jews, and *Saving Private Ryan* (1993), a film that offers a realistic look at the horrors of war. He founded the film company Dreamworks and directed *Raiders of the Lost Ark* (1981), a film which introduced to the silver screen the character of Indiana Jones, played by Harrison Ford. The film attracted a large audience and subsequently led to the production of more films in the series.

Figure 4.7 shows the trend of film festivals over the past quarter century by examining the number of films exhibited at film festivals. The figure includes documentaries and short films.¹⁰¹

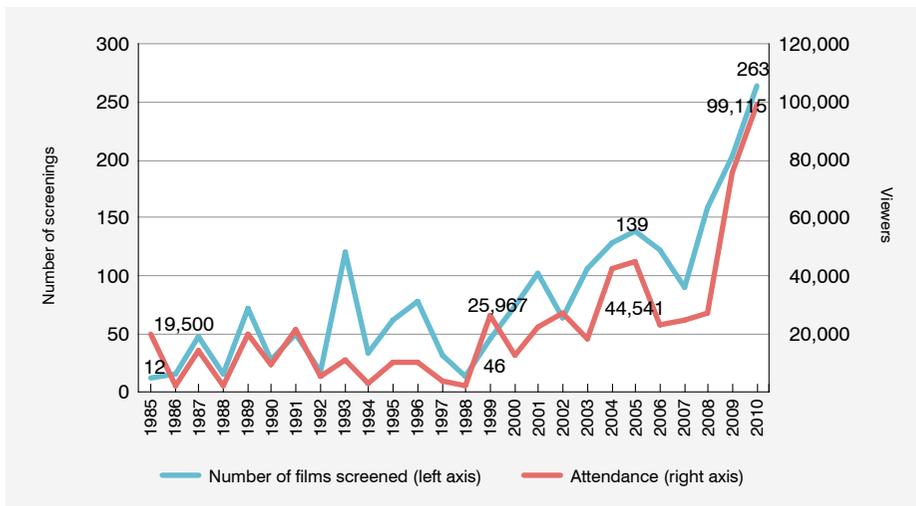


Figure 4.7: The number of film screenings (left axis) and attendance (right axis) at film festivals from 1985 to 2010

The number of film festivals has increased steadily over the past decades, and so has the number of films exhibited at the festivals and the number of viewers, as shown in Figure 4.7. The left axis shows the number of films screened and the right axis shows number of viewers. In 1985, 12 films were screened during film festivals, with 19,500 viewers. In 1999, the films were 46 and viewers were 25,967. In 2005, 139 films were screened at film festivals, with 44,541 viewers, and in 2010 the number of films increased to 263 with a hefty increase in viewers to 99,165 for that year.

About 200 films are exhibited at film festivals annually in Iceland, which is quite extraordinary when it is borne in mind that the number of films screened annually for the general public in cinemas is about 170. Given that these are in many cases not the same films, film festivals effectively double the number of films shown in Iceland. This has economic importance for at least two reasons: on the one hand, it raises the level of knowledge of films which, as we have discussed earlier, increases the

¹⁰¹ For a further discussion of films at film festivals, see *Film festivals and special cinema showings* (2013), *Films exhibited on film festivals* (2013) and *Substantial commercial value for Iceland* (2010).

demand for film, and second, many film festivals are held in rural communities, where economic diversity is limited.

As shown in Figure 4.7 there is, quite naturally, a close correspondence between the number of films at film festivals and the number of viewers. Both numbers increased significantly over the charted period, and the annual box office take over the past year reached seventy-seven million ISK in 2010. There is no doubt that film festivals and their growth accurately reflect the extensive Icelandic interest in films, but in addition large numbers of foreign tourists also travel to Iceland for the express purpose of attending film festivals, with a resulting positive impact on the economy.

Films screened during film festivals originate from many different countries and the United States are not as dominant as in the case of films screened for general public viewing. Calculating the average of the past ten years to determine the ratio of films from individual countries gives a clear picture of the distribution of these films by country of production. Table 4.3 shows this distribution for the Icelandic film festivals.

Country of production	Share %
U.S.	20%
Iceland	14%
Other Nordic countries	13%
France	12%
Spain	4%
United Kingdom	4%
Germany	4%
Italy	4%
Other European countries	9%
Canada	2%
Australia and New Zealand	1%
Other countries	13%
Total	100%

Table 4.3: Share of films screened at film festivals by country from 2000 to 2009

To take a few examples from Table 4.3, 20% of the films are from the United States, 14% from Iceland and 4% from Britain. The strong position of France (12%) is worthy of note, reflecting the leading role that the French film industry has long held in Europe. There are few films from Canada or Pacific Asia, which is rather surprising considering their recent advances in the field of cinema.

4.2.5 Television, DVDs and computers

Television is most likely the most important medium for viewing motion pictures and other filmed material. To get an idea of the role of television it is helpful to examine television broadcast hours in Iceland, as in Figure 4.8.

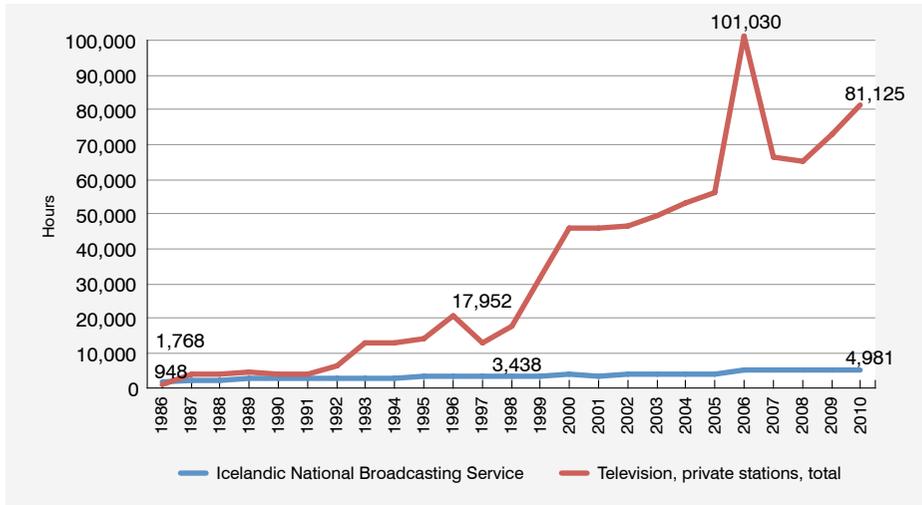


Figure 4.8: Television broadcast hours in Iceland; Icelandic National Broadcasting Service and private stations 1996–2010

Elizabeth Taylor was born in Britain in 1932 and died in 2011. She moved to the United States at a young age and rose to stardom as a child actor. Following her early success Taylor enjoyed a long and successful career. A woman of extraordinary beauty and great personal charm, she won two Oscars, one for *Butterfield 8* (1960) and another for *Who is Afraid of Virginia Woolf?* (1966) where she starred opposite her husband, the Welsh actor Richard Burton. Always an independent spirit, Elizabeth Taylor lent her support to the campaign against AIDS and contributed to AIDS research. Elizabeth Taylor lived an eventful life and married eight times including Richard Burton twice. She was named a Dame of the British Empire by Queen Elizabeth in 1999 for her achievements.

