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The Policy Analysis of the Film and Video Market in Japan

by Minoru SUGAYA*

Introduction

The Japanese television and film market is the second largest market in the world, even though it is not well known like automobile or audiovisual equipment markets. Of course, the first is the United States. According to the Screen Digest (1), the amount of film production in the U. S. in 2001 is 104 billion dollars, and Japan comes next with 12 billion dollars. Among the OECD counties, the United States shares 46 percent of the total broadcasting revenues, including free and pay television; Japan is the second with 18 percent, and the third is United Kingdom with 10 percent (2).

Because of the language and culture barriers, the Japanese film and broadcast programs are not universally popular like Hollywood film and American network television drama, but Japanese cartoons have already been penetrated not only in Asia but also in the Western countries.

This article focuses on the following research questions: (i) what the features of the Japanese film and video market and policy are, (ii) how the market structure of Japanese film and video market have been evolved, and (iii) why film policy becomes an important policy agenda in Japan now. Before discussing these questions, a framework of this article and the characteristics of the Japanese market and regulatory structure will be described.

The Economic Structure of Film and Video Market

A Film and video market can be divided into three parts: production, distribution and exhibition. The Production market is a market producing films and videos. Pre-production, production, and post-production are three layers of this market. Production market is competitive, since anybody can enter this market without any authorization.

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There are two kinds of production costs in this market. One is "below-the-line cost" and the other is "above-the-line cost." The "above-the-line cost" is the cost for non-alternative goods or services. Examples are beautiful landscape and Hollywood big stars. In this case, it is hard to find alternatives. The "below-the-line cost" is the cost for alternative goods and services. Production companies are always looking for any methods to save costs. In the case of large-budget Hollywood films, films are shot all over the world because of cultural and economics reasons. According to the government report, more than the half of films shot outside of the U. S. have the economic reasons, not the creative reasons. In other words, many films are produced abroad not for artistic reasons, but because of reduced production costs.(3) It means that location hunting is very competitive among the U. S. and other English-speaking countries, such as Canada, the U. K. and Australia.

In the distribution market, regulatory and technical barriers have appeared scarce (4). The development in information technologies has expanded distribution options from terrestrial television to Internet broadband network. Such distribution options are called windows. The number of available windows is directly related to the profitability of film and video programs. In general, big-budget products can be distributed to more windows.

Finally, the exhibition is an access point for consumers. There are several kinds of exhibition points, including movie theaters, video rental shops, television stations, cable operators and Internet service providers. In exhibition, the economic nature of market is various. For instance, there is no regulatory entry barrier in movie theaters and video rental shops. In contrast, both terrestrial and cable television markets have strict entry barriers.

In the beginning of the 20^{th} century, the relationships among these markets were very simple, because there was only one way: one from a film producer to a distributor to movie theaters. A Vertical integration was the best solution to maximize profits. In this situation, the role of government was also simple: to watch the level of market power in each market. When the vertical integration increased the market power, the government tried to restrict such integration. However, this kind of simplicity has disappeared when terrestrial television emerged. The government has to watch not only vertical and horizontal integration in a single market, but also see the cross-media relationship.

In addition, the size of film and video market itself has been expanded. In the age of single window, the film and video policy focuses on the culture side, but in the age of multi-windows, this policy is also very important for the economic reasons.

