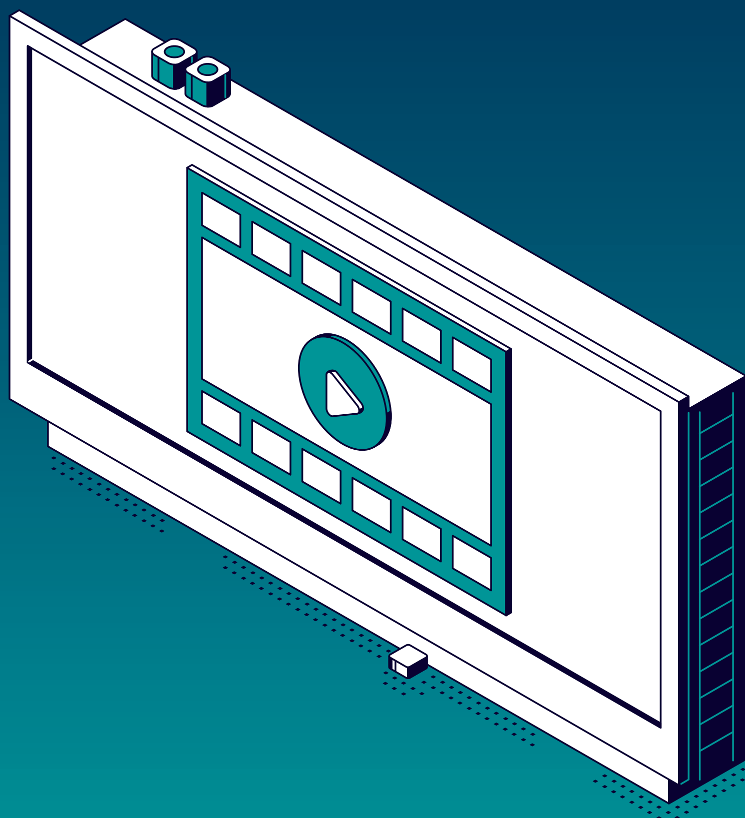
STUDY ON THE ITALIAN AUDIOVISUAL INDUSTRY ON INTERNATIONAL MARKETS



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Rossi-Doria
Centro Ricerche Economiche e Sociali
Centro di Eccellenza - Università Roma Tre

STUDY ON THE ITALIAN AUDIOVISUAL INDUSTRY ON INTERNATIONAL MARKETS

Report by the Centre of Economic and Social Research Manlio Rossi-Doria, Centre of Excellence, Roma Tre University, upon request of the Italian Trade Commission – Agency for the promotion of foreign trade and the internationalization of Italian companies"

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CORE MESSAGES OF THE REPORT

1. The global audiovisual industry is in a phase of rapid evolution due to the diffusion of digital technologies, which are transforming production models and market structures.
2. The digital distribution segment, which had started from US$ 12 billion in 2013, increased at an average annual rate of 20% until 2019, and became predominant with the pandemic, reaching US$ 62 billion, equal to over three quarters of the total market value. Up to 2019, this increase essentially happened at the expense of physical media consumption, which fell from 38% to 9% of the market value. Theatrical consumption, on the other hand, managed to maintain a very important role, growing at an average annual rate of almost 3%, and always recording a share well above 40% of the value of total consumption.
3. The economic and social impact of the Covid-19 pandemic has accelerated this process, inflicting a hard blow on traditional audiovisual content consumption modes, and paving the way for further expansion of the various forms of digital distribution.
4. Audiovisual companies face substantial challenges:
   a. on the one hand, current trends are generating a strong impetus towards further oligopolistic concentration of world markets;
   b. on the other hand, the organization of audiovisual production requires an ever-growing amount of new content inputs, which offers unexpected opportunities even for the smallest companies.
5. In this scenario, the Italian audiovisual industry has proven vibrant in recent years, leveraging its cultural heritage to seek new ways to establish itself on international markets.
6. After a sharp decline between 2008 and 2014, the number of Italian audiovisual companies returned to nearly 9,000 in 2018, showing a full recovery from the loss the sector had experienced. This recovery was more modest if we consider the number of employees, which in 2018 was 43,000, two thirds compared to 2008.
7. In the last decade the Italian audiovisual industry has attracted investments from foreign multinationals, which in terms of employment have gone from 4.2% to 11.5%.
8. The trade balance of Italian audiovisual services (almost always negative) was positive in 2019.
9. The Italian market share of world exports of audiovisual services is very low (0.2% on average over the last ten years), even if 2015 showed signs of recovery, also thanks to the positive competitive results obtained in the United States and in the United Kingdom.
10. Considering physical media, Italy's share of world exports has remained stable over the past few years (approximately 0.6%).
11. The geographical diversification of exports of Italian audiovisual products has increased in Europe and in non-European markets, such as South Korea and the United States.
12. Italian movie theaters have been hit hard by the Covid-19 restrictions, with revenues and attendance dropping by more than 71% in 2020.
13. The coverage ratio between the share of Italian films based on tickets sold (demand) and the number of films distributed (supply), which can be considered a measure of commercial success, has almost halved in recent years both in Italy and in other European markets. Relatively better results are seen in countries culturally closer to Italy, such as Greece and Spain, or in countries hosting a large Italian speaking community, such as Switzerland.
14. In Italy, the widespread diffusion of video on demand (VOD) does not seem to have determined the progressive disintermediation of the traditional market, as some analysts had anticipated.

15. Considering the European VOD market, the ranking of Italian producers is certainly not marginal, as they are second on Amazon Prime and third on Disney+.

16. In summary, despite the cultural and political barriers that limit the international diffusion of Italian-language audiovisual contents, and despite the structural problems of smaller companies, the Italian audiovisual industry appears to be in a dynamic phase, with interesting signs of improvement in its international competitiveness, both in terms of its ability to attract foreign investments, and in terms of market shares.

INTRODUCTION

The global audiovisual industry is rapidly evolving due to the diffusion of digital technologies, which are transforming production models and market structures. The economic and social effects of the Covid-19 pandemic accelerated these processes, inflicting a hard blow on traditional audiovisual content consumption modes, and paving the way for further expansion of various forms of digital distribution. In this setting, the Italian audiovisual industry has proven very vigorous in recent years, and while leveraging its cultural heritage, it has sought to find new ways to establish itself on international markets.

This report seeks to provide an updated assessment of the position of the Italian audiovisual industry on international markets, considering both the traditional ways in which trade of goods and services takes place, and the different forms of consumption of audiovisual contents (from movie theaters to digital distribution platforms).

The first chapter of this report describes the international context, while the second focuses on the position of the Italian audiovisual industry. In general, despite the cultural and political barriers that limit the international diffusion of Italian-language audiovisual contents, and despite the structural problems of smaller companies, the Italian audiovisual industry appears to be in a dynamic phase, with interesting signs of improvement in its international competitiveness, both in terms of its ability to attract foreign investments, and in terms of market shares.

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THE INTERNATIONAL CONTEXT

The great transformation of technological and production paradigms induced by the digital revolution marks the scenario of international markets more and more deeply, imparting new characteristics to the globalization process that has characterized world economic history since the mid-twentieth century. The audiovisual industry is one of the sectors where these changes are more evident, due to its uniquely intangible features and the crucial role its products play in the configuration of consumption patterns.

The gradual opening of local markets to transnational flows of cultural products and services – such as TV and movie productions – for many years has been at the center of disputes inspired by identity issues, which have also affected international trade negotiations. The vast debate that ensued on the link between globalization and cultural diversity includes not only the traditional controversy over the effects of international economic integration in promoting or reducing the plurality of local cultural expressions, but also, in the opposite direction, the analysis of the role that such plurality can play into international transactions. In fact, cultural diversity can be on the one hand a generative factor of comparative advantages to be exploited in international trade, and on the other a barrier capable of reducing the intensity of bilateral economic interactions, widening the "distance" between countries.[1]

The audiovisual sector emerges from this scenario, conditioned by the complex set of international agreements and regulations concerning the exchange of cultural products and services, and assumes social, political and economic roles of primary importance.

This section of the report presents the essential data of the international context in which the Italian audiovisual industry operates, synthetically analyzing the recent trends in the world audiovisual market and considering in more detail the data available on the international trade of audiovisual goods and services.

1.1 THE AUDIOVISUAL SECTOR IN THE INTERNATIONAL ECONOMY

The audiovisual sector accounts for about 0.6% of GDP in the EU and the United States (Nordås et al., 2014) and has profoundly changed over the past few years. With the spread of digital technological innovations, consumers are offered a wider range of audiovisual content choices and the ways and times to consume them, and this has significantly affected the way audiovisual products are produced and distributed. The broadcasting speed of audiovisual content on various digital platforms has facilitated its dissemination throughout the world, lowering the demand for physical media.

This tendency is shown well in Figure 1.1, which represents the recent world audiovisual market evolution in terms of consumption (MPA, 2021).[2] Its expansion is clearly noticeable until 2019, at an average annual rate of 4%, until the collapse of 2020 due to the Covid-19 pandemic. Changes in market structure are also quite evident. 2. The digital distribution segment, which had started from US$ 12 billion in 2013, increased at an average annual rate of 20% until 2019, and be-

1 The role of cultural products in the international trading system has been studied by Iapadre (2014).

2 A more comprehensive assessment of the world audiovisual market could be obtained by examining the entire entertainment and media industry, which includes, in addition to movies, music and TV / radio segments that span all genres of content. In 2019, the total turnover of this sector was estimated at over US$ 2,000 billion (PWC, 2021).

came predominant with the pandemic, reaching US$ 62 billion, equal to over three quarters of the total market value. Up to 2019, this increase essentially happened at the expense of physical media consumption, which fell from 38% to 9% of the market value. Theatrical consumption, on the other hand, managed to maintain a very important role, growing at an average annual rate of almost 3%, and always recording a share well above 40% of the value of total consumption.

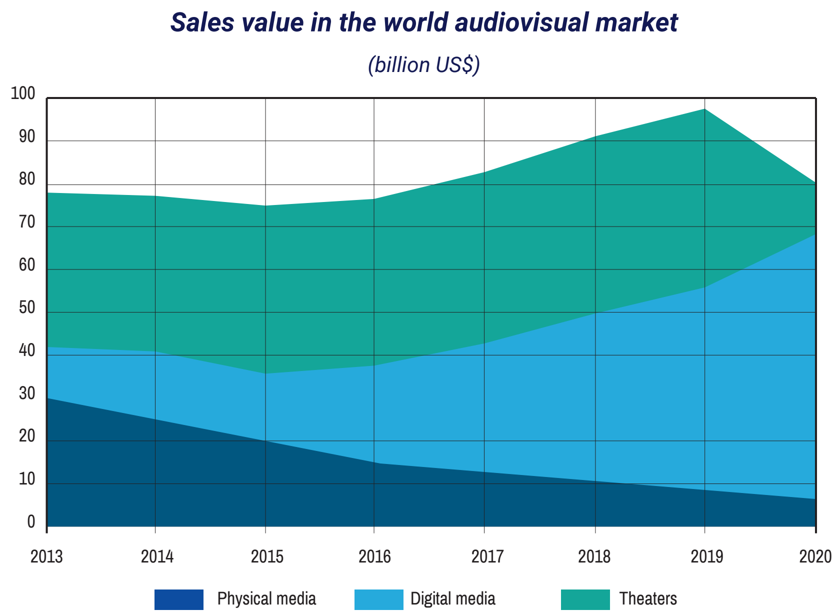

Figure 1.1 *Based on Motion Picture Association data.*

The expansion of the traditional theatrical market had been visible for some time (Figure 1.2), although its geographical distribution has changed significantly. Over the last decade the Asian area has dramatically increased its share of world revenue, going from 25% in 2008 to 42% percent in 2019, at the expense of the other main regions. The pandemic caused asymmetrical effects in 2020, affecting mainly the American continent, although revenue fell dramatically in all regions.