As shown in Figure 4.8, the increase in television broadcast hours has been huge in Iceland, with the increase taking place primarily in two relatively recently established private TV stations. In 1986, the broadcasting hours of the Icelandic National Broadcasting Service totalled 1,768 hours, while broadcast hours of private stations were 948 hours. In 1989 the broadcasting time of the Icelandic National Broadcasting Service totalled 3,438 hours while the private stations broadcast for a combined total of 17,952 hours. In 2010 the broadcasting time of the Icelandic National Broadcasting Service was 4,981 nearly triple the level of 1986. Broadcasting time among the private stations had increased to 81,125 hours in 2010, 86 times the number in 1986

which means that broadcast hours showed an annual growth of 20,4%, which is an enormous growth to sustain over such a long period of time, or 24 years.

The most common television material is acted material and entertainment material, with documentary and cultural material in second place. A large majority of television material shown in Iceland is foreign, or about 65-80% on an annual basis. In addition to local stations it is fairly common for Icelanders to subscribe to foreign television stations via private satellite dishes. The number of satellite dish subscribers totalled 20,000 in 2000, increasing to 25,000 in 2006, followed by a spurt of growth to 41,000 in 2007. The number of subscriptions fell just as rapidly in 2008, to 27,000 and then to 26,000 in 2009. The fluctuations between 2006 and 2009 reflect the rise and fall of the Icelandic economy, especially the banks, over the period.¹⁰²

The DVD rental and sales market in Iceland is almost entirely dominated by three companies: Kvikmyndahöllin, Sam-félagid and Sena, the same three companies that dominate the cinema market. The market is fairly equally divided among these three companies, with each company controlling approximately a third of the market. As in the case of films in cinemas the most popular DVDs, both in terms of sales and rentals in Iceland, are American, and it is not uncommon for nearly all of the top-ten DVDs rented and sold annually to originate in the U.S.¹⁰³

The number of outlets selling and renting DVDs and videotapes declined significantly after 2001 as new forms of recreation became available, including the option of renting films online through personal computers or on television. This trend has resulted in the waning popularity of video rentals.

4.3 Operation and finances of companies

4.3.1 Production

There are many companies, both big and small, that produce films, both for the big screen and for direct distribution on DVDs and other media in Iceland. The turnover of these producers has grown rapidly

¹⁰² For a further discussion of television broadcast hours in Iceland, see *Television channels and transmission hour* (2013).

¹⁰³ For further discussion of the video CD rental and sales market, see *Rental and retail videos released by country/region of origin* (2013) and *Share of top ten VHS and DVD titles* (2013).

over the past years, with the focus primarily on film production. These companies also engage in dubbing and subtitling foreign filmed material and in producing advertisements. Figure 4.9 shows the revenue generated by these companies over a thirteen-year period from 1987 to 2011.¹⁰⁴

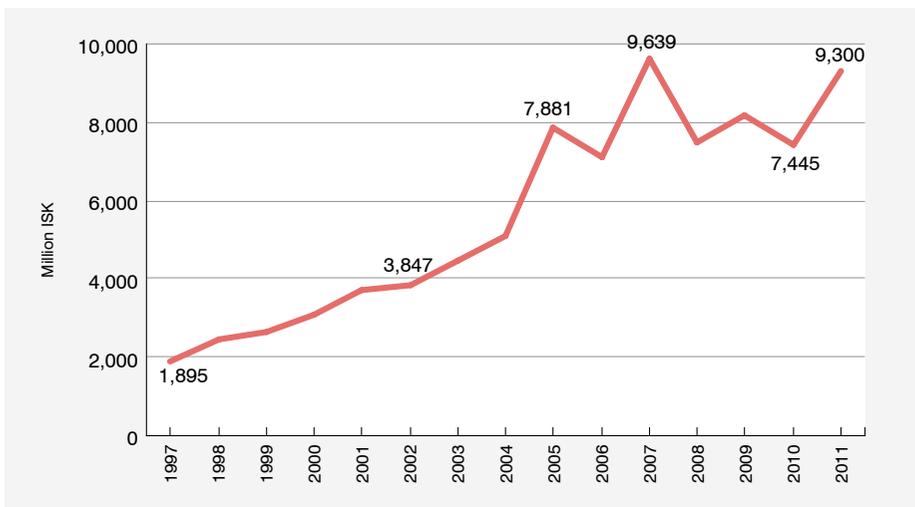


Figure 4.9: Revenues of film producers 1997 to 2011 at 2012 price levels

As shown in Figure 4.9, the revenue of producers was 1.9 billion ISK in 1997. This figure more than doubled over the next five years, adjusted for inflation, to 3.8 billion ISK in 2002. The growth continued and in 2005 the revenue was up to 7.9 billion ISK per year and 9.6 billion ISK in 2007, after which it dropped to 7.4 billion ISK in 2010. The revenue went to 9.3 billion ISK in 2011, as shown in Figure 4.9.

The annual growth over these 14 years was 12%, which is substantial. It is clear from Figure 4.9 that the production of filmed material is extensive in scope and has increased markedly, which testifies to the increasing growth of the last decade, although the growth was halted by the economic collapse in 2008.

It should be noted in this context that many film producers in Iceland are engaged mainly in the production of advertisements, not only for the Icelandic market, but also for large international corporations. Precise

¹⁰⁴ Statistics Iceland classifies companies according to branch of industry in accordance with international standards and this section and the following one address the management and finances of companies in the film industry. The author's conclusions are based primarily on statistical information from Statistics Iceland and published annual accounts of companies.

classification of exactly what kind of filmed material is being produced, whether feature-length live-action films, documentaries, cartoons or commercials, is not possible. Nevertheless, it is probably a fair estimate that half of the revenue in Figure 4.9 results from the production of filmed material other than advertisements. Based on this assumption it can be estimated that the production value of filmed material other than advertisements is in the vicinity of 4.7 billion ISK per year, adjusted to the price level of 2012, as discussed earlier, in Section 3 of Chapter 3.

Figure 4.10 shows income before extraordinary items of film producers from 1997 to 2011.

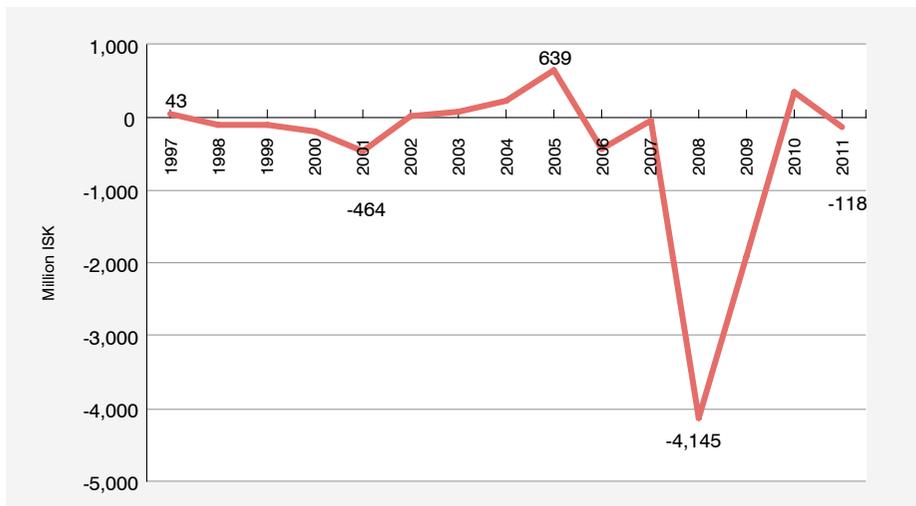


Figure 4.10: Income before extraordinary items of film producers from 1997 to 2011 adjusted to 2012 price levels

Figure 4.10 shows that profit amounted to 43 million ISK in 1997, but plummeted to losses of 464 million ISK in 2001 and increased again in 2005 to profits of 639 million ISK. Subsequently profits fell substantially again, and losses in 2008 totalled 4.1 billion ISK, mostly due to increased interest costs following the collapse of the banking system in Iceland in 2008. Performance improved significantly, but even so losses amounted to 118 million ISK in 2011. The extreme fluctuations in income with losses outweighing profits over this period of time reveal the grave position of the sector, especially considering that the economy was booming in the years leading up to 2008.