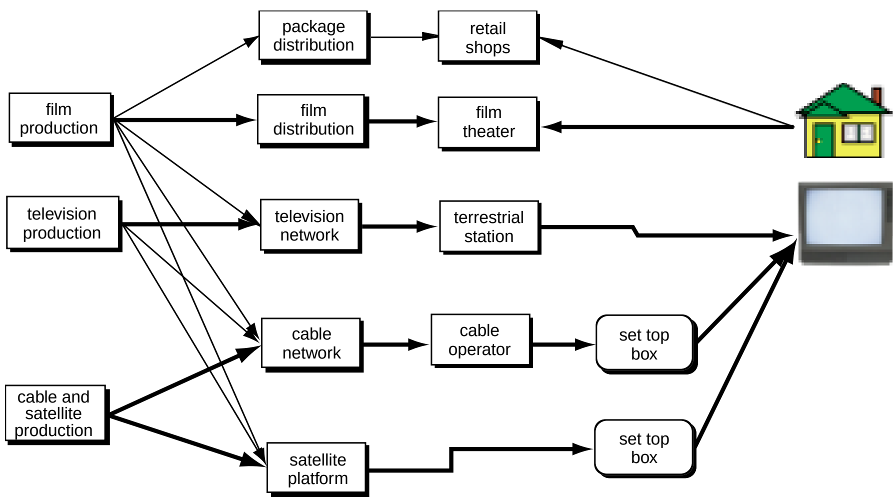
Video Market in the Broadband Age

In the broadband age, there are five "windows" for distributing video programs [(5)]. They are movie theater, over-the-air, cable, satellite television, and packages. Among them, movie theaters are the oldest window. They started in the early 20th century. This kind of single window disappeared when television started broadcasting in the 1950's. Then 24 hours movie channels began for cable and satellite subscribers in the 1980's. In addition, package media, like videotapes and DVDs, were added as another vehicle to distribute theatrical films. Video programs for terrestrial, cable and satellite television also have been distributed through multiple windows, but their universality is not as large as theatrical films.

As shown in Figure 1, a theatrical film has five windows, compared to three windows in a terrestrial television program and two windows in cable and satellite programs. In other words, a theatrical film has the biggest window in the exhibition market. Terrestrial, cable and satellite programs are not exhibited in movie theaters, and they are not rented at video shop nor sold as package media without a few exceptions.

The Broadband Internet could also distribute video programs via personal computers at home. Such network is versatile because it can carry any type of video programs as shown in Figure 2. This suggests that windows for theatrical films can be expanded in the broadband age. It is too early to tell whether the broadband Internet is profitable window for theatrical film or not. However, any type of video programs is easy to be shared by pear-to-pear software now.

Figure 1: Five Windows in Film and Video Market

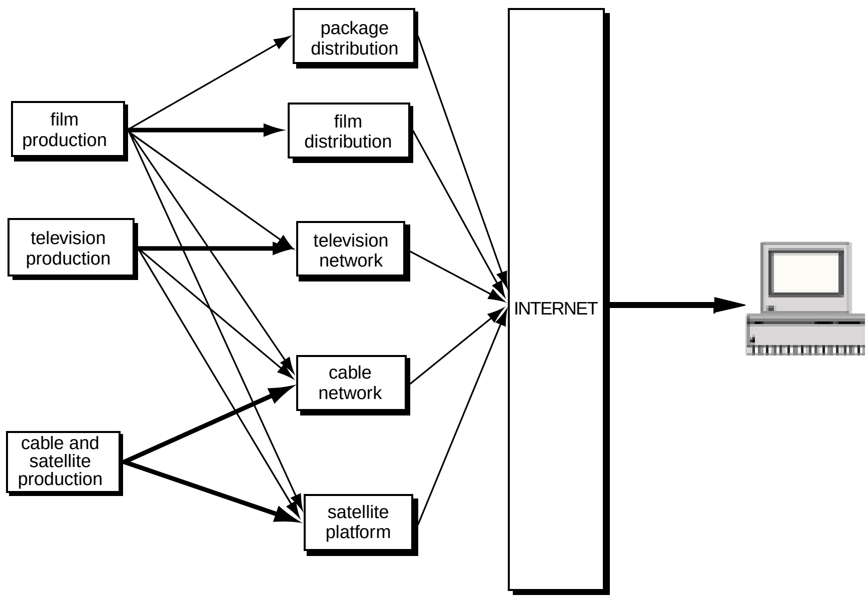


In Japan, the number of the subscribers for the broadband network was only 32,000 in March 1999. Two years from that month, March 2001, the number became more than 30 times, 855,000. Since then the growth curve of broadband subscribers has developed rapidly [(6)]. Moreover, according to the report by the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPMHPT), 19.8 million households in Japan will have the broadband access in 2005 [(7)], and it is 41 percent out of the total households in 2005 [(8)]. The ADSL was launched in Japan in 2000. Before that, cable operator was the only broadband access provider. Thus, we can distinguish the line between the centuries and could say that the year 2001 is the starting year of broadband network in Japan.