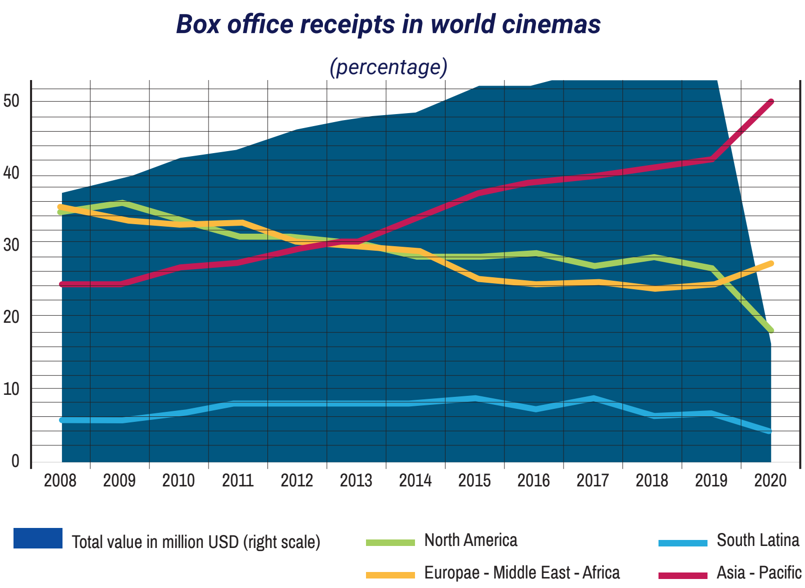

Figure 1.2 *Based on Motion Picture Association data.*

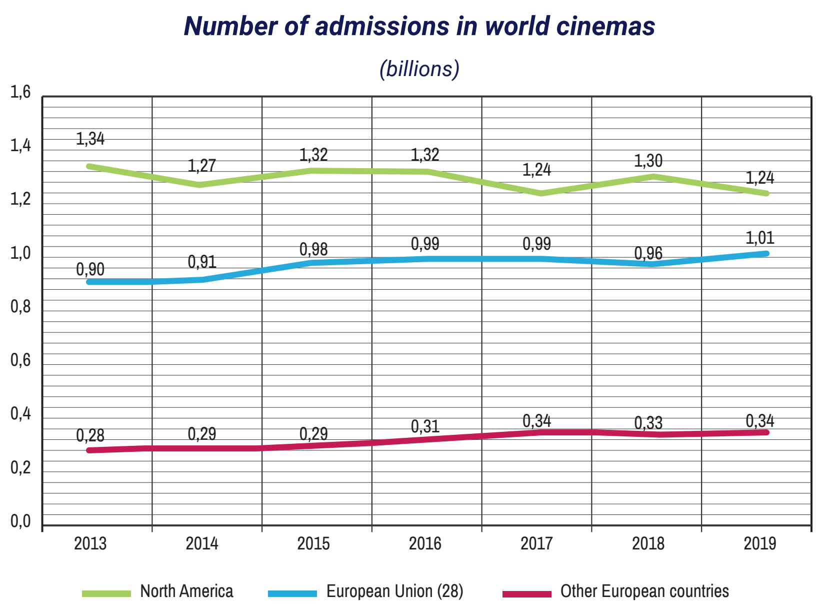

Figure 1.3 *Based on Motion Picture Association data.*

The number of tickets sold (Figure 1.3) confirms that, until 2019, the growth of digital distribution did not translate into a significant decline in movie theater admissions. The fall in the US market (100 million fewer admissions than in 2013) was more than offset by the increase in Europe (160 million more admissions).

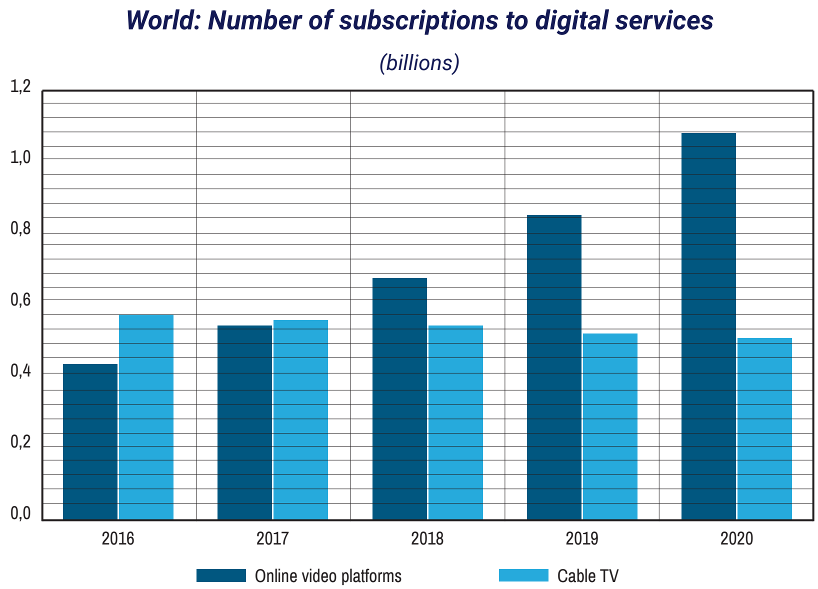

Figure 1.4 *Based on Motion Picture Association data.*

Additional interesting information can be gathered by looking at digital subscriptions. Online video subscriptions have more than doubled over the past four years, also due to the pandemic. The number of Pay TV subscriptions, however, while still the main source of revenue in this sector, has slightly decreased (Figure 1.4).

Such great expansion of the market can also be observed in the trends of international trade in audiovisual goods and services. The growth of transnational TV channels and formats has favored the internationalization of major producers, who have specialized in certain market segments, outsourcing the production-process phases that are not deemed central to value creation. The vertical disintegration of production processes gave rise to international production networks, which contributed to an increase in the volume of audiovisual services traded worldwide (Chalaby, 2016; 2019). Additionally, the greater "virtual proximity" allowed by digital innovations has brought geographically and/or culturally distant countries closer, thereby significantly affecting international trade in audiovisual services, more than the average estimated for other sectors (Hellmanzik and Schmitz, 2015).

Gaps in available data on international trade in audiovisual services make it difficult to provide an accurate picture of general trends and the role of individual countries.[3] Considering the world total value, the large gap between export and import statistics should be noted, the latter being systematically lower than the former from 2005 through 2019.

Assuming that such statistical discrepancy is primarily due to incomplete import data, this report analyzes the overall dynamics of international trade in audiovisual services on the basis of data on exports. Their value has almost doubled in the past fifteen years (Figure 1.5), reflecting a robust demand increase. The severe worldwide economic crisis that began in 2008 had a limited effect on trade in audiovisual services. Unlike other sectors, the 2009 downturn was more than offset in 2010. However, focusing on the period after 2011, which revealed a general and unexpected slowdown in the aggregate dynamics of international trade compared to the growth rates prior to the great crisis, exports of audiovisual services grew at an annual rate in line with the average of the service sector (Figure 1.6).

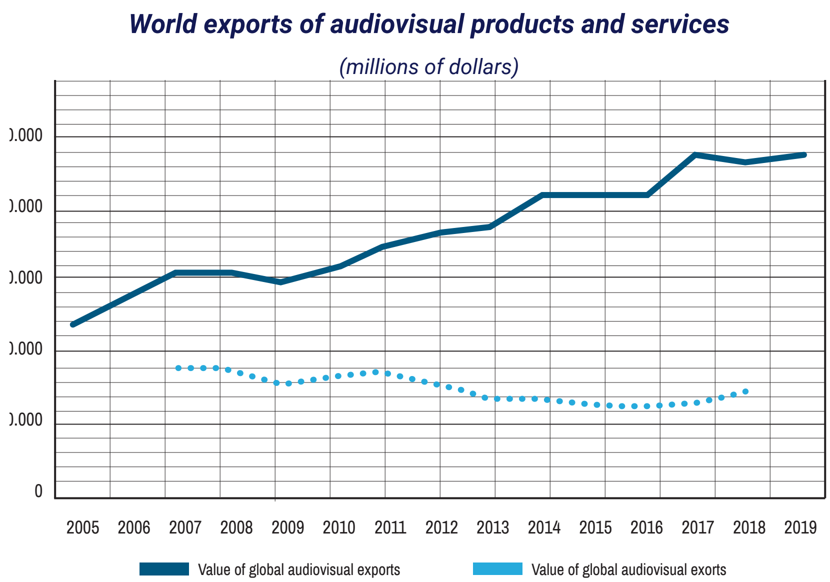

Figure 1.5 *Based on WTO and OECD data.*

3 In this report, audiovisual services are defined as the service groups listed in section SK1 of the 2010 Extended Balance of Payments Services (EBOPS) international classification, which include audiovisual productions (films, music, radio, and television), as well as entertainment-related services.

Dynamics of international trade in the audiovisual sector

(average annual growth rates)

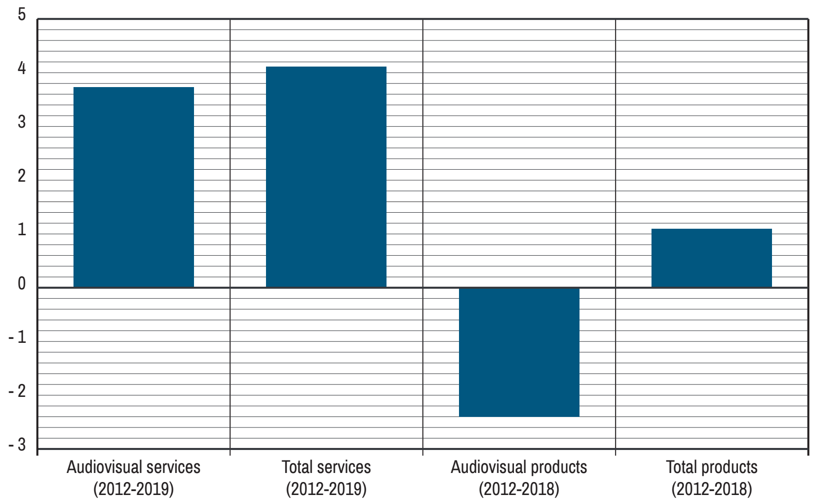

Figure 1.6 *Based on WTO and OECD data.*

Different trends appear in the data on world trade of audiovisual products on physical media[4] which, after a long decline in line with consumption data, showed signs of recovery in 2017 and 2018. Nevertheless, considering the entire period after 2011, trade in audiovisual products showed a negative average annual change, in contrast to the albeit weak growth of total trade in goods.

For a complete overview of international transactions in audiovisuals, trade data need to be integrated with data on reproduction and/or distribution license sales, which are reported in a different balance of payment entry.[5] It should also be considered that the data on trade in audiovisual services underestimate the significance of the phenomenon, as they only concern cross-border exchanges. A significant, albeit undetermined, portion of trade in audiovisual services occurs through foreign affiliates of multinational companies (the so-called Mode 3 of trade in services, according to the General Agreement on Trade in Services).[6]

Figures 1.7 and 1.8 show the distribution of audiovisual exports and imports by geographic area, comparing the average of 2005-06 with that of 2018-19.

4 Audiovisual products include the entire set of goods listed in category 59 of the European 2008 Classification of products by activity (CPA), including cinema and music products recorded on any type of physical media.

5 These data are currently only available for 20 countries and show, for 2017 (the last year in which all the main reporting countries are present), an overall exchange (sales + purchases) of more than US$ 33 billion, over 50% of which is accounted for by the United Kingdom.

6 Estimates for the United States in 2006 show that sales by foreign affiliates of audiovisual multinational companies amounted to over US$ 11 billion (WTO, 2010, note 9).