Figure 4.11 shows the year-end assets and equity, i.e. assets net of liabilities, of companies producing films and DVDs, 1997 to 2011.

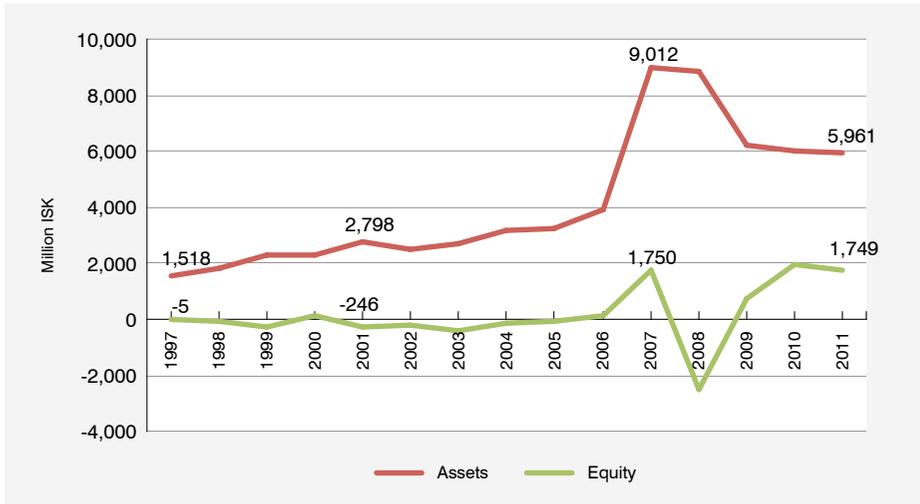


Figure 4.11: Year-end assets and equity of companies producing films and DVDs, 1997 to 2011, adjusted to 2012 price levels

As revealed in Figure 4.11, assets of production companies in the film industry increased substantially over the 12-year period shown. Assets amounted to nearly 1.5 billion ISK in 1997, nearly doubled over the next four years and multiplied by a factor of six over ten years, totalling 9 billion ISK in 2007, after which they decreased rapidly until 2011, to 6 billion ISK, all adjusted to the same price level.

Equity was near zero until 2007. There was an upswing in equity, which amounted to 1.7 billion ISK at year-end 2007, but the figure was negative again at year-end 2008, which means that the sector was virtually insolvent. However, equity rose again in 2009 to 2011 and was positive by 1.7 billion ISK at year-end 2011. It should be noted that these figures are averages, which means that many companies may in fact have been doing better and other companies still worse.

A company's equity ratio, i.e. equity divided by assets, reveals its financial position. The equity ratio provides an accurate picture of corporate strength, and Figure 4.12 charts the equity ratio trend of film producers from 1997 to 2011.

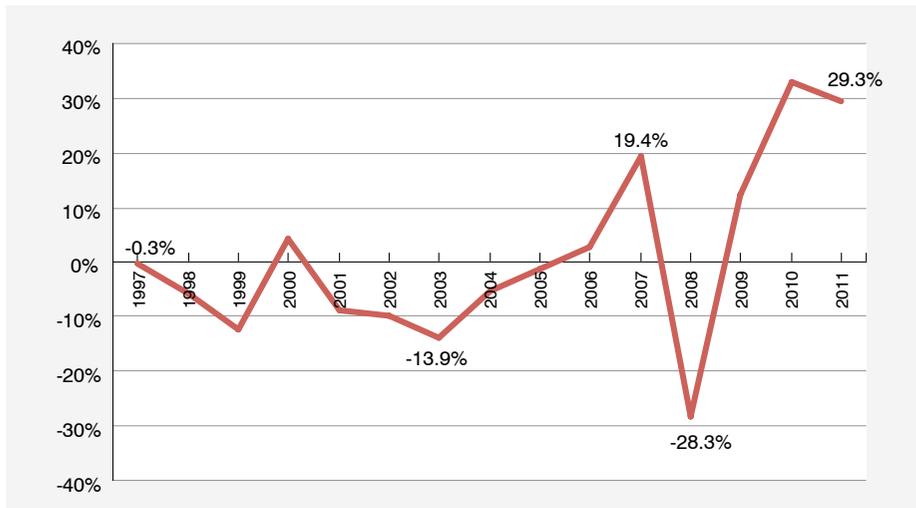


Figure 4.12: Year-end equity ratio of film producers 1997–2011

The equity ratio of film production companies fluctuated rather wildly during the years shown in the chart, and most commonly it stood at 0%, dropping to -13.9% in 2003 and rising to 19.4% in 2007, as shown in Figure 4.12. The equity ratio subsequently dropped to -28.3% in 2008 but rose again to 29.3% in 2011. It is generally assumed that a company's equity ratio needs to stand somewhere between 25-40% for the company to be considered in good shape.

Even though the proviso mentioned earlier applies, i.e. that some companies may actually have been in much better shape than others, it is nevertheless clear that the financial and asset position of production companies in the film industry is very poor. One of their most urgent tasks now is to strengthen their equity position, whether through new equity, mergers with other companies or increased income; unfortunately, none of these routes are easy.

Shirley Temple was born in the United States in 1928. The most famous child star in film, Temple began her career at the young age of three. She shot to fame in the film *Bright Eyes* (1934) and was awarded a special juvenile award by the Academy at the age of seven. Temple's films were characterised by hope and optimism. Franklin D. Roosevelt, then president of the United States, said about Temple that it was 'a splendid thing that for just 15 cents an American can go to a movie and look at the smiling face of a baby and forget his troubles.' After her success as a child actress Temple starred in a few films as a teenager but retired from acting at the age of 22, although she would later appear on television. Later in life she entered the business world and sat on the boards of directors of various large companies. She also made an attempt to enter politics, but with little success. Temple was later appointed United States ambassador to Ghana and Czechoslovakia.

4.3.2 Distributors, cinemas and video rentals

There are not many distributors of filmed material in Iceland, whether of films or DVDs. Their operations have been successful in recent years, and their equity position has been strong. As recounted earlier there are not many cinema operators in Iceland either, and in fact there are only three in the metropolitan area of Reykjavík, which is by some distance the largest market area. Cinema operation has been very difficult in recent years and the equity position of cinema companies has been deteriorating.

The operation of video rentals is varied and covers both large specialised rentals and small rentals housed in a variety of shops similar to large news stands in other countries. The turnover and performance of video rentals has been deteriorating significantly in recent years. It is worth noting that at the time of this writing in 2013 the largest video rental in Iceland announced that it was liquidating its entire inventory and closing down.

5. Education and social framework

5.1 Education in the film industry

The motion picture industry requires a wide range of education and skills, and the majority of the people involved in the Icelandic film industry are educated to a level beyond compulsory education. However, there are many jobs in the motion picture industry that occur in other branches of industry, so specialised training in film studies is not always a prerequisite. People with specialised training outside the film industries include, for example, accountants, lawyers, marketing people, electricians, makeup artists and cosmeticians, computer scientists, engineers and graduates in business administration.