At the same time, the file exchange was also becoming popular in Japan. According to the survey of the Copyright Association of Computer Software, 6.4 percent out of the 19,000 panels were using or had used file exchange software in 2000 [(9)]. From this figure, the total number of users is estimated about 1.9 million in Japan [(10)]. Several kinds of files, such as music, video, software, still picture and document, can be downloaded. Among them, music file is the most popular downloaded file; the second is still picture, and the third is video including theatrical films. This survey indicates that theatrical films are technically downloadable in Japan and their using rate has been increased.

In the age of broadband, it is not difficult to access broadband network from home. The biggest concern for network carriers is a business model in the broadband network: What kind of services will be profitable? Many hope and believe that theatrical films would be the most popular content.

Figure 2: Film and Video Production, Distribution and Internet



The Japanese Video and Film Market

As mentioned earlier, Japanese video market is the second largest market in the world. The followings attributes characterize the video market in Japan. First, terrestrial television stations, especially the biggest five commercial VHF stations in Tokyo called "key stations" and NHK, public broadcast corporation, dominate the market. The size of the video market in 2001 is about 4 trillion yen [(11)]. Among them, the sale of film theater is 5 percent, sale and rental revenue of video and DVD is 11 percent, and pay television, including Communication Satellite (CS) and Broadcasting Satellite (BS) services, is 8.6 percent. The rest of 75.4 percent comes from commercial television advertising and NHK's receiver fee. This figure shows that most of the video revenue in Japan comes from the free television market. In television broadcasting market, NHK and five commercial stations (NTV, TBS, FX, ANB, and TX) in Tokyo, called "key stations" produce and finance most of free television programs. Thus, Tokyo is considered to be the central site of video and film production in Japan.

Second, some of the key stations have close relationships with film studios. For instance, Toei, one of five big film studios, is the second largest stockholder of ANB. Toei has produced some of the national network programs for ANB affiliates, and such programs are broadcast during the prime time. The other relationship is film finance from key stations. NTV is one of the sponsors of the most recent popular animation, "Spirited Away".

The video market in Japan has the largest share of domestic films in the exhibition market without any quota system. The Japanese film market does not have a quota system like the one in France. Thus, owners of film theaters are able to exhibit numerous foreign films without restrictions. In contrast, the French government adopted the quota system to ensure diversity in film exhibition. In this case, diversity may mean restricting the number of Hollywood films as well as non-entertainment or art films. In 2000, the share of Hollywood film revenue in the total sale of exhibition was 48 percent, and that of Japanese film was 32 percent in France [(12)]. Also, as the number of multiplex screens has been increased, the number of traditional single or duplex screen theaters has been decreased in Japan. This means that art film performers have difficulty finding theaters to show their films.

The Government Policy on the Production and Distribution Market

Today, most countries use national policies to regulate broadcasting of radio wave that transmit video content. However, the government approach toward video production and distribution varies from place to place. There are basically three approaches: American approaches, British approach, and French approach.

The American approach is based on free competition. The federal government does not have any organization to support film production with the exception of a few art films, but it has the biggest and most powerful film industry in the world— Hollywood.

Both in the U.K. and France, they have government organizations to support the film industry, but their policies are different. In the United Kingdom, the Department of Culture, Media and Sport was established in 1997, reconsidering the film policy. The government organization for the film industry was established in 2000, called the Film Council. From the economic point of view, the main purpose of this organization is to support film production and to create job opportunities for British film workers. In order to get information from Hollywood and send labor to Hollywood, the organization set up a remote office in Hollywood, called the British Film Office. One of their roles is to inform several location sites in the U. K. and invite film locations from Hollywood. If they are successful, huge Hollywood funds create job opportunities for British film workers.

The French government also has the same kind of organization, called Centre National de la Cinématographie (CNC). The CNC was established in 1946. The main purpose of the French policy is to create diversity in the French domestic film market. In other words, the organization does not invite Hollywood film location. In addition, the French policy includes a quarter system in film exhibition to secure the diversity.

Is the Japanese government approach toward the film industry categorized more along the lines of the British or French model? In Japan, there is no independent organization like CNC or Film Council. Basically five different ministries have some roles on the film production. First, the Agency for Cultural Affairs (ACA), a government agency, promotes several cultural activities including film production. Second, the Ministry of Economy, Trade and Industry (METI) is responsible for industry policy including the film industry and the broadband business. Third, the Ministry of Public Land and Transportation (MPLT) regulates the transportation industry and carries out policies on tourism. In this context, the Ministry has supported the National Conference of Film Commission. Fourth, the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPA) has a jurisdiction to regulate broadcasting and the Internet Service Provider (ISP). Finally, the Fair Trade Commission (FTC) watches out any illegal and unfair trade in the economic market, including video production and distribution markets.