Looking at exports (Figures 1.7a and 1.7b) the strong geographical concentration of flows in North America and Europe is well visible, as approximately 94% of audiovisual services exports originated there in 2005-06, and 88% in 2018-19. In addition, it is important to note sharp increase of Asia's market share. In the period under examination, Asia witnessed a five-fold increase in its audiovisual exports.

Geographical distribution of audiovisual exports

(percentage)

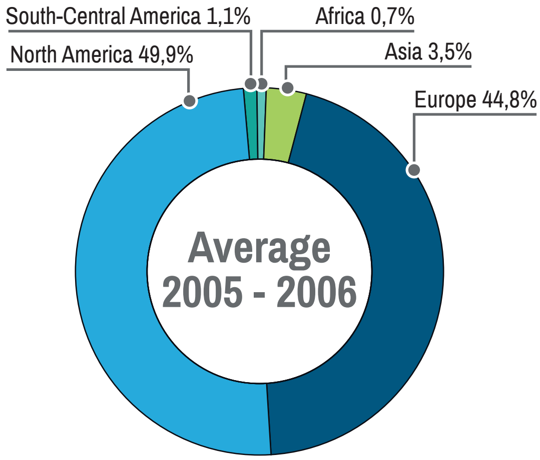

Figure 1.7a *Based on WTO data.*

Geographical distribution of audiovisual exports

(percentage)

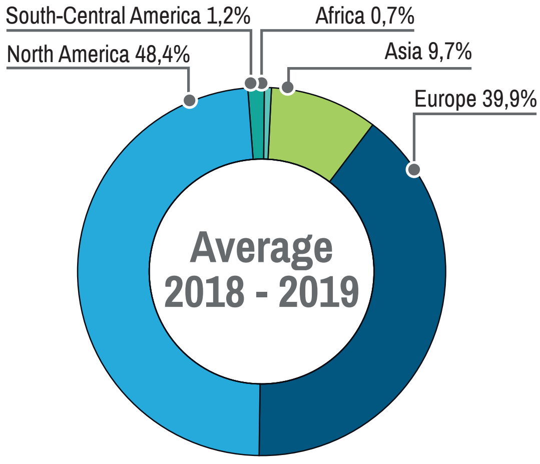

Figure 1.7b *Based on WTO data.*

The geographical distribution of audiovisual imports, as shown by Figures 1.8a and 1.8b, was undoubtedly what changed the most, with a very strong concentration in North America and Europe. Figure 1.9 shows that this trend occurred in two phases: between 2006 and 2014 the importance of European markets increased significantly, while, in the last five years, the North American markets have been more dynamic.

The contraction of Asian markets has been constant during the analyzed period, from 25% to 9% of total world imports. This seems to be in sharp contrast with Figure 1.3, showing the great expansion of audiovisual product consumption in Asia in recent years. Although the lack of data calls for some caution, this could be interpreted as a "regional introversion" process in the Asian area, where domestic demand seems to be increasingly met by local productions. Similar trends have also been found since the mid-2000s in the aggregate data on import propensity of the major Asian economies, which has dropped considerably, reflecting the gradual development of local production chains.

Geographical distribution of audiovisual imports

(percentage)

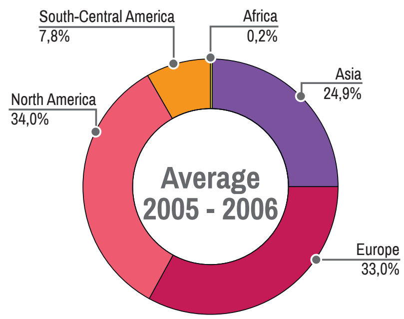

Figure 1.8a *Based on WTO data.*

Geographical distribution of audiovisual imports

(percentage)

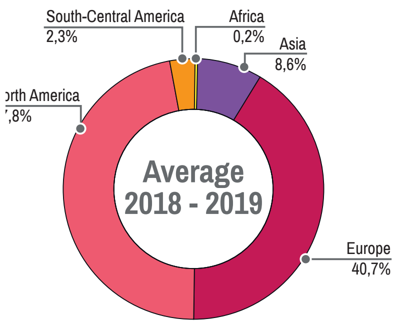

Figure 1.8b *Based on WTO data.*

Geographical distribution of audiovisual imports

(percentage)

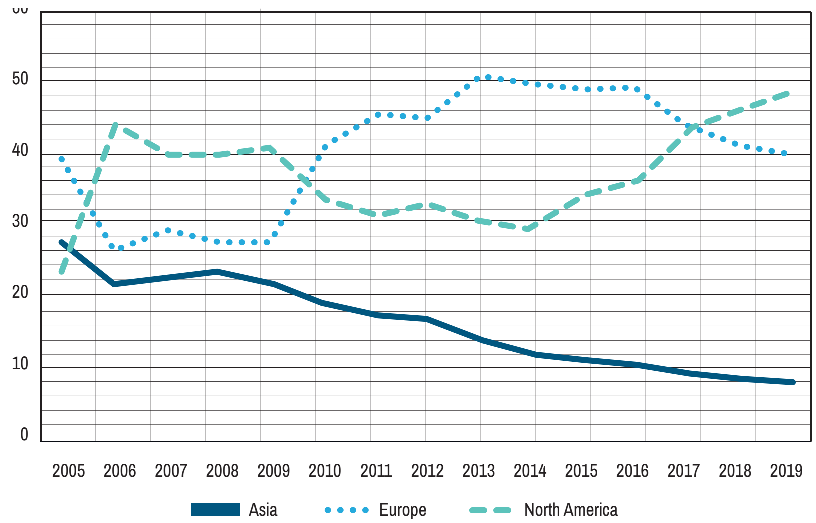

Figure 1.9 *Based on WTO data.*

Table 1.1 provides detailed data on the major exporters and importers of audiovisual services. The value of international trade in audiovisual services is strongly concentrated in the United States with 45% of global exports and 40% of global imports. However, while the value of US exports has remained rather stable over the past five years, recording a slight loss of its world market share, imports grew significantly, revealing an increase of consumer interest towards audiovisual services produced by foreign countries, as well as a rise in collaborations/co-productions between US and foreign companies.

European countries stand out among the other main exporters and importers of audiovisual services. The small economy of Luxembourg, with 9% and 8% of global exports and imports respectively, plays a significant role.[7] The data in the table confirm the rather marginal position of Asian countries, with South Korea, the first country in the area, which ranks ninth among the major exporters and Japan which is only thirteenth.[8]

Finally, Italian audiovisual exports, albeit of relatively low value, have grown at a sustained pace over the last five years.

7 The importance of Luxembourg could be amplified by multinational companies having their registered office there while operating in other countries.

8 It is to be noted that China is not among the reporting countries in the available statistics. In addition, the data on trade with China reported by some countries are very fragmentary and unfit to provide a "mirror" estimate. The only somewhat relevant flows are those with the United States, but it is not possible to reconstruct their trend as there is a lack of data due to privacy issues.

Major audiovisual exporters and importers - 2019

(millions of dollars or percentage)

Exports						Imports					
Position	Country	Value in million USD (2019)	World market share (2018)	World market share (2019)	Average annual growth rate (2015-2019)	Position	Country	Value in million USD (2019)	World market share (2018)	World market share (2019)	Average annual growth rate (2015-2019)
1	United States	19.745	47,3	45,5	0,6%	1	United States	18.918	40,8	39,6	19,2%
2	Luxembourg	4.001	8,1	9,2	-2,7%	2	Luxembourg	3.307	7,1	7,6	-2,0%
3	Canada	2.905	6,4	6,7	9,0%	3	Germany	3.007	7,2	6,9	14,1%
4	United Kingdom	2.582	5,9	5,9	1,5%	4	Netherlands	2.698	7,0	5,9	39,3%
5	France	2.155	4,7	5,0	0,4%	5	Canada	2.613	5,9	5,5	6,7%
6	Netherlands	1.825	3,9	4,2	21,0%	6	France	2.187	4,5	5,2	1,0%
7	Sweden	1.796	3,0	4,1	45,4%	7	United Kingdom	993	2,2	2,1	0,6%
8	Germany	1.688	3,9	3,9	7,1%	8	Australia	937	2,8	2,0	-6,2%
9	South Korea	878	1,8	2,0	9,8%	9	Russia	845	1,9	1,8	-0,0%
10	India	772	1,4	1,8	13,7%	10	Belgium	747	1,8	1,6	-5,8%
11	Hungary	664	0,9	1,5	8,1%	11	Austria	647	1,4	1,4	11,7%
12	Belgium	582	1,4	1,3	-6,9%	12	Argentina	632	1,6	1,4	12,6%
13	Japan	545	0,8	1,3	6,9%	13	Norway	579	1,3	1,2	-1,5%
14	Singapore	294	0,7	0,7	-6,8%	14	Japan	530	1,1	1,1	-5,3%
15	Argentina	292	0,8	0,7	9,6%	15	South Korea	523	1,1	1,1	2,1%
	Other countries	2.695	8,9	6,2	2,7%		Other countries	7.039	11,9	14,9	12,8%
	World	43.419	100	100	2,8%		World	47.374	100	100	10,4%
27	Italy	125	0,1	0,3	29,0%	28	Italy	76	0,4	0,2	-19,2%

Table 1.1 *Based on WTO data.*

Table 1.2, with a similar format to the previous one, presents the data on international trade in audiovisual products. The slow decline, already highlighted in Figure 1.1, mirrors the effects of the transformation in the patterns of consumption and distribution of audiovisual content and seems to be evenly distributed across all main countries.

Asian economies – particularly, China, Hong Kong and Singapore – appear to be an exception, as their values are in clear contrast with this trend. This could be explained by the growing presence in this region of some segments of audiovisual value chains.

In this case too, Italy's international position is marginal, with shares equal to 0.64% of world exports and 0.67% of world imports in the audiovisual sector and a trend slightly better than the world average in recent years.

Major audiovisual exporters and importers - 2018

(millions of dollars or percentage)

Exports						Imports					
Position	Country	Value in million USD (2018)	World market share (2017)	World market share (2018)	Average annual growth rate (2015-2018)	Position	Country	Value in million USD (2018)	World market share (2017)	World market share (2018)	Average annual growth rate (2015-2018)
1	China	2.633	16,8	17,5	-2,9%	1	China	5.394	32,4	32,1	6,9%
2	Hong Kong	1.656	8,6	11,0	21,1%	2	United States	1.308	8,0	7,8	-3,3%
3	Singapore	1.402	10,3	9,3	3,4%	3	Germany	1.199	7,3	7,1	-2,6%
4	United States	1.378	9,3	9,1	-0,1%	4	Singapore	1.142	6,0	6,8	5,1%
5	Germany	1.181	13,0	7,8	-9,3%	5	Japan	1.021	6,0	6,1	2,0%
6	Malaysia	1.093	7,0	7,3	26,6%	6	Malaysia	875	4,3	5,2	18,3%
7	South Korea	694	1,7	4,6	24,6%	7	South Korea	743	4,3	4,4	8,6%
8	Netherlands	561	5,0	3,7	-7,6%	8	Ireland	601	4,1	3,6	-8,8%
9	Czech Republic	499	3,4	3,3	6,0%	9	Austria	569	3,4	3,4	-0,1%
10	Japan	498	3,9	3,3	-4,7%	10	Netherlands	465	3,4	2,8	-13,4%
11	United Kingdom	492	4,0	3,3	-3,0%	11	United Kingdom	431	2,6	2,6	-9,7%
12	Poland	386	2,9	2,6	14,2%	12	Poland	427	2,9	2,5	3,7%
13	France	382	2,5	2,5	0,4%	13	Czech Republic	341	2,7	2,0	3,1%
14	Austria	338	1,3	2,2	-7,0%	14	Mexico	324	1,2	1,9	15,6%
15	Ireland	312	1,9	2,1	1,9%	15	France	258	1,7	1,5	-8,0%
	Other countries	1.460	8,0	9,7	-0,6%		Other countries	1.585	9,1	9,4	-4,0%
	World	15.063	100	100	1,7%		World	16.795	100	100	1,4%
23	Italy	96	0,6	0,6	3,6%	19	Italy	113	0,6	0,7	4,2%

Table 1.2 *Based on OECD data.*

THE INTERNATIONAL POSITION OF THE ITALIAN AUDIOVISUAL INDUSTRY

2.1 INTRODUCTION: THE AUDIOVISUAL SECTOR WITHIN THE ITALIAN ECONOMY

The economic importance of the Italian audiovisual industry is great and goes far beyond its direct weight in terms of added value and employees. In addition to generating considerable spillover benefits in other economic sectors, Italian audiovisual productions are important in enhancing and disseminating the country's cultural image around the world, favoring also other productions that are Made in Italy.[9]

This chapter focuses on the international position of the Italian audiovisual industry, starting from data on foreign trade in services and physical media products. We will also give an overview of the main data on the production and dissemination of Italian films and TV products in movie theaters, and on the main digital distribution platforms of audiovisual content.