Then there are those that require specialised training in film studies, such as film editors, cinematographers, actors, directors and lighting technicians, or other people in specialised jobs connected with the production of motion pictures and other filmed material. A general vocational education is therefore necessary for some jobs, e.g. for electricians, or a specialised education for others, e.g. actors. Specialised higher education is normally a requirement for screen writers and directors. Of course, many people are employed in the motion picture industry that have not completed any formal training but have acquired extensive experience in the field over time. However, it is an exception for young people to be employed in the industry without formal educational degrees.

Art and cultural studies, apart from literary studies, do not feature prominently in elementary and secondary schools in Iceland although a few secondary schools offer special courses of study in art. The Icelandic Film School (*Kvikmyndaskólinn*) offers specialised training for the motion picture industry. The Film School is a private secondary-level school, founded in 1992 and certified by the Ministry of Education, Science and Culture. It currently has about 80 students and over 700 students have completed their degrees since the school's foundation.

The Icelandic Film School offers core courses on the fundamentals of filmmaking, on reading and analysing films, on technical equipment and the use of film-making equipment. In other respects the programme is divided into four departments. The first department focuses on directing and producing. Students are trained in the production of advertisements, news broadcasts, documentaries, television programmes and music videos, with the main emphasis on acted material. In order to graduate, students must produce and direct at least three short acted films, in addition to a number of individual and group assignments. The second department educates sound designers, editors, cinematographers and production designers. Students in this department are required to produce two short films. The third department offers a course of study in screenwriting and directing. Students are taught how to write film scripts and how to direct their scripts, and assignments range from simple sponsored films/industrial videos to feature films. Students work on multiple scripts simultaneously and in the course of each term they direct their own final assignments. The fourth department is the acting department, where students are taught the techniques and methods of film acting. This programme is a traditional acting programme where students perform as actors in a number of projects and direct the production two short films where they play the main role. The programme requires students to pass an entrance exam.¹⁰⁵

The Iceland Academy of Arts (*Listaháskóli Íslands*), founded in 1998, is a university-level school where students earn undergraduate degrees after three to four years of studies, although postgraduate degrees are also offered in certain fields. The school has five departments: a design and architecture department, a theatre and dance department, an art education department, a music department and a fine arts department. Most of the departments offer several programmes of study. The courses that are of principal relevance to education in motion pictures are the acting programme in the theatre and dance department and the instrumental/vocal performance and composition programme in the music department. These are the courses that are specifically intended as training for specialised jobs in the motion picture industry, but of course there are many other courses that are offered at the Academy where skills are taught which are useful in the industry.

¹⁰⁵ For further discussion of studies at the Icelandic Film School, see *Programs* (2013).

The acting programme is a four-year programme and concludes with a B.F.A. degree (Bachelor of Fine Arts) in acting. The programme emphasises students' independence in their work as artists. In the first two years students receive a solid foundation in all technical subjects and in theatre history. In the third year the main emphasis is on dramatic interpretation and theoretical courses. In the fourth year three performances are staged in the student theatre under the direction of professional directors; in addition, students are required to complete a final assignment and a thesis. The actors who have graduated from the Iceland Academy of Arts, and its predecessor, the Icelandic School of Drama, which was founded in 1975 and subsequently merged with the Iceland Academy of Arts, form the backbone of the big professional theatres in Iceland – the National Theatre of Iceland, the Reykjavík City Theatre and the Theatre Company of Akureyri – in addition to performing in Icelandic motion pictures, television programmes and other filmed material, such as advertisements.

The instrumental/vocal performance programme at the Iceland Academy of Arts is a three-year programme and concludes with either a B.A. (Bachelor of Arts) or B.Mus. (Bachelor of Music) degree. The programme is divided into three parts. First, it covers the core theoretical subjects; second, it offers specialisation in vocal performance or instrumental performance, where students choose between wind instruments, piano, string instruments and other instruments; third, it offers elective courses on theoretical or technical subjects or on subjects taught in other departments of the Academy.

The composition programme in the music department of the Iceland Academy of Arts is a three-year programme and concludes with a B.A. degree. This programme is also divided into three parts, like the instrumental/vocal performance programme. First, it focuses on core theoretical subjects; second, it offers specialisation in composition, where students can choose between general composition, film scoring, new media composition,

Orson Welles was born in the United States in 1915 and died in 1985. A prodigy of film, Welles could function in any capacity, whether acting, directing, scriptwriting or producing. Welles first rose to stardom when he directed a radio adaptation of *The War of the Worlds* at the young age of 23. In a spectacularly convincing performance the play caused widespread panic, with many people actually believing that an invasion from Mars was in progress. Welles later directed and starred in *Citizen Kane*, a film about the newspaper mogul William Randolph Hearst, sometimes referred to as the greatest film ever made. Hearst did all that he could to thwart Welles and stop the film's distribution and in many ways he was successful. Even though Welles made numerous films and television series after *Citizen Kane*, he had difficulties getting good work. Welles wrote extensively on politics and was always an active voice in the public discourse.

composition for the stage or recording studio production; third, it offers elective courses in theoretical or technical subjects or subjects taught in other departments of the Academy. Additionally, students can complete a two-year M.A. degree (Master of Arts) in composition.¹⁰⁶

Film Studies is a two-year programme taught at the University of Iceland in the Faculty of Icelandic and Comparative Cultural Studies. If students complete the required additional minor courses then the programme can be completed with a B.A. degree with film studies as a major. There are five mandatory courses in the programme, i.e. methodology and theory of art history, critical composition, film studies, film history and cultural spheres, and in addition to this there are elective courses and a BA thesis. The aim of the programme is to give an overview of the history of Western film along with a history of film in other parts of the world, to train students in understanding and interpreting films from different perspectives and to introduce the major theories and methodologies of film studies. It is also possible to take film studies as a minor subject, i.e. to complete a programme which corresponds to one year of study.¹⁰⁷

The University of Iceland offers various other undergraduate programmes that can be useful for employment in the motion picture industry, such as literature, art history and theory and creative writing. There are also various graduate programmes offered at the University of Iceland in literature and cultural studies, which are in one way or another related to film.

Bifröst University offers a graduate programme in cultural management, which provides a useful background for employment in the motion picture industry.

Outside Iceland there are schools that specialise exclusively in film studies. One of the most renowned and most respected of such schools is the New York Film Academy, where students can complete a B.F.A. degree (Bachelor of Fine Arts) in three years of rigorous studies comprising fall, spring and summer terms. Students are trained in directing, screenwriting, cinematography, production and editing. Every student is required to write, film, direct and edit 12 films during the study programme in addition to participating in a film crew that shoots 30 other films. The

¹⁰⁶ For further discussion of studies at the Iceland Academy of Arts, see *Programmes* (2013).

¹⁰⁷ For further discussion of study programmes related to film at the University of Iceland, see *Film Studies* (2013).

New York Film Academy also offers a one-year study programme along with a graduate programme in film studies following completion of an undergraduate degree.¹⁰⁸

5.2 Associations of stakeholders in the motion picture industry

There are numerous and diverse associations in the motion picture industry in Iceland. The majority of the producers working today are members of the Association of Icelandic Film Producers (SÍK), an association of companies that produce films as well as a general organization of Icelandic film producers looking after the interests of film producers vis-à-vis the government. The Icelandic Film Makers' Association (FK) is the principal filmmakers' interest group in Iceland. It was founded in 1996. The association has representatives on the Motion Picture Committee as well as the boards of directors of the Icelandic Film and Television Academy, the Media Information Service and the Collecting Society (IHM).