In summery, five ministries and agencies have some relationships with film and broadcasting industries. However, there is no comprehensive scheme to promote the film production industry like the one in the U. K. or France. From this point of view, the Japanese approach is considered to be similar to the American one.

The Present Policies on Film in Japan

In the recent years, five ministries and agencies are very actively involved in the video production and distribution. In this section, film policies of each organization are examined.

(a) The Agency for Cultural Affairs (ACA)

In 2001, a law called "The Basic Law on the Promotion of Culture and Arts (Bunka Geijutu Sinkou Kihon-hou)" was created. This law authorizes the financial support for producing and exhibiting theatrical films. Under the new scheme, in May 2002, the ACA set up a "A Meeting concerning Promotion of Japanese Film (Korekarano Nihon Eiga no Shinkou nituite)" to discuss the basic principle of the Japanese film. This final proposal was released in April 2003. The report emphasizes the following four points:

1. Film is a synthetic art involving literature, drama, music, art, and architecture.
2. Film is an entertainment for all ages.
3. Film will create intellectual property values in the age of Information Technologies.
4. Film contributes to a mutual understanding in the world.

The report insisted the importance of film in all aspects in our society. In particular, the third principle is closely related to the economic value of film assets. At the same time, some specific policies are also released. One proposal from this report concerns the relocation of the office of the Japan Film Commission Promotion Council (JFCPC). The office was first set up in the International Tourist Bureau in 2001, since the Ministry of National Land and Transportation has supported film commission activities. The report proposed to move the office from this bureau to the National Film Center.

The National Film Center is located in the National Museum of Modern Art, and this museum is closely related to the ACA. The center is organized to preserve the film art in Japan. However, the report also emphasizes to reconsider both the operation and the ownership of this center. In terms of operation, it indicates four points: preserving films, promoting and showing films, and personnel training and supporting production. As for the ownership, the center is now under the museum, one of four museums of the National Art Museum. The report also suggests considering the possibility of the independence from the museum.

(b) The Ministry of Economy, Trade and Industry (METI)

This ministry has the Media and Content Industries Division. This division is not a regulatory agency, but it watches, studies and advises on the economic aspects of the Japanese film industry. One of the current issues in this area is vertical relationships between production and distribution. Most of the video production companies in Japan have limited financial power. Thus, when a video production starts, initial funds usually come from a distribution channel, such as the key stations in Tokyo. The other issue is the promotion of video programs including the film and television production. In summary, this division has a close relationship to the ACA to promote a competition in the film market in Japan.

(c) The Ministry of Land, Infrastructure, and Transport (MLIT)

One of this ministry's functions is to promote tourism. In Japan, each prefecture has tourist's and visitor's bureau. Since the film commission activities promote tourism, the National Association of the Bureau accepted to open the JFCPC office in their space in 2001. In addition, the ministry itself supported film commission activities directly. However, after moving the JFCPC office to the National Film Center in this fall, this ministry will give up supporting the film commission.

(d) The Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPMHPT)

This ministry enforces radio wave administration. In this sense, they have a regulatory power on broadcasting including terrestrial, cable, and satellite. In addition, the ISP is also regulated by this ministry, since it has been classified as an information provider using common carrier network. One of our concerns in this area is broadband business, especially "Business to Consumer" business. Distributing popular video content through broadband network is one of promising "B to C" services. However, in Japan, the relationship between the production and the broadcasting station has not been an equal partnership. As mentioned earlier, five key stations and NHK have had a market power in the production process. In order to promote a competition, the ministry has started a study group last year, and several conditions of the contract between broadcast stations and video production have been reviewed.