In this introductory section it seems appropriate to present some essential data on the characteristics of the sector, which can help understand its position on international markets.

The number of Italian audiovisual registered companies (codes 59 and 60 of the ISIC classification) involved in the production and broadcasting of cinema, radio-TV and music products amounted to nearly 9,000 in 2018. After the hard blows of the two recession waves affecting Italy's economy between 2008 and 2014, the audiovisual sector recovered well and recouped the losses it had incurred (Figure 2.1). Over 80% of the sector's companies operate in audiovisual production (ISIC 59).

The number of audiovisual companies operating in Italy is relatively low compared to the other main European countries (Figure 2.2). The relative share of medium-large enterprises (over 50 employees) is low in all the countries examined except for Germany and the United States. Micro-enterprises (from 0 to 9 employees) predominate mainly in France and the United Kingdom.

9 The main economic features of the audiovisual sector and its trends, in the framework of profound transformations in technological models and market structures, were studied in a recent report by the Centro Studi Confindustria and ANICA (CSC-ANICA, 2019). Other in-depth studies were made by Cucco (2020) and Scaglioni (2020). The research presented in Scaglioni (2020) led to the creation of a website specifically dedicated to the international dissemination of the Italian cinema: https://www.italiancinema.it/

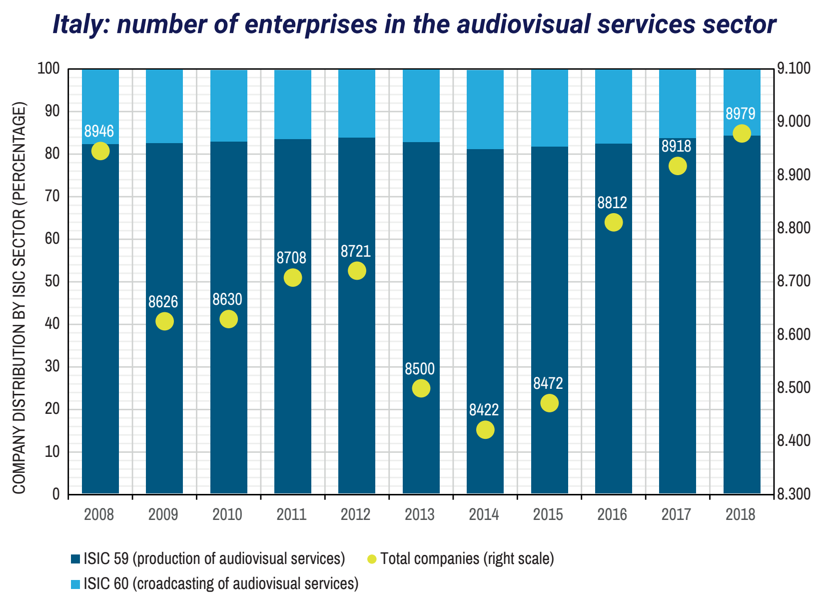

Figure 2.1 *Based on OECD data.*

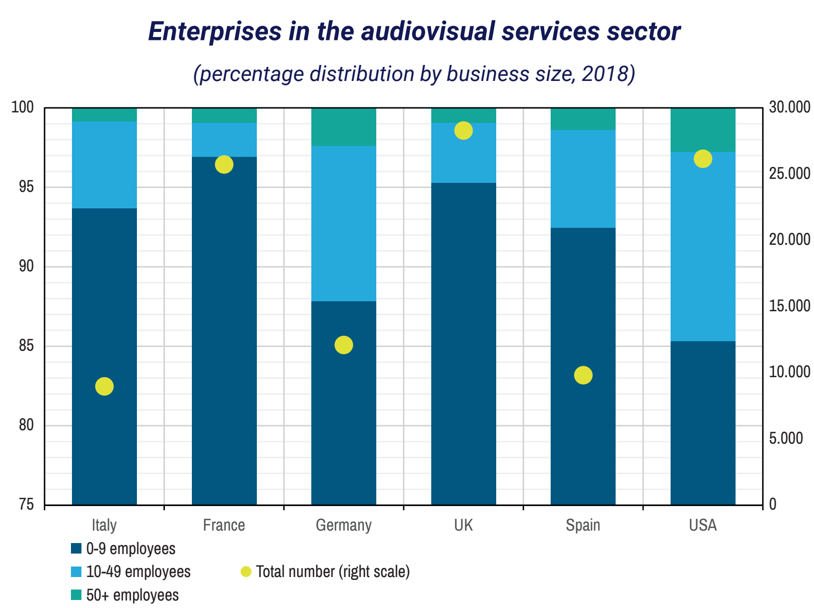

Figure 2.2 *Based on OECD data.*

Employment data only partly reflect the dynamics observed on the number of companies (Figure 2.3). In particular, the unusual decline in 2016 in the programming and broadcasting sector is noteworthy, with a loss of approximately 12,000 employees. The production sector, however, entered a recovery phase starting from 2015, with an annual growth rate of 3.6%. Nevertheless, after ten years, the number of its employees was still significantly lower than that of 2008.

Italy – number of employees in the audiovisual services sector

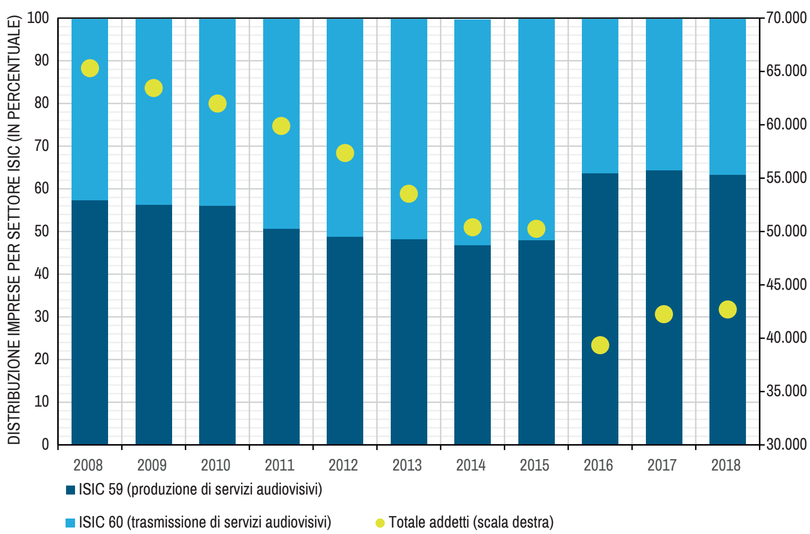

***Figure 2.3** Based on OECD data.*

The presence of multinational companies seems to be growing in all the countries examined except for Spain (Figure 2.4), although it remains modest in terms of numbers. In Italy, in 2017, there were 121 foreign-controlled companies. The greater importance of foreign multinationals can be better observed by looking at employment data. Over the past ten years, the number of audiovisual employees in foreign-controlled companies has increased in all countries under consideration (Figure 2.5). Different trends emerge by looking at the ratio between the number of employees in foreign-controlled companies and the total number of employees in the audiovisual sector, which measures the relative importance of multinationals. The decline reported in France and the United Kingdom contrasts with the sharp increase in Germany, Spain and Italy in particular (Figure 2.6). Thus, unlike the rest of the Italian production system, the audiovisual sector has proved very attractive to foreign investments over the past decade.