The Icelandic Film and Television Academy (ÍKSA) is a joint venue for the various associations of filmmakers. The aim of the Academy is to support the Icelandic film and television sector, primarily by awarding the Icelandic film and television prize, the *Edda*, given in various categories of filmmaking.

The Film Directors' Guild of Iceland (SKL) is a guild of film and television directors, dedicated to preserving the interests of film directors in Iceland. The guild has representatives on the Motion Picture Committee and on the board of directors of both the Collecting Society (IHM) and the Icelandic Film and Television Academy (ÍKSA).

The Association of Film Rights-Holders in Iceland (SMÁÍS) looks after the interests of film rights-holders. Its members are cinemas, film and television producers, television stations and distributors of filmed material.

Women in Film and Television (KIKS) is the Icelandic division of the international organization of Women in Film and Television (WIFT). The organization has the mission of advancing the role of women in film and television. The most recent film association in Iceland is the Icelandic Cinematographers Society (ÍKS), an association of

¹⁰⁸ For a discussion of the study programmes at the New York Film Academy, see *BFA in Filmmaking* (2013).

cinematographers in film and other acted filmed material. The association was founded in February 2011.

Various other associations have direct links to the motion picture industry, even though their activities are carried out within other branches of art. These associations include the Association of Playwrights and Screenwriters, the Actors' Union and the Association of Stage and Costume Designers. Many of the members of these associations are employed in film production. In addition to these associations there are numerous musicians' associations, e.g. the Icelandic Musicians' Union (FÍH), which are important to filmmakers, considering that filmed material is rarely produced without music. These arts associations are all members of the Federation of Icelandic Artists (BÍL), which is a cross-sectoral organisation of artists in Iceland.¹⁰⁹

There are a total of 14 member associations of BÍL, all of which are involved in one way or another in the production of films and filmed material. One of the major characteristics of the motion picture industry is precisely its diversity and its frequent need for participation by many different branches of art and versatile artists.

The Association of Cinema Owners is an association of the companies that own and operate cinemas in Iceland. The association is responsible for protecting their interests and has a representative on the board of directors of the Association of Film Rights-Holders in Iceland (SMÁÍS).

The Collecting Society (IHM) is a joint copyright organization representing authors, performers and producers. The association was founded in 1999 and is responsible for collecting remuneration to right holders for the use of their rights. The Association also collects information on the publication of works of art, oversees relations with foreign copyright associations and protects the interests of right holders in Iceland in other respects.¹¹⁰

A noteworthy association in the motion picture sector is the non-profit organization *Heimili kvikmyndanna* (the Home of Films), which owns a cinema, *Bíó Paradís* (Cinema Paradise), which is used as a venue for special screenings and discussions of film. Many members of the motion picture associations referred to above and some of the associations themselves are members of The Home of Films organization.

¹⁰⁹ For further discussion of the Federation of Icelandic Artists, see, e.g., *Member Associations* (2013).

¹¹⁰ For further information on the Collecting Society, see *IHM Articles of Association* (2013).

6. Conclusions and future prospects

Conclusions are summarised in the same order as the chapters of the book.

6.1 Motion pictures, culture and history

Man has engaged in culture throughout history, and in academic studies motion pictures have primarily been classified as a subject pertaining to the liberal arts. However, research in economics has increasingly focused attention on culture and the creative industries and their role in the economy. Motion pictures are an important element of Icelandic culture and they represent a significant segment of the creative industries, branching into a number of other spheres of the economy. Creation in the motion picture industry, like other artistic creation, constitutes a source of economic and cultural benefits which reflect not only aesthetic but also economic value.

A case can be made for the creative industries grounded in cultural industries becoming a dominant industry of the 21st century in Iceland. The experience industry, to which the film industry pertains, is the largest industry in the world and the creation of motion pictures could quite well become a core industry in Iceland in the 21st century. Culture plays an extensive and important economic role in Iceland. The contribution of culture to GDP amounts to approximately 4%. A quarter of the country's workforce is employed in the creative industries. The interaction of economy and culture is also growing. The opportunities in this sector could therefore be huge if properly addressed.

Consumption of culture in Iceland is extensive in international comparison and significantly greater than in the other Nordic countries, notwithstanding the high consumption in those countries. Cinema

attendance per capita in Iceland is among the highest in the world, which creates a variety of opportunities in the film industry. Icelandic culture has deep roots in the form of the Icelandic language and its large body of mediaeval literature, which helped to secure the nation's identity and existence in earlier centuries. This fertile soil provides extensive business opportunities in a world of changing industries.

6.2 Supply and demand

There is a huge demand for motion pictures in the world, and demand is growing. In fact, there are indications of a shortage of quality filmed material in the future, which translates into opportunities for growth as increased attendance of films, whether in cinemas or other media, actually increases demand still further.

In the economic sciences it is generally assumed that supply is driven by customer tastes and attitudes. The consumer decides which cultural products he or she will buy and no judgment is expressed here as to whether there is any such thing as 'bad' art or 'good' art. In many respects the factors that influence demand for motion pictures are traditional, but in other respects demand is subject to principles which do not apply to other products. Motion pictures, like other manifestations of culture, have a positive impact on their environment but the motion picture industry is subject to great uncertainty and risk. It is impossible to foresee the success of individual films, as their attendance figures are governed principally by the public discussion that they generate. The fact that the cost of film production accrues for the most part before any income is generated increases still further the risk faced by producers. Motion picture production is like any other production in the economy but technological advances, such as digital production and graphic software, have greatly increased the options available in filmmaking.

Comparative advantages that Icelanders have in filmmaking, such as a unique natural environment with spectacular landscapes and wide open spaces, can be useful factors in motion picture production. Iceland also has a growing number of qualified and well-educated candidates for employment in filmmaking. These advantages will eventually lead to reduced production costs. Concentration of filmmaking activities in limited geographic areas with the attendant spillover effects and cluster formations can result in increased efficiency, and in Iceland expertise of this kind has already developed in the motion picture industry, much

as it has in the fisheries sector and the computer games industry. In a country where specialisation and rigid division of labour is not as pervasive as in many other countries the motion picture industry can derive an advantage from the existing flexibility and versatility.

The value chain in the motion picture industry reflects a diverse production process, where education in both art and business, along with financing expertise, are important pillars. The production of individual films needs to be expertly planned, as there are extensive financial resources at stake. Motion pictures are private goods and sold in markets across the world, with illegal downloading among the greatest threats to the contemporary motion picture industry.

6.3 Role of government in motion picture production

Government must ensure a strong infrastructure for all the sectors of the economy, including the motion picture industry. In addition, government should lend special support to motion picture production, especially as films are cultural goods which can be defined as merit goods. The discussion in this book shows that these goods can have positive external effects. These are grounded in production which enjoys some comparative advantages in a creative industry working in an environment of extensive demand.

Government should support filmmaking because it is an important part of culture, which needs to be equally accessible to everyone; in addition, motion films are well suited to preserving history and cultural heritage. They should be a part of the cultural policy of any community. Motion pictures have an important impact on the job market and when foreign motion picture corporations come to Iceland to film this has a positive economic impact, especially in rural areas. Motion pictures can therefore represent an important element of an active regional development effort and serve as source of growth in sparsely populated regions outside the capital, where there is a pressing need for more diverse employment opportunities. The motion picture industry therefore presents a number of opportunities to rural communities. In addition, equal access to culture is in itself important for any community and it is the role of government to ensure equality of access, regardless of gender, class, income, residence or age.