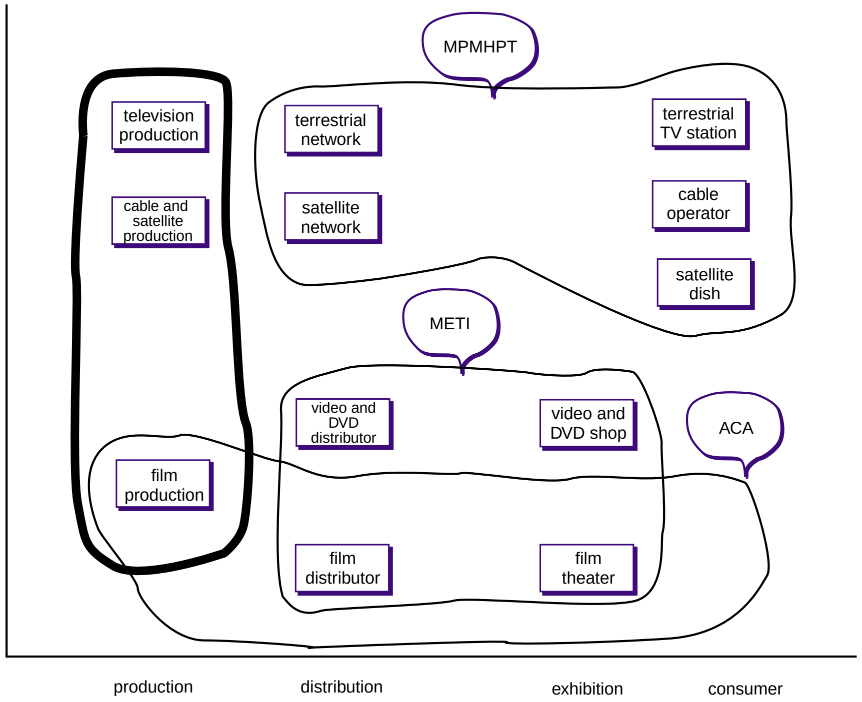
(e) The Fair Trade Commission (FTC)

This commission's concern about the video production is to promote a fair competition between the production and broadcasting stations. The FIC organized study groups on digital content and competition policy. Both study groups released reports in 2001 and in 2003 respectively (13).

In Japan, several ministries have acknowledged the importance of the film industry in the Japanese economy, especially in the broadband age. In Figure 3, the regular line shows both direct and indirect regulatory boundaries of each agency. For instance, the ACA is in charge of the cultural side of the film policy. The MPMHPT has a jurisdiction on broadcasting including terrestrial, cable and satellite. The METI sets up an industry policy for developing the video and film industry. Film and other video productions enclosing with the bold line are the area all of three agencies recently have started to contact with. Figure 3 does not show the regulatory boundary of the FTC, because the agency is in charge of the promotion of a fair competition in all kinds of economic markets. The FTC itself also is not involved with the bold line area, but as mentioned earlier, two study groups submitted reports concerning this area.

One of the problems of this administration system is the absence of a core organization. Each ministry and agency could coordinate with each other when they try to build a new plan or policy. However, the decision making process is complex and time-consuming, compared to the single system like CNC and BFI.

Figure 3: Administrative Boundary in Film and Broadcasting Markets in Japan



Starting Film Commission: Non-Government Organization

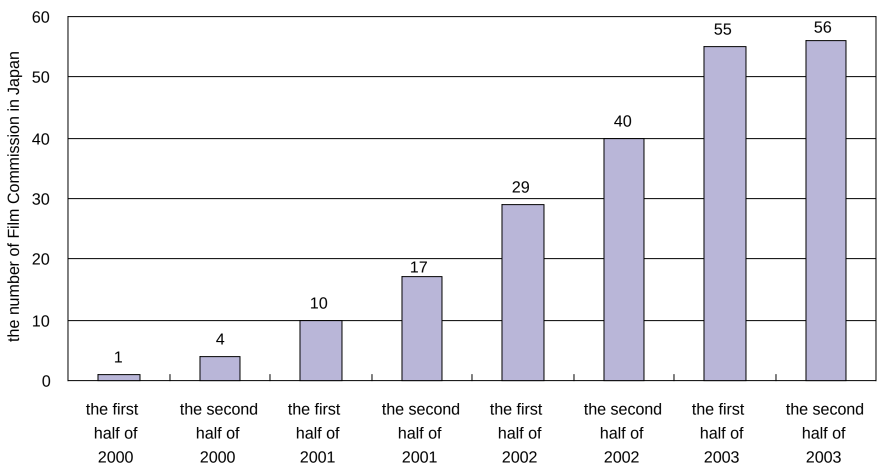
The film commissioner is a coordinator standing between a public authority and a film shooting team. In the stage of pre-production, a location site is selected based on a scenario. Location coordinators usually visit several places to find the best location site for the scenario. The film commissioner shows the team pubic and private buildings, natural and historical sites, or unused offices and factories. Then a permission to use such facilities is required. The role of a film commissioner is broad.