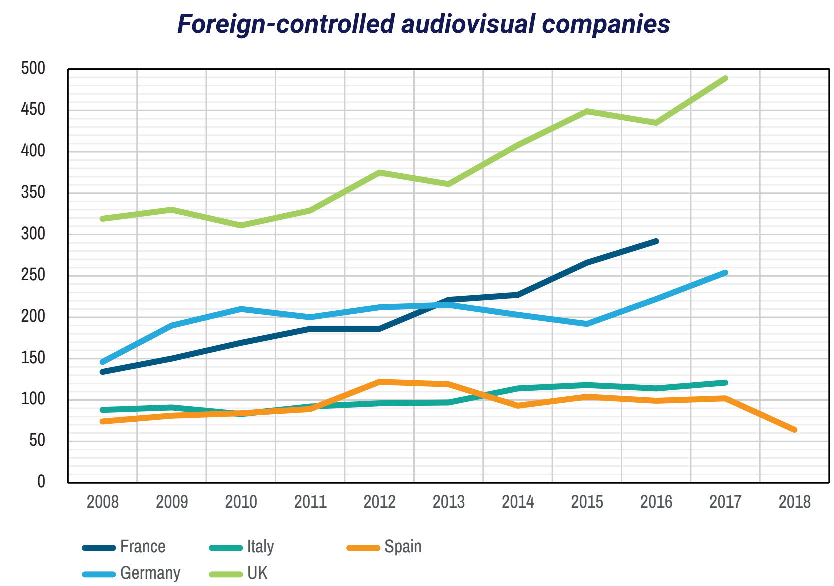

Figure 2.4 *Based on Eurostat data.*

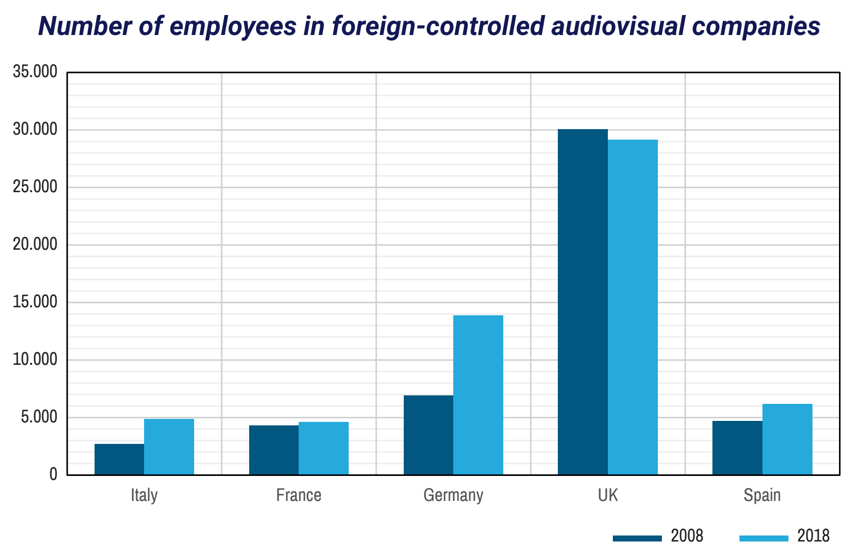

Figure 2.5 *Based on Eurostat data.*

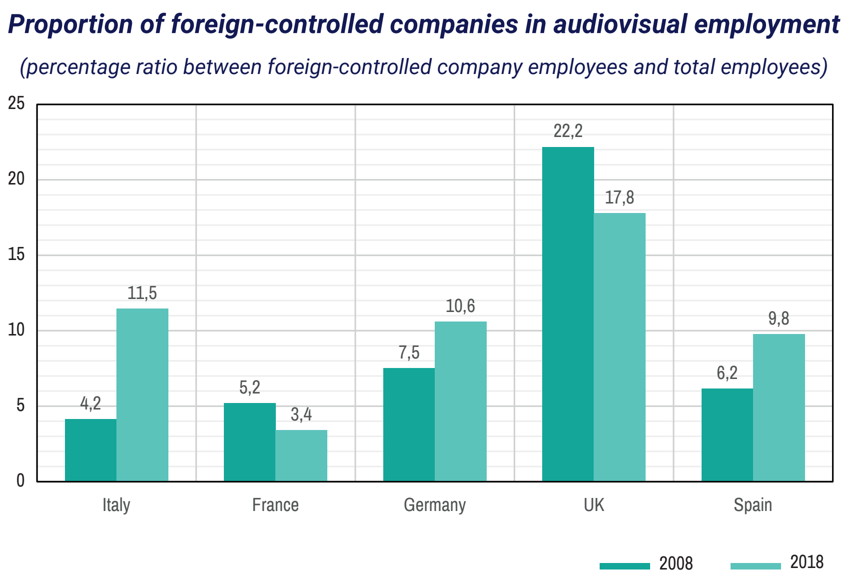

Figure 2.6 *Based on Eurostat data.*

2.2 FOREIGN TRADE IN AUDIOVISUAL SERVICES

Although balance-of-payment data on trade in services offer only a partial picture of international transactions, they can be useful for an initial assessment of the position of the Italian audiovisual industry on the international markets. In the past decade, Italy has recorded a considerable trade imbalance in audiovisual services,[10] with exports being approximately 31% of imports on average (Figure 2.7). Such an imbalance remained largely stable until 2017, when, due to a sharp increase in imports from Switzerland[11], the audiovisual trade balance recorded a deficit of 370 million euros. However, in 2019, signs of change became visible as the value of Italian exports of audiovisual services exceeded the value of imports for the first time.

10 The same trend occurred in Italy in the 1990s - see Andreano and Iapadre (2005).

11 In 2017, 87% of Italian imports of audiovisual services were attributable to Switzerland. See Table 2.1b.

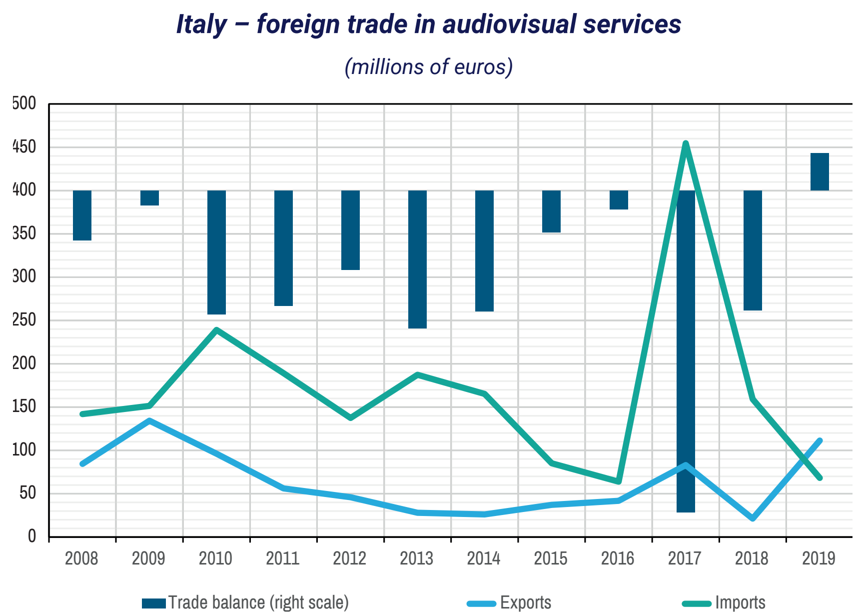

Figure 2.7 *Based on OECD data.*

The above-mentioned performance can be better assessed by comparing the Italian audiovisual trade-balance data against the same data reported by the main European economies. Normalized trade balance, an indicator which is not influenced by the different sizes of the countries under consideration, can be used for this comparison and is calculated by dividing the difference between exports and imports by their sum.[12] In the decade under consideration, except for 2019, Italy recorded on average a lower normalized trade balance than the other European countries and the United States (Figure 2.8).[13]

12 The normalized trade balance varies between -1 (no exports) and +1 (no imports).

13 In the decade under review, Italy's average normalized trade balance in audiovisual services was -0.42. To put this figure into perspective, it should be noted that during the same period, Italy's normalized balance for the overall service sector averaged -0.026.

Normalized trade balance in audiovisual services

(Ratio between trade balance and total trade (exports + imports))

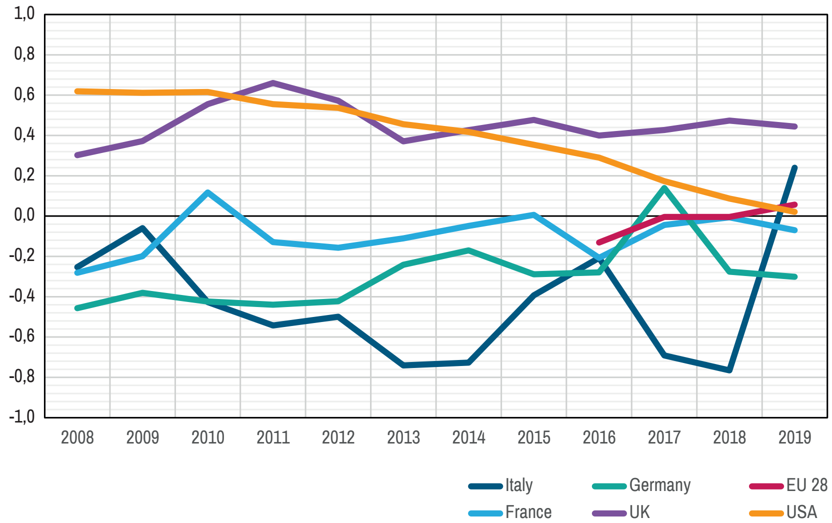

Figure 2.8 *Based on OECD and WTO data.*

Overall, while all European countries except the United Kingdom presented greater or smaller trade deficits, the United States recorded a constantly positive value, although with a clear decreasing trend.

Considering the geographical distribution of Italian audiovisual imports and exports, tables 2.1 and 2.2[14] provide a quite detailed picture, making it possible to outline the network of Italy's main trade relationships in this sector.

Nearly 57% of Italian audiovisual imports in the decade under review was accounted for by Switzerland, which in 2013 and in 2017 in particular reported significant sales towards Italy (tables 2.1a and 2.1b). Among Italy's other main trade partners are the United States, the United Kingdom and Germany, with average market shares over 5%. All the other main suppliers are EU countries.

14 These tables were built taking into account Italy's ten main trading partners in the audiovisual sector in 2019.

Geographical distribution of Italian imports of audiovisual services

(millions of euros)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
France	11,8	10,6	5,3	5,6	4,8	4,5	3,6	2,4	2,6	3,4
Germany	24,8	13,3	7,4	9,6	7,6	11,3	4,1	5,2	7	1,8
Ireland	5,8	4,8	4,7	1,5	2,2	2,4	2,1	3,7	4,5	6,5
Luxembourg	1,3	3,3	2	3	2,7	2,9	2,4	1,2	1,1	1,1
Netherlands	3,4	3,3	1,4	1,5	3,2	2,7	2,7	5,9	5,8	5,2
United Kingdom	20,1	16,4	6,4	4,6	11,7	9,8	10,6	6,5	8,8	22,9
Spain	6,2	6,7	1,1	3,1	5,4	5,2	6,4	6,6	5,3	5,2
United States	46,5	28,2	19,6	5,2	8,8	10,1	11,1	10,3	5,6	9,4
Sweden	2,2	1,2	1,2	0,5	0,4	0,6	0,3	0,5	0,6	0,8
Switzerland	72,7	73,7	76,5	137,8	100,3	19,5	6,9	397,6	105	3,2
Other countries	44,4	27,7	11,9	14,9	18,2	16,2	13,6	14,9	12,9	8,7
World	239,2	189,2	137,5	187,3	165,3	85,2	63,8	454,8	159,2	68,2

***Table 2.1a** Based on OECD data.*

Geographical distribution of Italian imports of audiovisual services

(percentage)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2010-19
France	4,9%	5,6%	3,9%	3,0%	2,9%	5,3%	5,6%	0,5%	1,6%	5,0%	3,1%
Germany	10,4%	7,0%	5,4%	5,1%	4,6%	13,3%	6,4%	1,1%	4,4%	2,6%	5,3%
Ireland	2,4%	2,5%	3,4%	0,8%	1,3%	2,8%	3,3%	0,8%	2,8%	9,5%	2,2%
Luxembourg	0,5%	1,7%	1,5%	1,6%	1,6%	3,4%	3,8%	0,3%	0,7%	1,6%	1,2%
Netherlands	1,4%	1,7%	1,0%	0,8%	1,9%	3,2%	4,2%	1,3%	3,6%	7,6%	2,0%
United Kingdom	8,4%	8,7%	4,7%	2,5%	7,1%	11,5%	16,6%	1,4%	5,5%	33,6%	6,7%
Spain	2,6%	3,5%	0,8%	1,7%	3,3%	6,1%	10,0%	1,5%	3,3%	7,6%	2,9%
United States	19,4%	14,9%	14,3%	2,8%	5,3%	11,9%	17,4%	2,3%	3,5%	13,8%	8,8%
Sweden	0,9%	0,6%	0,9%	0,3%	0,2%	0,7%	0,5%	0,1%	0,4%	1,2%	0,5%
Switzerland	30,4%	39,0%	55,6%	73,6%	60,7%	22,9%	10,8%	87,4%	66,0%	4,7%	56,8%
Other countries	18,6%	14,6%	8,7%	8,0%	11,0%	19,0%	21,3%	3,3%	8,1%	12,8%	10,5%
World	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

***Table 2.1b** Based on OECD data.*

The geographical distribution of Italian exports of audiovisual services (tables 2.2a and 2.2b) shows a particularly close connection with the United Kingdom, which, in the decade under review, absorbed 24.5% of Italian exports and was decisive in the frequent fluctuations in their total value.

Overall, the geographical distribution of Italian exports of audiovisual services is less concentrated than that of imports. For the decade under review, on average the first ten partner countries account for 76% and 90% respectively.

