

Business and Industry Committee
for Bretton Woods
Roosevelt Hotel
New York 17, N. Y.

THE MOTION PICTURE INDUSTRY AND BRETTON WOODS

The American motion picture industry has a heavy stake in the stability of international exchange rates, in the expansion of world trade, and in the opportunity to make investments abroad without fear that earnings will be blocked or their repatriation restricted in such ways that the investors receive little gain from their capital. A large part of the revenue from rentals and royalties on films comes from foreign sources. The American movie industry has invested heavily in production facilities abroad, while it has acquired holdings in theaters and other distribution agencies. For these reasons the Bretton Woods proposals are of great importance to the industry. If these proposals are adopted their effect will be to eliminate restrictions on the payment of royalties to the American producers, while, by contributing to the maintenance of a high level of income abroad, they will assure a more steady market for American films.

The Bretton Woods proposals provide for the formation of two organizations, the International Monetary Fund, and the International Bank for Reconstruction and Development. The Fund is to deal with problems of current international exchange transactions; the Bank is concerned with the long-run development of industry in the member nations and the improvement of their standards of living. Only the most important features of the Fund and Bank agreements will be mentioned here, particularly those which are significant for the problems of the motion picture industry.

The Fund agreement consists essentially of two parts. The first establishes standards of procedure in international exchange relations. Thus the members agree to state a par value of their currencies in terms of gold, and they agree to maintain these exchange rates as far as possible.

Changes in the exchange rates must generally receive the approval of the Fund before they may be made. Secondly, the members of the Fund agree not to impose restrictions on payments made for current transactions. Current transactions include not merely payment for exports, but also the earnings for royalties and rentals and other service items. The member countries also agree to permit payment of interest on securities held in foreign countries or the income derived from direct investments in foreign countries. Payments for the amortization or depreciation of direct investments must also be permitted by the member countries without restriction.

The second part of the Fund proposal aims to assist countries whose exchange rates are under pressure as a consequence of adverse balances of payments. Left to themselves, countries whose payments abroad exceed the receipts from abroad are likely to adopt restrictive policies. Thus they may impose restrictions on the transfer of interest on securities or the payment of profits of subsidiaries in their own country to the parent corporation in a foreign country. In brief, they may block certain items of exchange. They may also impose restrictions on transactions which require exchange abroad. Thus they may impose tariffs or quotas on the importation of goods and, what is important to the motion picture industry, they may try to reserve the market for their own film companies by imposing restrictions on the importation or use of foreign films. To avoid this difficulty the Fund agreement proposes to make foreign currencies available to countries in need of foreign exchange. They will not receive loans. They will be permitted to buy foreign exchange by paying for it with their own currency. The Fund will be protected against loss by the fact that the members agree to maintain the gold value of all currency paid into the Fund. Consequently the United States, which contributes

dollars to the Fund, does not take the chance of losing these dollars since the total assets of the Fund will always be maintained at their original gold value. When the situation changes in the country involved, it buys back its own currency from the Fund with gold or with a foreign currency which the Fund needs. Thus, for example, if France secures dollars from the Fund by the payment of French francs, it can repurchase its French francs when the exchange situation changes by selling the Fund dollars which it has acquired, or perhaps pounds sterling, or some other currency which the Fund needs. In this way the Fund will serve to maintain the stability of international exchange and so will eliminate the necessity for countries adopting restrictive policies as means of maintaining their exchange rates and the stability of their currencies.

The Bank will facilitate long-term international investment by guaranteeing loans made by private investors or itself making loans. Its purpose is to aid the expansion of production in the member countries. Increased production will mean increased income, and increased income will provide a greater market for American products. If the standard of living in foreign countries increases they will demand more American films. They will be able to pay more in royalties to the producers if the films can be shown to larger audiences. The Bank will affect the motion picture industry largely through its indirect effects upon the standard of living in foreign countries. The American motion picture industry has made heavy investments abroad and it will continue probably to invest directly in foreign production and distribution facilities. It is important to the industry that the foreign countries in which investments have been made be prosperous.

The operation of the Fund, on the other hand, will directly affect the

prosperity of the moving picture industry. From 1939 to 1943 the annual royalties and rentals of films in foreign countries produced an average of \$73.4 million for the American industry. For some of the film producers almost one-third of their revenue from the rental of films came from foreign sources. About 57 percent of this royalty income was derived from Great Britain. Obviously the use of American films in English-speaking countries involved fewer difficulties than in countries using other languages. A further factor in the situation, however, is that in non-English speaking countries there have been greater restrictions on the importation of American films, largely because of their adverse balance of payments position with regard to the United States.

Contracts for the rental and royalties on films are made in foreign currencies, that is, the theatre using American films in England agree to pay pounds sterling. The American companies, to derive any benefit, must have this sterling transferred to the United States in the form of dollars. If the foreign country reduces its exchange rate on the United States the amount which the American companies get is reduced proportionately. Thus if the French franc is worth 6 cents, 100,000 French francs mean \$6,000 income. If the franc is 2 cents, however, it will amount to only \$2,000. Since royalties are paid generally on a percentage basis the amount of revenue which the American producer gets depends directly on the exchange rate. Consequently it is important for the producer to know that this exchange rate will not be lowered. The proposed Fund by requiring countries to maintain their exchange at par and not permitting reductions in exchange without consent of the Fund, will mean that the American film producers will not be deprived of their expected earnings.

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The moving picture industry has also suffered seriously in the past from the blocking of exchange which it has earned. In the formulation of exchange policies most countries have been more liberal in permitting payment for goods or shipping services than they have for payments of royalties, rentals, or the earnings of investments. With the declaration of war the United Kingdom froze the balance of the American movie producers in England. In July, 1942, the amount involved was about \$50 million. These accumulated earnings could not be withdrawn and the stockholders of the American companies could not obtain the money earned on their investments. Earnings of the movie industry were regarded as a claim subordinate to those of the export trade. In addition other profits of foreign subsidiaries could not be repatriated. As the industry well knows, this was a source of considerable friction. In 1942 Britain agreed to unblock these balances and in the course of the next year they were repaid to the American holders. At the present time American movie producers still have about \$5 million in blocked accounts in various countries abroad, and they have an additional \$5 million in other assets which they cannot convert into dollars. The Fund agreement will prevent this type of control in the future. While member countries are permitted to impose certain restrictions on capital movements, principally to prevent the flight of "hot money," they are prohibited by the agreement from imposing restrictions on the transfer of current earnings for payment for services. If the agreement is put into effect, the American motion picture industry will not find that it has frozen assets as a result of foreign countries' exchange policies and exchange difficulties.

The Fund and the Bank together will contribute to raising the standard of living in all of the member countries. Together they will enable the

countries to maintain their trade and exchange relations on a more stable basis. Whatever contributes to raising the standard of living abroad will increase the market for the products of American industry. The motion picture industry is in a position to gain much more than other industries since such a large part of its revenue is earned abroad. It has suffered in the past from restrictions which the proposed plan will eliminate. It is important to the industry that this program should come into operation as soon as possible.