The film commission activities were born in the United States in the 1960's. Then the global association of film commission, called the Association of Film Commissioners International (AFCI), was established in 1970.

The role of local governments is very important to the commission activities. The main function of the AFCI is providing education. How does the local community accept a film shooting team and what kind of information should they provide? In many cases, local governments directly or indirectly support a film commission. This mechanism is universal. The AFCI is the public sphere where new comers could learn from the experienced commission members in the commission activities.

In addition to supporting film, the film commission could provide economic benefits to local communities, especially in the case of large-budget Hollywood films. For more than a decade, the U.S. and other English-speaking countries, like Canada, Britain, and Australia, competed against each other to get the Hol-

Figure 4: The Number of Film Commission in Japan (2000-2003)



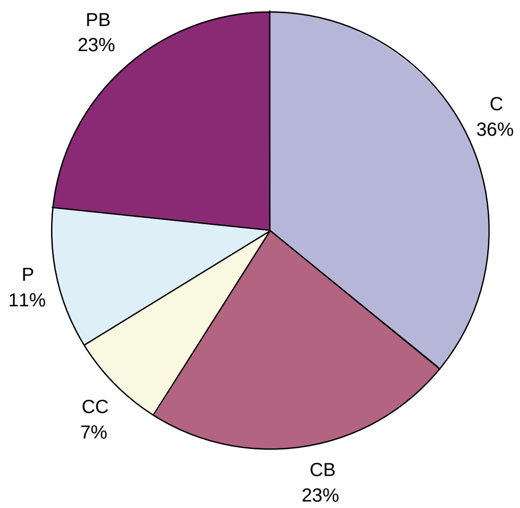
Source: The number of this figure comes from the film commission survey by *Kinema Junpo* Magazine. See *Kinema Junpo* No. 1386, August 2003, pp. 146-154.

lywood film location. In order to be more competitive, state or city governments sometimes provide several tax credits. This kind of economic benefit is important to the film production because they can save the below-the-line costs.

During the past few years, film commission activities in Japan have become very active. Even though the size of Japanese film market is large, Japan has not been seen as good location sites for the foreign film producers, because there was no film commission. It was in 2000. Four film commissions were set up in Osaka, Kobe, Kitakyushu, and Yokohama in 2000. As shown in Figure 4, since then the number of the commissions has rapidly increased every year. In August 2001, the JFCPC was established.

In November 2003, there are 56 film commissions in Japan. Most of them were established at city-level. There are only four commissions that cover all over a prefecture (14). Second, the foundation body of the film commission is not various. As shown in Figure 5, 36 percent of the commissions is organized by city governments. 23 percent is by convention bureaus, 11 percent is by prefectures, 7 percent is by chamber of commerce, and the other 23 percent are organized by more than two organizations. This means that more than a half of the commissions cover only city area. There are only five commissions whose foundation body is prefecture: Hokkaido, Ibaraki, Tokyo, Tokushima, Ehime. In addition, in Chiba, Shiga, Nagasaki, Okinawa, prefecture is included as one of foundation bodies.

Figure 5: Type of Film Commission Foundation Body in Japan



Notes: C=city, P=prefecture, CB=convention bureau, CC=chamber of commerce, PB=plural body
Source: The number of this figure comes from the film commission survey by *Kinema Junpo* Magazine. See *Kinema Junpo* No. 1386, August 2003, pp. 146-154.

Compared to the film commission in other countries, the Japanese film commission system is still on a developing stage. In the U.S. and the U.K., the hierarchy system has been already established. For instance, a state film commission is a gateway for the entire film commissions in that state in the U.S. However, in Japan, such hierarchy has not yet emerged.

Third, there are six film commissions that affiliate the AFCI: Kobe, Osaka, Yokohama, Kitakyushu, Himeji, and Nasu. In fact, Tom Cruise’s Hollywood film, called “Last Samurai” was shoot at an old temple in Himeji last fall. However, it is rather an exceptional case. Most sites are not well prepared to accept a well financed shooting teams from overseas. Most of the film commissions have Web sites, but only a few commissions have foreign language sites. Fourth, no tax credit has been introduced.