Government should also support the motion picture industry because it leads to a greater diversity of education in the economy and encourages the formation of clusters and enhances external economies of scale, which in turn reduces cost. With the proper support, filmmaking could achieve the critical mass needed to become sustainable. In this way the motion picture industry could become one of Iceland's more important economic sectors if matters are handled properly. Motion pictures are among Iceland's most powerful tools for the promotion of the country as a tourist destination, while at the same time generating significant income, including income in foreign currency and resultant tax revenue. Since the promotion of the country constitutes a public good, this means that the role of the government becomes even more important, as the interaction of films and the tourist industry is significant.

The Icelandic government spends comparatively more on culture than other countries. Contributions to the Icelandic Film Centre increased significantly in the past decades. Reimbursement of filmmaking cost is an important element of funding, which has attracted a number of foreign film companies to Iceland. Foreign support funds set up by the European Union and the Council of Europe are also important for the funding of motion pictures, and Iceland benefits from grants which are far in excess of Icelandic contributions to these funds.

Using a multiplier analysis we can divide the economic impact of the motion picture industry into direct, indirect and induced effects, both in terms of jobs and economic impact. The motion picture industry accounts for about 750 man-years in Iceland, which corresponds to 0.5% of the entire workforce in an industry with a turnover of ISK 12,500 million ISK, or 0.7% of GDP. The State's revenues from these activities are ISK 1,920 million per year. State revenues from foreign tourists who plan visits to Iceland under the influence of motion pictures are ISK 2,500 million per year. In all, the State's tax revenues resulting from films are approximately ISK 4,420 million per year, while total contributions to the Icelandic Film Centre and reimbursements of costs amount to ISK 830 million per year, so that the net benefit of the State from films amounts to about ISK 3.590 million. It is clear, therefore, that increased business activities in the motion picture industry are a good investment for the State, and as an added bonus they contribute to the diversity and depth of Iceland's culture.

Legislation on motion pictures in Iceland is comprehensive and well founded in Iceland, but the amounts channelled to the Icelandic Film Archive fall far short of the Archive's needs. Steps need to be taken to prevent the loss of vintage films, which are at serious risk.

6.4 Production, distribution and exhibition

From the start of film production in Iceland in 1906 and until 1980, thirty-six films were produced, but from 1980 to 2011 the corresponding number was one hundred and seventy-four. Motion picture production has therefore grown tremendously in the past three decades. It has been observed that the vast majority of Icelandic film directors are men, which is also the case in the motion picture industry in other countries, although some countries are taking active steps to remedy the situation.

The distribution of all films in Iceland is in the hands of only three companies: Sambíó, Sena and Kvikmyndahöllin; these three companies also control virtually the entire cinema market. The distribution and exhibition of films in Iceland is therefore characterised by oligopoly. The number of distributors and cinemas has shrunk substantially, as multiplex cinemas have taken over almost the entire market. Apart from Akureyri, Iceland's second largest city, there are few cinemas in rural areas. Cinema attendance in Iceland has stagnated in recent decades, but even so, Icelanders remain the most assiduous cinema-goers in the world, comparatively speaking.

The number of films shown in Icelandic cinemas has fallen considerably over the past decades. Currently about 80% of these films originate in the United States. American films also enjoy the greatest attendance, as in the rest of the world, although the variety of films at film festivals, which have grown in number over the past years, is far greater than in the public cinemas. Television broadcasting has increased significantly in Iceland in recent years, especially in the private stations. The number of video rental establishments has fallen, while movie rental through television or on line has grown, as has the sale of video disks.

A number of companies produce filmed material, a large part of which consists of advertisements. Production of advertising material is frequently a source of support for filmmaking in individual companies. Although production companies may generate revenue in large amounts, actual profit is in most cases next to nothing, making their

financial position precarious. Production companies therefore find themselves in an extremely difficult position.

Film distribution companies are strong in terms of assets and scale of operation, but cinema operation has on average been stagnant in recent years and the financial position of companies in this sector is therefore difficult. Video rental companies have endured operating difficulties in recent years and their position in terms of assets is poor. They may, in fact, be disappearing altogether. The performance and financial position of companies in the film industry are therefore poor in general and it is important to attempt to reverse the current downward trend where possible.

6.5 Education and social framework

Education in the film industry in Iceland is generally good, but it is urgent to introduce training in filmmaking at the university level, although some courses which are useful for filmmaking are taught in in some of the Icelandic universities. The social infrastructure of the film industry is strong, with well organised stakeholder groups and sustained professional critical discourse in the media, e.g. in the context of award ceremonies, film festivals etc.

The general conclusion of this book is that the film industry is a sector that affords great opportunities, but that the position of companies in Iceland operating in the field is weak. The government has a significant role to play in the sector, and in fact involvement can be beneficial for the government itself. The three following suggestions are submitted:

- to increase substantially contributions to the Icelandic Film Centre;
- to obtain an exemption from the 50% maximum limit on domestic grants on the grounds that Icelanders are a small language community whose culture is valuable, but vulnerable;
- to introduce teaching in filmmaking at the university level.

If this is done, Icelandic filmmaking could become an industry of significant importance and contribute to an improvement of the quality of life in Iceland for the long term.

Annex 1:

The motion picture industry in Iceland until 1979

At the turn of the century, in 1900, there was already quite an active theatre life in Iceland, with origins dating back to plays staged by college students. A number of acting companies were established around the country at this time. The most prominent of these was the Reykjavík City Theatre, established in 1897; its establishment marked the start of the gradual replacement of amateurism by professionalism. The theatre generated an interest in exhibiting and producing domestic motion pictures when these eventually appeared on the scene.¹¹¹

The first public showing of a film in Iceland took place in Akureyri in northern Iceland on 27 June 1903, when a group of Danes toured the country and showed 'living pictures' as they called them. Their first exhibition in Reykjavík was on 27 July 1903. Although some of the early precursors of motion pictures were known to Icelanders, the age of cinema is regarded as having begun in Iceland with the regularly scheduled films shown in *Fjalakötturinn*, starting on 2 November 1906 with a documentary recounting the journey of a group of members of parliament to Copenhagen. Public interest in this novelty was extensive in Iceland, as it was in other countries; there was not much going on in the way of popular entertainment at this time. The first films were foreign depictions of daily life and motion pictures from exotic places. There were also a few films of daily life in Reykjavík, but that became much more common later.