Geographical distribution of Italian exports of audiovisual services

(millions of euros)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Austria	0,3	0,4	1,2	0,5	0,8	0,3	0,4	0,9	0,2	0,3
France	7,0	3,2	3,3	1,9	2,4	2,3	2,1	0,3	1,3	6,5
Germany	7,2	2,1	3,3	1,3	0,5	1,7	2,1	1,8	1,7	3,4
Luxembourg	0,0	0,3	0,5	0,5	1,3	0,2	0,4	0,9	0,0	0,2
Netherlands	2,0	6,8	10,5	2,0	1,3	0,2	4,0	21,8	0,5	0,2
Poland	0,0	1,0	0,0	0,0	0,0	0,3	0,0	0,0	0,0	0,3
United Kingdom	45,6	20,0	14,6	2,1	3,2	4,3	6,9	5,5	5,0	56,1
Spain	4,4	1,8	0,1	0,1	0,3	0,1	0,2	0,1	0,1	1,3
United States	8,4	4,7	3,7	4,1	6,6	5,7	1,5	12,9	0,6	32,5
Switzerland	17,2	17,0	7,7	4,4	3,9	19,6	11,4	34,0	6,1	19,4
Other countries	35,3	20,8	14,1	20,2	14,4	6,6	17,3	15,7	9,5	4,4
World	127,4	78,1	59,0	37,1	34,7	41,3	46,3	93,9	25,0	124,6

Table 2.2a *Based on OECD data.*

Geographical distribution of Italian exports of audiovisual services

(percentage)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average 2010-19
Austria	0,2%	0,5%	2,0%	1,3%	2,3%	0,7%	0,9%	1,0%	0,8%	0,2%	0,8%
France	5,5%	4,1%	5,6%	5,1%	6,9%	5,6%	4,5%	0,3%	5,2%	5,2%	4,5%
Germany	5,7%	2,7%	5,6%	3,5%	1,4%	4,1%	4,5%	1,9%	6,8%	2,7%	3,8%
Luxembourg	0,0%	0,4%	0,8%	1,3%	3,7%	0,5%	0,9%	1,0%	0,0%	0,2%	0,6%
Netherlands	1,6%	8,7%	17,8%	5,4%	3,7%	0,5%	8,6%	23,2%	2,0%	0,2%	7,4%
Poland	0,0%	1,3%	0,0%	0,0%	0,0%	0,7%	0,0%	0,0%	0,0%	0,2%	0,2%
United Kingdom	35,8%	25,6%	24,7%	5,7%	9,2%	10,4%	14,9%	5,9%	20,0%	45,0%	24,5%
Spain	3,5%	2,3%	0,2%	0,3%	0,9%	0,2%	0,4%	0,1%	0,4%	1,0%	1,3%
United States	6,6%	6,0%	6,3%	11,1%	19,0%	13,8%	3,2%	13,7%	2,4%	26,1%	12,1%
Switzerland	13,5%	21,8%	13,1%	11,9%	11,2%	47,5%	24,6%	36,2%	24,4%	15,6%	21,1%
Other countries	27,7%	26,6%	23,9%	54,4%	41,5%	16,0%	37,4%	16,7%	38,0%	3,5%	23,7%
World	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 2.2b *Based on OECD data.*

For an overall assessment of the dynamics of Italian exports of audiovisual services, it is necessary to examine their share of the sector's world exports (Figure 2.9). Firstly, it should be noted that this share is extremely low (0.2% on average for the period under review) compared to the main European countries, as already noted in Chapter 1, as well as to Italy's total share of world service exports which, for the same period, although dropping, averaged 2.2%.

Over the decade reviewed, two different trends emerge: a sharp decrease until 2014, followed by a partial and irregular recovery over the past five years.

Italy's share of world exports of audiovisual services

(percentage)

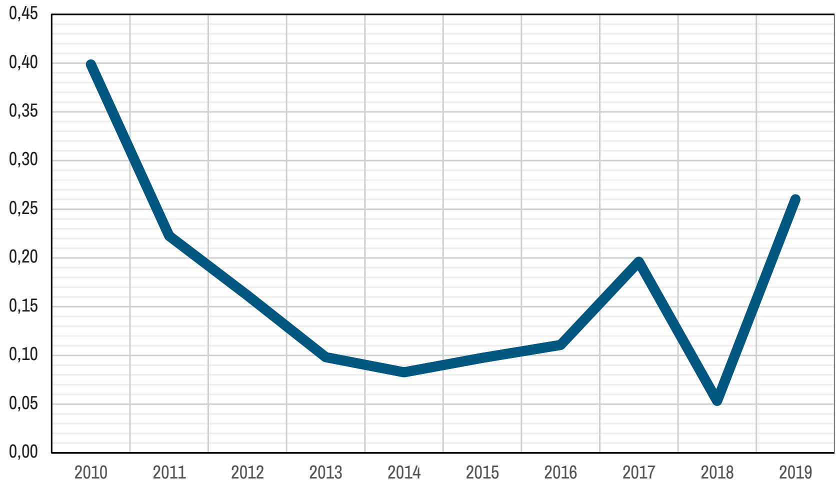

Figure 2.9 *Based on WTO data.*

2.3 FOREIGN TRADE OF AUDIOVISUAL PRODUCTS

Foreign trade of Italian audiovisual products on physical media (recorded under entry JA59 of the ATECO classification: "products of cinema, video and TV show productions; music and sound recordings") is characterized by a structural deficit, fluctuating around 170 million euros between 2007 and 2020. As can be noted in Figure 2.10, imports were subject to large swings that were only partially connected with the cycle of domestic demand. On the other hand, exports, after a strong drop during the first part of the period, recovered quickly in the most recent years – an upturn that was however disrupted in 2020 by the economic effects of the Covid-19 pandemic.

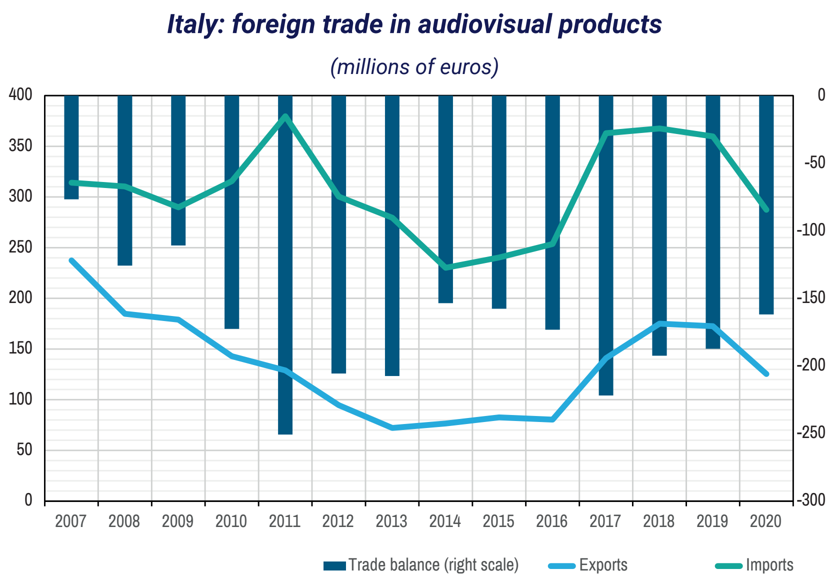

Figure 2.10 *Based on Istat data.*

Proof of a relative improvement of Italy's exports of physical audiovisual products can be seen by looking at their world market share performance (Figure 2.11). These data can be retrieved from the OECD Balanced International Merchandise Trade Statistics database, which uses the Classification of Products by Activity (CPA) and identifies, under sections 59 and 60, the physical products of companies involved in the production, planning, and broadcasting of audiovisual services.

The performance of Italian exports of audiovisual products, as measured by their share of world exports, is similar to that of total exports. A sharp decline phase until 2013 was followed by a stable trend over the past years, at a level of 0.6% of world exports. This percentage is significantly lower than Italy's average share of world merchandise exports (2.8% over the same period), yet higher than its share of world exports of audiovisual services, presented in the previous section of this chapter. The recent stabilization of their market share indicates that Italian companies succeed in keeping pace with global demand which, in recent years and after a long declining phase, showed a moderate increase, as described in Chapter 1.

Italy's share of world exports of audiovisual products

(percentage)

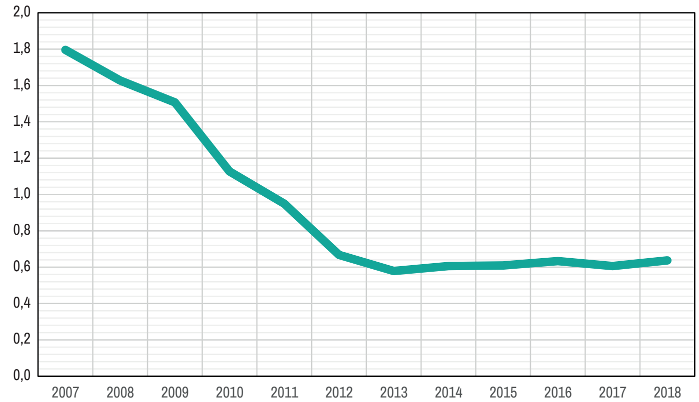

Figure 2.11 *Based on OECD data.*

Table 2.3 shows the geographical distribution of Italian audiovisual products exports. The importance of the four main export markets (France, Germany, UK, and Spain) underwent a drastic downsizing, with an overall fall from 63% to 33% of total exports, to the benefit of other European countries such as the Czech Republic and Serbia, but also of South Korea and the United States. Such greater geographical diversification of Italian exports of audiovisual products could reduce their volatility and open up new expansion opportunities for Italian audiovisual companies.

Italian exports of audiovisual products by country of destination

(percentage)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Bulgaria	0,2%	0,3%	0,2%	0,2%	0,6%	0,7%	0,0%	0,1%	0,2%	0,4%	0,2%	0,3%	2,6%	2,4%
South Korea	0,3%	0,2%	0,1%	0,3%	0,2%	0,1%	0,1%	0,6%	0,4%	0,1%	1,8%	2,3%	3,5%	2,7%
France	18,0%	15,0%	14,3%	15,7%	17,8%	11,0%	13,0%	10,6%	10,7%	12,4%	9,7%	9,3%	7,2%	9,1%
Germany	22,3%	21,0%	27,1%	24,5%	21,6%	18,3%	17,7%	14,3%	13,2%	12,0%	11,6%	8,9%	9,4%	9,7%
Netherlands	3,1%	6,2%	2,9%	4,2%	3,7%	4,9%	4,0%	2,4%	2,0%	3,1%	4,5%	3,9%	4,9%	4,2%
Poland	1,8%	2,6%	2,3%	2,5%	1,8%	2,1%	1,9%	1,6%	2,5%	2,2%	3,0%	2,7%	3,1%	2,1%
United Kingdom	13,6%	15,2%	12,0%	12,9%	6,4%	11,7%	11,0%	11,5%	14,3%	13,8%	10,4%	9,2%	8,7%	8,4%
Czech Republic	0,6%	0,7%	0,6%	0,7%	0,9%	0,9%	0,7%	1,6%	5,6%	15,7%	12,3%	10,9%	7,3%	3,4%
Romania	0,2%	0,2%	1,7%	0,7%	2,2%	1,4%	0,3%	0,2%	0,2%	0,2%	1,5%	1,4%	2,4%	0,6%
Serbia	0,1%	0,1%	0,1%	0,1%	0,1%	0,2%	0,1%	0,1%	0,0%	4,3%	7,7%	6,8%	7,8%	7,3%
Slovakia	0,1%	0,2%	0,1%	0,2%	1,0%	0,5%	1,0%	0,2%	0,9%	1,3%	0,6%	0,6%	2,3%	3,5%
Spain	9,4%	6,0%	4,3%	4,5%	7,0%	4,8%	7,0%	5,4%	8,2%	5,5%	4,9%	5,3%	5,8%	6,2%
United States	2,5%	1,7%	1,8%	3,8%	2,5%	4,5%	7,1%	6,9%	5,6%	6,8%	6,4%	4,9%	5,3%	7,9%
Switzerland	3,1%	3,3%	3,4%	3,6%	3,9%	3,3%	10,7%	18,6%	6,7%	3,8%	2,6%	3,4%	5,1%	5,1%
Turkey	1,5%	1,8%	1,8%	2,6%	2,8%	2,9%	0,5%	0,3%	0,1%	0,2%	0,7%	0,4%	4,1%	0,1%
Other countries	23,2%	25,6%	27,3%	23,6%	27,6%	32,6%	24,9%	25,6%	29,4%	18,3%	22,1%	29,7%	20,4%	27,2%
World	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 2.3 *Based on Istat data.*

2.4 THE ITALIAN AND EUROPEAN FILM MARKET

Another way to assess the position of Italian companies on the international audiovisual markets is by reviewing the data available on the business performance of products distributed in movie theaters. As mentioned in Chapter 1, until 2019 the movie-theater sector did not seem to be strongly affected by the success of the new digital distribution platforms both in terms of tickets sold and of revenue.

This paragraph will therefore shift its focus to Italy's recent film industry performance, first in the national, and then in the European market.