In summary, film commission activities in Japan have just started and still in the developing process.

Summary and Conclusion

So far economic structure of the Japanese film and video market and its policy have been discussed. As the broadband network has penetrated, the video and film market has become the core of the policy agenda. As mentioned earlier, this market consists of production, distribution and exhibition. Traditionally, the production market is non-regulatory and very competitive. In Japan, the ACA’s film policy has traditionally focused only on cultural side of the film production. However, other government agencies gradually have been concerned with this market. Their concern is not cultural issues but economic issues.

Why did Japanese governments suddenly become very active in the film and video production? In production, computer graphic technologies could emerge as a new innovation in film production, but it has not had an enormous economic impact yet. The primary factor does not exist in production but in distribution — the emergence of broadband network. Thus, we can say that recent positive government actions on the video and film production market can be explained by the introduction of new technologies in distribution; that is broadband network.

Second, in production, new cross organization structure between the government agency and NPO has been created. In 2000, the first film commission was set up in Kobe, then, in 2001 the national association of film commission, called the JFCPC, was set up. The cooperation between the ACA and a film commission also becomes keen, because the JFCPC office was moved to the national film center in October 2003. In addition, the ACA requested the budget for film commission activities in the 2004 fiscal year budget. If it is approved, 2004 would be the beginning of the new relationships between them.

Traditionally, preserving cultural activities has been the role of the government in Japan. However, the film production has not been included, with a few exceptions. In other countries, in contrast, especially in Europe, governments have been very active in this area because they acknowledge the enormous impact of a large-budget theatrical films and their global reach. Compared with other video programs, a theatrical film has the largest windows. Such films can be distributed to all over the world and be accepted by other types of windows. In addition, once a particular site is picked as a big budget film shooting site, that site could get lots of earnings from outside, including lodging, food, and payments to local staff and equipments. Even though the size of the film and video industry in Japan is the second largest in the world, cultural concerns about the Japanese film and video among Japanese people have been limited. The typical view on the film and video production is that they are entertainment and not government supported cultural activities. In Japan, most people have not recognized the enormous economic impacts of the film production. In October, the ACA patronized a symposium to celebrate the relocation of the JFCPC office. The symposium was called “Film Commission as ‘Cultural Force.”’ If the majority had acknowledged this power, this title might not have been selected.

Besides theatrical films, other video programs are also important both for cultural and economic reasons. Japanese animation and some television dramas like “Oshin” are very popular in the global market. However, redistribution of the big budget television programs is also restricted because of the copyrights and other business customs. As mentioned earlier, the MPMHPT and the FTC have already organized study groups to promote the redistribution especially to broadband network and overseas market.

On a policy level, several economic policy issues on the promotion of film and video have already emerged, but in a real market, such policy has not penetrated enough to change both their market structure and our attitudes on the film and video production.

NOTES

1. *SCREEN DIGEST*, (2001: 377-380).
2. OECD (2001).
3. See the following for the further discussion of two major reasons, "creative" and "economic". U. S. DOC (2001: 25-26).
4. SUGAYA Minoru (1997: 2-5).
5. SUGAYA Minoru (1997: 144-148), and OWEN Bruce M. and WILDMAN Steven S. (1992: 26-38).
6. DENTSU COMMUNICATION INSTITUTE (2003: 140).
7. MPMHP (2001), According to the report, 7.7 million households have fi-

ber optical access, DSL is 6.95 million, Cable Internet is 4.29 million and wireless access is 0.8 million in the end of 2005 fiscal year (See appendix 3).

8. See the following website of The National Institute of Population and Social Security Research.
<http://www1.ipss.go.jp/tohkei/Mokuji/3_Family/F_List.asp?chap=1&title1= 1 . 全国 >
9. CSCA (2003: 2).
10. CSCA (2003: 5).
11. All of data comes from the following report. DCI (2003).
12. SUGAYA Minoru and NAKAMURA Kiyoshi ed. (2002: 242).
13. FTC (2001) and FTC (2003).
14. These figures come from the survey by the trade magazine called ‘Kinema Junpou’. The questionnaire was sent to 41 film commissions in February 2003, and 34 commissions fill it out and send it back. See *KINEMA JUNPOU* (2003: 146-154).

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