The man who was instrumental in paving the way for motion pictures in Iceland was the Danish Peter Petersen, who arrived as a projectionist and remained in Iceland until 1940, when he returned to Denmark. Petersen acquired and operated a cinema in *Fjalakötturinn*, which was

¹¹¹ For a discussion of the origins of Icelandic theatre, see Einarsson S. (1991) and Einarsson S. (1996).

mentioned earlier. Petersen also had a new cinema built, *Gamla bíó* ('The Old Cinema'), in downtown Reykjavík, which was inaugurated in 1927. *Gamla bíó* served as a cinema for decades, but later became the home of the Icelandic Opera until quite recently, when the new concert hall *Harpan* was built. Petersen was always known as 'Bíópetersen' for his interest; it was on his initiative that the best projecting equipment available was bought, and Icelanders became accustomed to a higher quality of film screening than was known in many other countries.¹¹²

There were numerous community centres across the country that were used for assemblies, dramatic productions and entertainment. With the introduction of films they became cinemas too. An example of one such centre was *Fjalakötturinn* itself, located in virtually the exact centre of Reykjavík. It was built in 1893 principally as a theatre, but as early as 1906 film shows had become its main activity. Curiously enough, *Fjalakötturinn* was one of the first cinemas in the world with quite a remarkable history. It remained standing until 1985, when it was finally torn down. Its demolition was a something of a cultural disaster, because it was known that *Fjalakötturinn* was in all probability the oldest cinema in the world that was still being used as a cinema. This is because in the early days of cinema in other countries it was mostly the poor who attended cinemas, as mentioned earlier, and for this reason there was no great emphasis on building elaborate cinemas at great cost. It was only later that specialised cinemas were built. However, these buildings were often poorly constructed and they were therefore gradually demolished to make room for better cinemas. In Iceland, however, *Fjalakötturinn* remained standing long after it had seen much better days, but it would have been an easy matter to renovate it. It is now believed that a Danish cinema in Korsør in Zealand, which is still used for that purpose, is the oldest cinema in the world; the first film exhibition there took place on 7 August 1908, two years after the first exhibition in *Fjalakötturinn*.

Ideas were proposed about housing the Icelandic Film Archive in *Fjalakötturinn*, where films and other material relating to the history of film in Iceland could be exhibited, like in many other old cinemas around the world which are used for such preservation purposes. These ideas met no understanding on the part of the authorities in Reykjavík or the State and as a result this priceless relic was sacrificed despite heroic efforts by film historians in Iceland and elsewhere to preserve

¹¹² For a discussion of the origins of film in Iceland, see Sveinsson (1981a), Sveinsson (1981b) and Bernhardsson (1999).

Fjalakötturinn. People from all over took part in the campaign and tried to make the Icelandic authorities understand the cultural value at stake. Even the Fédération Internationale des Archives du Film (FIAP) became involved to persuade the government to spare the building, but to no avail.¹¹³

The pioneers of filmmaking in Iceland were mostly foreigners, in particular Bíópetersen, who made a number of films of daily life in Reykjavík, most of which were destroyed in a fire in Copenhagen decades later, in 1962. Jóhann Sigurjónsson's play *Fjalla-Eyvindur*, was filmed by a Swedish outfit in 1918; however, the film was not shot in Iceland, so for Icelanders it lacked the essential quality of Icelandic natural surroundings. *Saga Borgarættarinnar*, a novel by Gunnar Gunnarsson, was filmed mostly in Iceland in 1919 by a Nordic company and was premièred in Denmark in 1920.

Icelandic motion picture pioneers included Loftur Gudmundsson, a well-known photographer. Gudmundsson made the first film that could be called entirely Icelandic, the silent film *Ævintýri Jóns og Gvendar*, which premièred in 1923. Gudmundsson made a number of additional films, including *Milli fjalls og fjöru* (1949), the first Icelandic talkie, and various important documentary films. In 1945 to 1950, it was common practice to ask Iceland's embassies in other countries to present the films then available on Iceland, such as Loftur Gudmundsson's films, for exhibition in schools and various other venues.

Óskar Gíslason made a number of films, including a documentary of the celebration of the founding of the Republic in 1944; he also made feature films. Gíslason's most famous film, however, is without a doubt *Björgunarafrækid vid Látrabjarg*, a documentary on the rescue of shipwrecked fishermen from a stranded British trawler at Látrabjarg. All of these Icelandic films became very popular. Gudmundur Kamban, a prolific novelist, was an active participant in the infancy of filmmaking in Iceland. His film *Hadda Padda*, a Danish-Icelandic collaboration, was shown in Iceland in 1924. Kamban himself directed the film *Det sovende hus*, which premièred in 1926, the first feature-length film directed by an Icelander.

The State Educational Film Collection was established in 1961; it purchased and lent to schools a number of short documentary films on the

¹¹³ For a discussion of the history of *Fjalakötturinn*, see *Fjalakötturinn* (1981) and *World's oldest cinema is Danish* (2008).

natural sciences, geography, physics, health sciences, Christian studies, pedagogics, etc., all foreign films used for educational purposes in schools.

Not many feature-length domestic films were produced in the early decades of film in Iceland, but by 2012, over two hundred feature-length acted Icelandic films had been produced. From the start of film exhibitions in Iceland in 1903 and until 1979, or seventy-five years, about thirty full-length Icelandic films were produced and exhibited; in the next thirty years, however, some one hundred and seventy feature-length Icelandic films were produced and premièred.

The Icelandic ‘Spring of Film’, as it is called, is said to have begun with the establishment of the Icelandic Film Fund in 1978. The first grants from the Fund were awarded in 1979. Only then did Icelanders start to make real inroads into the motion picture industry, with almost unparalleled vigour. The surge resulted from a combination of increased government appropriations of funds and better educated individuals in many fields of motion picture production, although the industry has been attracting young people to work for over a century. One part of the Spring of Film was the launch of the Icelandic Film Archive at the outset of the period.

Icelandic national television also played a huge role in filmmaking in Iceland, especially in training filmmakers in the years leading up to the Spring of Film. Television was introduced in Iceland in 1966, and after 1976 a number of employees left the network’s film division to set up on their own. It is probable that the development of the film industry in Iceland would have been considerably less rapid without the training provided by the Icelandic National Television Network.¹¹⁴

¹¹⁴ For a discussion of the Icelandic Spring of Film, see, for example, Sveinsson (1981a) and Møller (2004).

Annex 2:

Film legislation, film rating and film museums in Iceland

Annex 2.1 Act on motion pictures

Government authority in matters relating to motion pictures in Iceland is vested in the Ministry of Education, Science and Culture. The Ministry is advised by a Motion Picture Council composed of seven members nominated by various stakeholders in the industry.

The Ministry of Education, Science and Culture and the Ministry of Finance have entered into agreements with associations of filmmakers on strategic planning to promote Icelandic filmmaking; these agreements include declarations by government of a willingness to increase funding for films. Agreements of this kind are common in Icelandic government administration, and although they are statements of policy, they are always subordinate to the State budget at any time and therefore not binding for government.

The Iceland Film Fund, a precursor of the Iceland Film Centre, was established in 1978 and soon had a significant impact on Icelandic film production. From 1979 to 1988 funds were allocated to twenty-five feature-length films and two documentaries, in addition to thirty promotion and distribution grants. By 1988, Icelandic films had been shown in over thirty countries and seen by over two hundred million people. In 1989 Iceland became a member of *Eurimages*, the Cinema Support Fund of the Council of Europe and in 1990 became one of the founders of the Nordic Film Fund.

There are a number of laws in Iceland that concern motion pictures. To give some examples there are provisions in the Penal Code prohibiting the possession of child pornography, the Copyright Act provides for the

rights of makers of films and parts of films, a separate act of law was enacted to ratify the Berne Convention, an international agreement on the protection of literary and artistic work, and there are provisions of law regarding the mandatory submission of copies of films to the Icelandic Film Museum.

The Copyright Act uses the phrase ‘literature and arts’, thereby separating literature from the arts. This is indicative of the evolution of copyright. The discussion of copyright initially revolved mostly around works of literature and this wording has remained in use globally, including in official texts of international agreements.

Copyright protects an artist’s rights for seventy years from the artist’s death. As regards motion pictures, copyright remains in effect for seventy years after the death of the last person alive of the following: first, the principal directors, second, the script writers, including dialogue writers, and third, musical composers if the music was composed specifically for use in the motion picture.