Figure 2.12 shows the overall Italian market performance in terms of tickets sold and revenues. The first five-year declining trend, which coincides with the sharp fall in demand, was followed by an uneven performance over the past few years.[15] 2019 ended with very encouraging results both in terms of revenues and admissions, reporting the fifth best result since 1995, when the Cinetel data collection system was started. The Covid-19 pandemic, and the subsequent closure of movie theaters for over five months, caused a drop in admissions and revenue amounting to over 71% (Cinetel, 2021).

The film industry in Italy: revenue and box office

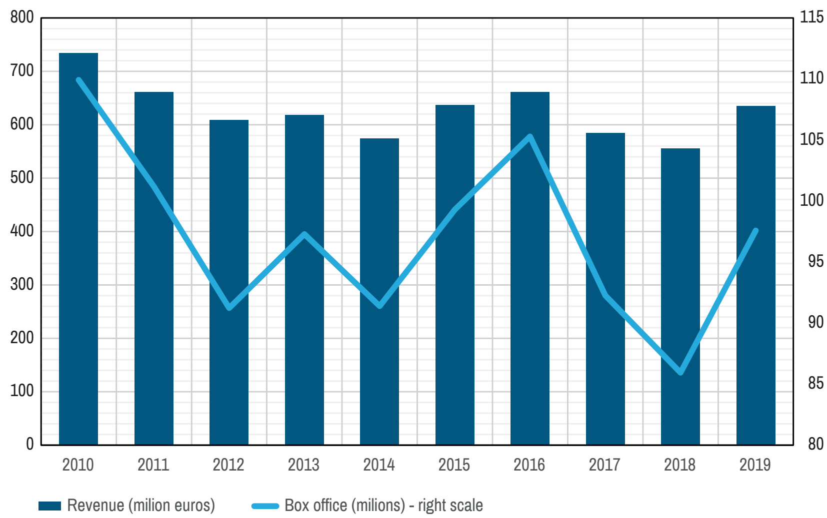

Figure 2.12 *Based on Cinetel data.*

15 The last decade's slightly falling trend is mostly the result of the 2010 market peak due to the unprecedented success of "Avatar", totaling a revenue of 65 million euros and 7.5 million admissions in Italian theaters, nearing the 1997 national record of Titanic (Cinetel, 2010).

Figure 2.13 presents the distribution of films released in Italy from 2010 and 2019 by geographical origin[16], and shows a dramatic drop in the US share, which fell from 45% to 26% in the period under review. This benefited not only the share of Italian productions (and co-productions), rising from 32% to 39%, but also the share of films produced in other European countries, which increased from 19% to 26%, and the share of non-European productions, reaching 9%.

Films distributed in Italy by country of production

(percentage)

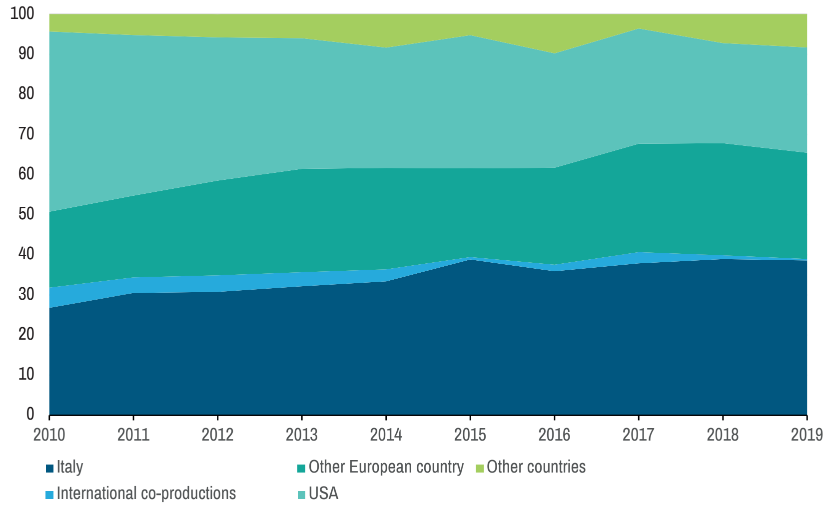

Figure 2.13 *Based on Cinetel data.*

16 Based on their country of production or majority co-production.

A totally different scenario emerges when looking at audience demand, or the distribution of tickets sold by country of production (Figure 2.14). Italian films lost substantial market shares, falling from 32% to 21% of admissions over the decade reviewed. This benefited not only the United States – whose market share remains predominant and expanded further, rising from 57% to 65% – but also other foreign countries, whose performance was nevertheless uneven over the same decade.

The coverage ratio between the share of tickets sold (demand) and that of films distributed (supply) can be seen as a measure of commercial success of a country's movies. On the Italian market, between 2010 and 2019, this ratio increased from 1.27 to 2.48 for US films, as a result of the opposite performance of the country's demand and supply shares. For Italian films, this ratio decreased from 1 to 0.54.

Cinema tickets sold in Italy by country of production

(percentage)

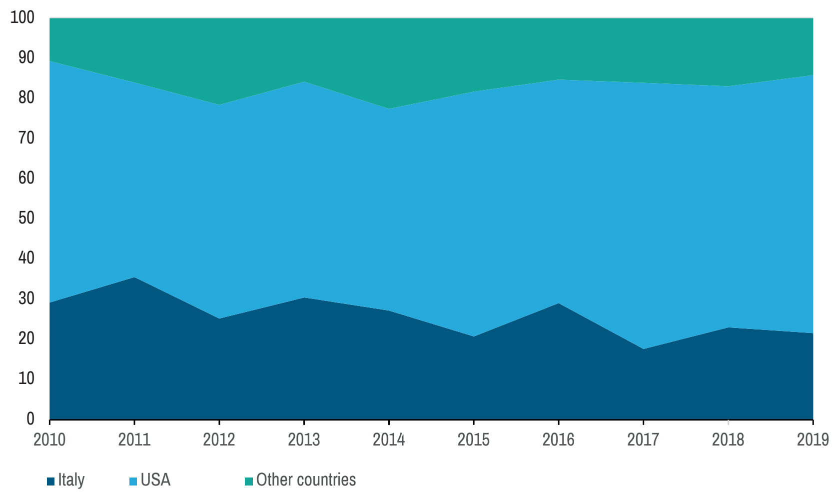

Figure 2.14 *Based on Cinetel/SIAE (Italian Society of Authors and Publishers) data.*

Moving on to look at the other European markets, the Lumière data, processed by the European Audiovisual Observatory for the period 2005-2019, prove interesting.

First, Figure 2.15 offers an overall picture of the importance of European foreign markets for the Italian film industry, both in terms of admissions and tickets sold. Data fluctuations are quite large, but a clear gap between the two indicators can be observed. Almost one third of the films produced (or majority co-produced) in Italy were distributed also in other European markets, although with an overall falling trend over the period reviewed, but the importance of these markets in terms of the total number of Italian movie tickets sold averaged about 12%.

Importance of European markets for the Italian cinema industry

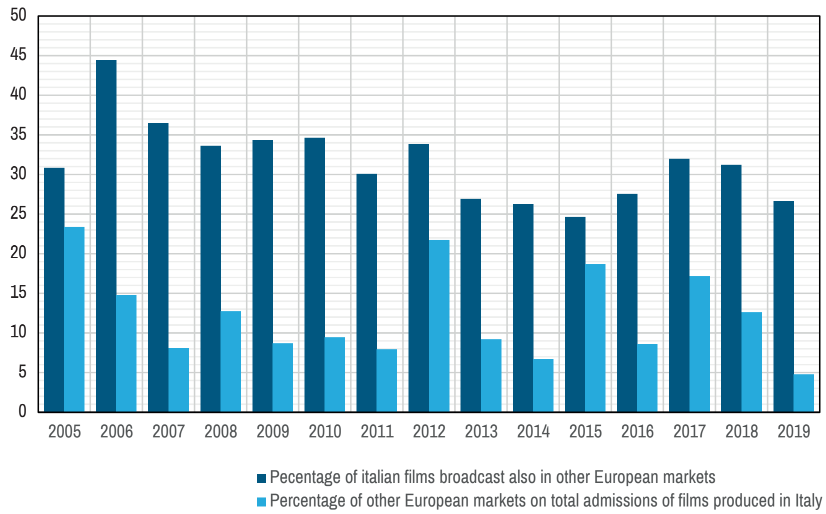

Figure 2.15 *Based on European Audiovisual Observatory / Lumière data.*

The commercial success of Italian films on the European market can be evaluated through the same indicators used for the domestic market. Figure 2.16 allows us to compare the shares of the Italian film industry on the European market (including Italy) in terms of supply (number of distributed films) and demand (number of tickets sold). This analysis shows two contrasting trends: while the share of Italian films has greatly increased (especially over the past five years) revealing the productive vitality of the Italian film industry, the share of tickets sold has fallen for almost the entire period reviewed. The already relatively low coverage ratio between demand and supply decreased further from 45% to 24% between 2005 and 2019.

Performance of Italian films on the European market

(percentage)

Figure 2.16 *Based on European Audiovisual Observatory / Lumière data.*

Figure 2.17 compares the shares of distributed films and tickets sold on the European market for the main production countries on average over the 2005-19 period. The dominant position of the United States, in terms of both shares and of the coverage ratio between demand and supply, is clear. Among the other countries under review, the only one reporting a coverage ratio greater than one, although to a modest extent, is the UK. The commercial success of the Italian film industry is clearly very limited, and greater only than that of Spain.

Shares of the main countries on the European cinema market

(average 2005-2019)

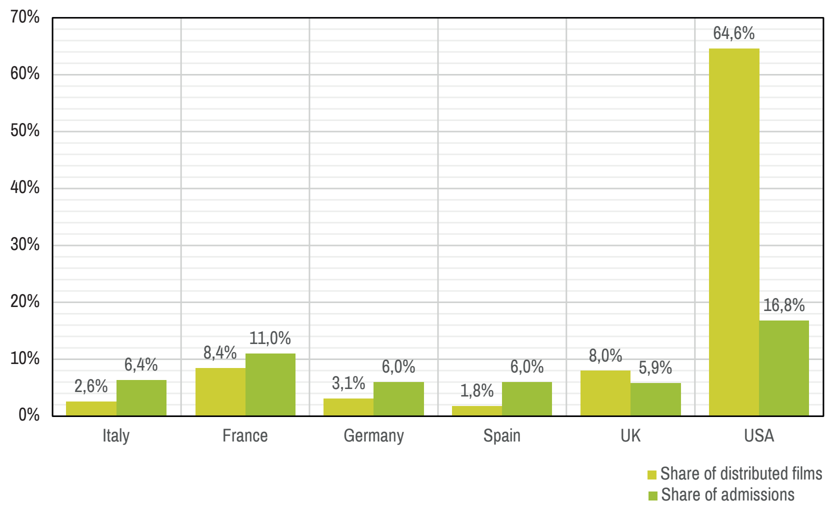

Figure 2.17 *Based on European Audiovisual Observatory / Lumière data.*

Figure 2.18 compares the shares in supply and demand of Italian films in the theaters of the main European markets on average for the period 2005-19. While the shares of distributed movies are between 1% for the UK and Switzerland and 7% for Portugal, the shares of tickets sold are everywhere below 1%.[17] Therefore, the coverage ratio between demand and supply varies greatly among markets, with higher peaks in countries culturally closer to Italy, such as Greece and Spain, or with a large Italian-speaking community, such as Switzerland.

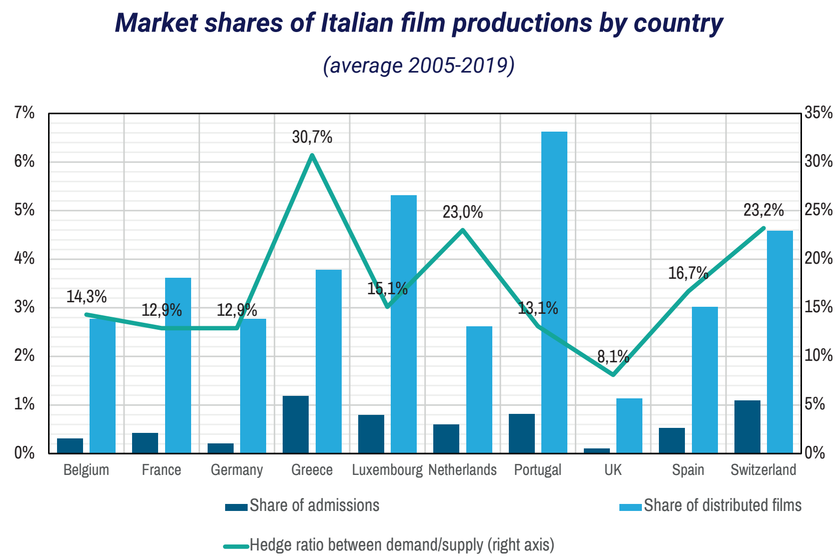

Figure 2.18 *Based on European Audiovisual Observatory / Lumière data.*

2.5 THE VIDEO-ON-DEMAND MARKET

Video on demand (VOD) radically transformed traditional audiovisual consumption models around the world.[18] The breaking point of established market equilibrium, the so called digital disruption (Iordanova and Cunningham, 2012), occurred also in Italy with a few years' delay when, due to the entry of Netflix in the market, Italian consumers could easily access a remarkable amount of streaming content.[19] Nevertheless, to date, the available data and analyses show that the wide diffusion of VOD, which according to some observers should have resulted

17 On the domestic market, the shares of demand and supply of Italian films amount to 26% and 31% respectively on average over the period under review, with a coverage ratio of 84%.

18 The overall evolution of the video on demand (VOD) market has already been described in general in Chapter 1 of this report. For more details, see Pasquale (2019).

19 Sim (2016) refers to this phenomenon as "the Netflix effect", due to the importance of this US corporation.

into a progressive disintermediation of the traditional market (Iordanova, 2012) does not appear to have produced such an effect yet (Cucco, 2020).

The success of Netflix, which prompted two other giants of the global economy to enter the market[20], is due mainly to its dynamic supply of products, based on detailed statistical data on potential consumers in each geographical area, as well as to a wide range of content to meet the needs of each one of its clients.[21]

The global streaming market is characterized by high revenues. However, given its progressive saturation, its operators are making considerable investments to create an ever-growing number of exclusive and original new content in order to increase their market shares. This trend can be seen also in the Italian market, where the audiovisual production investment value of VOD operators amounted to approximately 70 million euros in 2019.[22] APA's preliminary estimates show that, in 2020, the contribution of VOD operators to the overall national production was between 9% and 13% (approximately 100 million euros).

A preliminary analysis on the penetration of different national producers into the VOD markets can be done by looking at the Lumière database of the European Audiovisual Observatory.

The following figures show the market shares by country of origin of content distributed through the three main platforms in Italy and Europe: Amazon Prime Video, Disney+ and Netflix.[23]

Starting from the Italian domestic market (Figure 2.19, 2.20 and 2.21), it should be noted that the share of Italian producers varies from a minimum of 17% (Netflix) to a maximum of 37% (Amazon Prime). France, the UK, and the US shares are dominant in all platforms. The relatively high share of the "other countries" in Netflix underscores the greater geographical diversification of the offer available on this platform.

20 Following Netflix success, Disney launched its original digital content platform, "Disney+", and the online-sales giant "Amazon" entered the digital audiovisual content market with its "Amazon Prime Video" platform.

21 See Digital-i (2020).

22 See APA (2020).

23 The analysis is based on data from the European Audiovisual Observatory and refers to the last two months of 2020.

Amazon Prime (VOD): market shares of production countries on audiovisual content distributed in Italy in November-December 2020

(percentage)

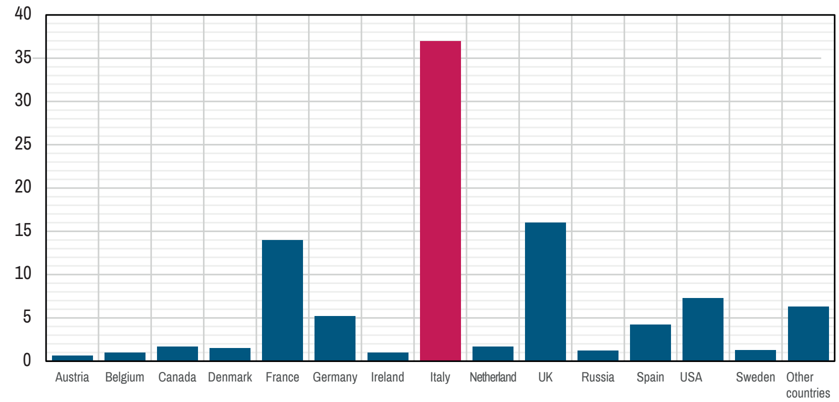

Figure 2.19 *Based on EAO data / Lumière (VOD).*

Disney+ (VOD): market shares of production countries on audiovisual content distributed in Italy in November-December 2020

(percentage)

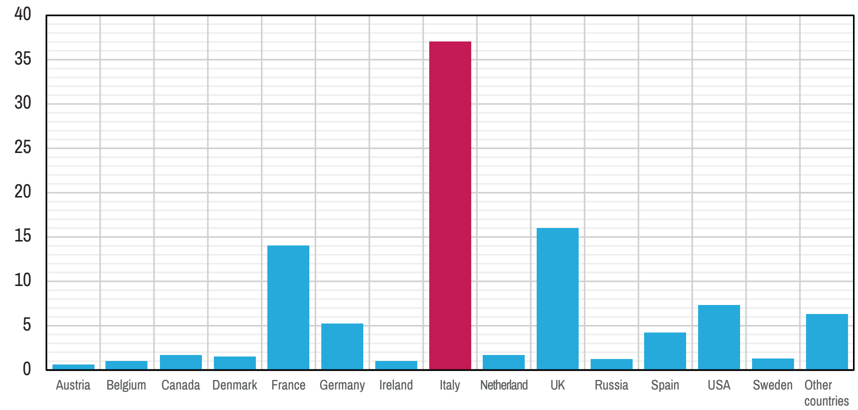

Figure 2.20 *Based on EAO data / Lumière (VOD).*

Netflix (VOD): market shares of production countries on audiovisual content distributed in in Italy in November-December 2020

(percentage)

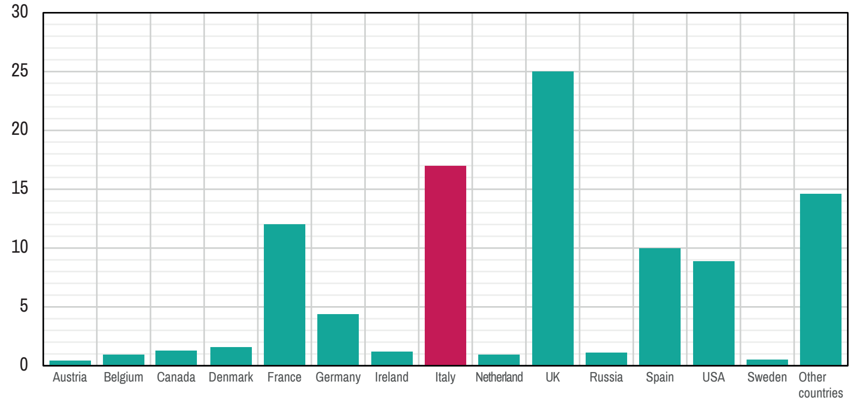

Figure 2.21 *Based on EAO data / Lumière (VOD).*

Considering the overall European market (Figure 2.22, 2.23 and 2.24), the predominant position of UK producers in all platforms should be noted. Significant market shares are also recorded for France, Germany, and the United States, but the position of Italian producers is anything but marginal, as they rank second for Amazon Prime and third for Disney+.

Amazon Prime (VOD): market shares of production countries on audiovisual content distributed in Europe in November-December 2020

(percentage)

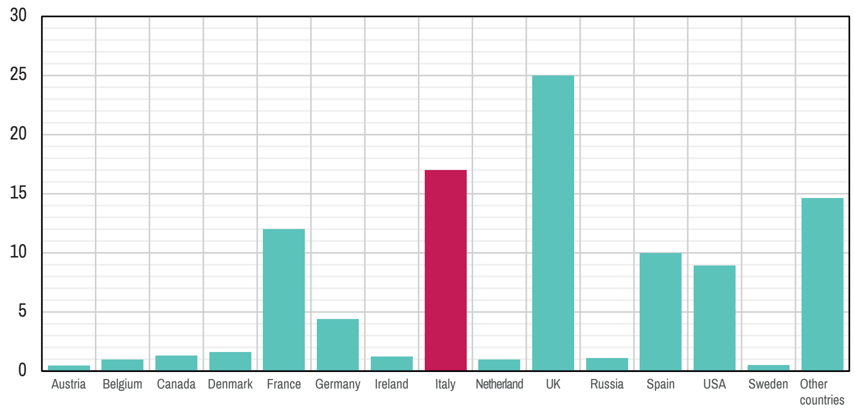

Figure 2.22 *Based on EAO / Lumière (VOD) data.*

Disney+ (VOD): market shares of production countries on audiovisual content distributed in Europe in November-December 2020

(percentage)

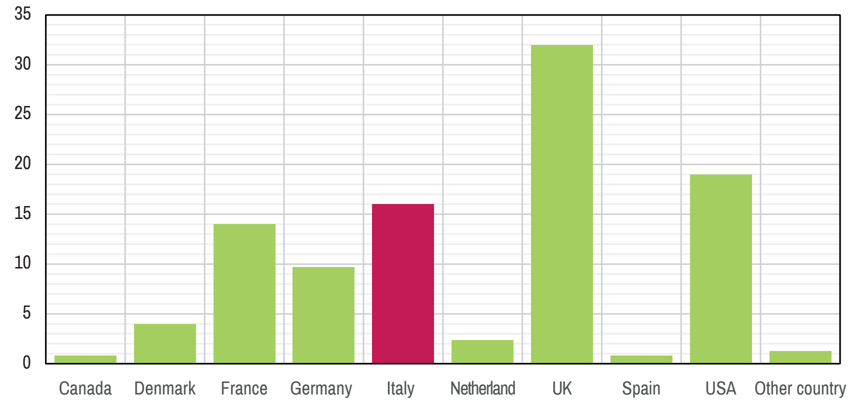

Figure 2.23 *Based on EAO / Lumière (VOD) data.*

Netflix (VOD): market shares of production countries on audiovisual content distributed in Europe in November-December 2020

(percentage)

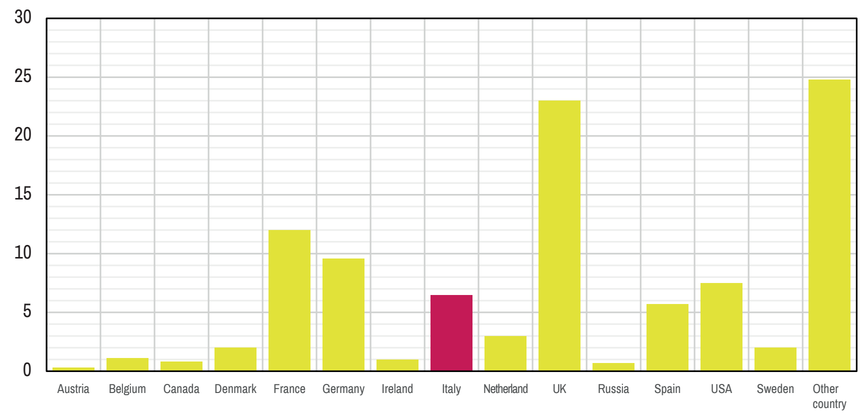

Figure 2.24 *Based on EAO / Lumière (VOD) data.*

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