The copyright to a film is secured in a manner comparable to other artistic works. However, it complicates matters that motion pictures are extremely complex creations involving a great number of people, and not all creative work relating to films is protected by copyright. For instance, an Icelandic film artist who worked on the *Paddington Bear* films and contributed the teddy bear’s handwriting, among other things, tried to obtain recognition of copyright to her contribution and reasonable payments but was unsuccessful.¹¹⁵

Artists and their heirs are paid for their intellectual property as if they had invented a new technology, a new pharmaceutical product or new machinery. Copyright is extremely important for the cultural sector to preserve the rights of those who create or conceive a work. Copyright has a long history, and has become continually more extensive in scope. Copyrights can be traded, as in the case of a theatre buying the rights to stage a play from the playwright or other right holders.

Annex 2.2 Film rating

Official scrutiny of films prior to exhibition was the rule in Iceland for many years. It began in 1932, when a law was passed on scrutiny by

¹¹⁵ For a discussion of copyright in Iceland see, for example, Einarsson (2006).

government authorities of all films to be shown in Iceland. A special committee was appointed to inspect all films and filmed material to be exhibited publicly in Iceland and to decide whether or not exhibitions should be permitted, prohibited altogether, or restricted.

About 4,300 films were reviewed by the Film Rating Committee between the years 1995 and 2006, but only 10 films, about 0.3% of the total, were prohibited. Most of the films were deemed to be suitable for all ages, or about one half, and about one quarter were considered unsuitable for children under the age of 16.

The Film Rating Committee established precise rules on its work, and, among other things, cutting scenes from films was not permitted. Films were to be shown in the form intended by their creators. This was an important decision, considering that it is not uncommon for films in many countries to be edited by film rating bodies, sometimes destroying the films' artistic integrity.

The film rating charge, a tax imposed to cover the work of the Film Rating Committee, was often an issue of contention, and complaints from cinemas and distributors were frequent. However, Iceland was no different from other countries in this respect and public scrutiny of films is widespread. In the United States film rating can have a significant impact on attendance.¹¹⁶

Government involvement in film rating is rooted in the Icelandic Constitution. Provisions of the Constitution were interpreted as requiring the executive branch to establish rules along the lines described above. However, the provisions of the earlier legislation on film rating and the prohibition of violent films smacked of censorship and conflicted with subsequently enacted international human rights provisions, giving rise to criticism from the Council of Europe's Committee of Ministers. The legislation was revised, not only because of this criticism, but also because the law and the rating applied only to cinemas and distributors, while television stations were more or less exempt. This arrangement was seen as discriminatory.

A legislative bill for a new act on film rating was first submitted in 2002, but it was later reviewed and resubmitted in its final form in 2006, by which time its provisions had been extended to include computer

¹¹⁶ Regarding rating of films in Iceland and in the United States, see for example Lunde (1998) and Einarsson (2011).

games. On the entry into force of the law, the Government Agency for Child Protection was entrusted with the role of supervising the enforcement of the act. In other respects, distributors and exhibitors were made responsible for supervision in accordance with the law and for labelling their films and computer games in a suitable manner.

These regulatory bodies have established working procedures which are co-ordinated by the Association of Film-Rights Holders in Iceland (SMÁÍS) based on international classification systems. Film rating is based on the Dutch rating system NICAM (Netherlands Institute for the Classification of Audiovisual Media) and computer games rating is based on the PEGI classification system (Pan European Games Information).¹¹⁷

These systems are primarily concerned with child welfare in their ratings of films and computer games. Computer games in particular are becoming increasingly realistic, complex and violent, making effective rating even more important. The conclusion that can be drawn from the relatively recent Icelandic legislation on the supervision of children's access to films and computer games is that this new rating arrangement has proven effective and that there appears to be no dispute regarding its implementation in Iceland.

Annex 2.3 National Film Archive of Iceland

The National Film Archive of Iceland was founded with the Act on the Icelandic Film Fund, which entered into force in 1978. The National Film Archive was an independent institution until 1985, when it was merged with the Icelandic Film Fund. The Film Archive became an independent institution again in 2003.

The main task of the Film Archive is to collect, register and preserve films and printed material relating to Icelandic films and foreign films with clear relevance for Iceland. The Archive is also intended to serve as a repository for film-making equipment. It is furthermore responsible for research and dissemination of knowledge about films and film culture. The first film received by the Archive for safekeeping was a Danish recording of a visit of Icelandic members of parliament to Denmark.

¹¹⁷ For more on multinational classification systems, see, e.g., *Age marking for films and computer games* (2010).

This was also the first film ever shown in Iceland, on November the second of 1906, and it marked the beginning of the Icelandic film era.

Over the next few years the Archive acquired numerous films and by 1985 it housed a total of 800 films, with the number growing to 10,000 in 2007. The National Film Archive of Iceland became a member of the International Federation of Film Archives (FIAF) in 1979, thereby becoming a participant in the international co-operation in its field almost from its foundation.¹¹⁸

The decline of the National Film Archive of Iceland following the economic collapse of 2008 is a cause for concern. Also, as a result of the digital revolution, films are no longer being used and therefore visual material is no longer being preserved on film. It is not possible to reproduce copies of film in Iceland and the equipment needed for that purpose is becoming increasingly rare. It is therefore imperative for films to be converted to digital form as soon as possible. Such conversion requires funds and without funds there is a risk of films being lost, as so often in the past.

Films and other filmed material are also stored in other archives, although the National Film Archive is the largest. The film archive of the Icelandic National Broadcasting Service is also a very large and invaluable source of information on historical filmed material. The National and University Library of Iceland also preserve filmed material, as do the numerous local museums, libraries and other museums scattered around the country.

¹¹⁸ For more on the National Film Archive of Iceland, see *The Legislative Bill for an Act on Motion Pictures* (2001/2002), *The Motion Picture Act* (2013), Einarsson (2006) and Bernhardsson (2008).

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About this book

This book recounts the development of film as a part of culture and the creative industries, both in Iceland and elsewhere. The discussion touches on the demand for films, their supply and production and the significant business risk in the sector.

Iceland has various comparative advantages in the motion picture industry and has made good use of them. Government plays an important role in supporting the film industry and it has been shown that each Icelandic króna contributed by government to the sector gives fourfold returns. The motion picture industry is already an important element of the Icelandic economy.

All the conclusions presented in the book are supported by figures, as in an earlier work by Dr. Einarsson, the *Economic Impact of Music* (in Icelandic), which demonstrated the economic significance of the music industry. In the present book, Dr. Einarsson describes various economic indicators relating to the motion picture industry in detail and illustrates them using a number of charts and tables. The discussion is interspersed with short biographies of twenty-nine individuals who have made their mark on the international motion picture industry over the past 100 years. This book is a good find for anyone who has an interest in culture and particularly in film.



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Dr. Ágúst Einarsson is Professor of Economics at the University of Bifröst in Iceland and former Rector of Bifröst University. He studied business economics in Germany and defended his doctoral thesis at the University of Hamburg. Dr. Einarsson worked for a number of years as CEO of a major fisheries and fish processing enterprise in Reykjavík. He has held a number of positions of trust in Iceland and served as chairman of the board of numerous enterprises.

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Dr. Einarsson has published twenty-three books, including two collections of articles, two works on microeconomics, a book on the economic impact of music and another on cultural economics, in addition to a book on the economic impact of the film industry, on which this book is partially based. He has also published articles in scientific publications on business economics, fisheries and culture, as well as chapters in various books and proceedings of conferences.

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