



Views on Crisis Cinema Industry



Introduction

While the whole world shares the broad outlines of the economic and social repercussions of the Coronavirus (COVID-19), which are unprecedented in its recent history, the implications thereof for each country are linked to the nature of each country's economic system, its ability to withstand the entailed repercussions and the speed of its recovery.

In light of the need to study the sectoral implications of these repercussions in order to address the crisis properly, the Egyptian Center for Economic Studies (ECES), in its initiative, is producing a set of daily reports entitled "Views on Crisis". The reports aim to analyze the implications of the coronavirus crisis for Egypt in relation to a number of vital production and service sectors and to key macroeconomic variables. This ECES initiative comes from the belief that the current critical conditions require directing state's efforts towards achieving two main goals: providing a decent life for Egyptians during the crisis and in the recovery phase, preserving the existing investments-especially domestic investments- and

helping to overcome the crisis and prepare for a rapid launch with the gradual decline of the crisis and recovery of the global economy.

The methodology used in these reports is based on an analysis of the supply and demand shocks associated with the crisis cycle in its various stages. Given the lack of detailed data on the sectoral impact of the crisis, the sectoral analysis is based on logical assumptions related to the nature of each sector and the degree of sector vulnerability to previous severe crises that were certainly less severe than the current crisis and different in nature. However, it is a starting point for the urgently required scientific diligence at this stage.

The reports attempt to provide a detailed perception of the magnitude and direction of crisis impact on each sector at present and until the end of the crisis. They aim to propose quick solutions to reduce the adverse impacts of the crisis in a balanced and integrated means that complement the serious efforts made by the state in this regard, and to offer other longer-term solutions to the existing institutional flaws, clearly revealed by the crisis. It is high time that these flaws are radically removed, which will improve post-crisis development efforts.

“Of course! Cinema has survived wars, pandemics and a host of technological changes. There is something elemental about gathering together in a dark room to watch a great film. I’m sure the reopening of cinemas will be a cause for a huge celebration and we’ll see audiences, desperate to get out of the house, flocking back to watch films on the big screen together.”

Philip Knatchbull
CEO, Chain of Curzon
cinemas in the UK

The importance of the cinema industry:

Although many categorize the cinema industry as a cultural and artistic activity only, it is in fact a full-fledged industry like any manufacturing industry. The movie combines script, acting, directing, production, and distribution in one system with its various stages to produce a work shown on screens.

The cinema industry is a huge global industry whose total revenue in recent years has reached more than \$60 billion annually, through cinemas only. This value doubles if we add to it home entertainment revenue. Thus, the size of this industry exceeds traditional manufacturing industries, not to mention its artistic and cultural role, which supports the identity of states politically and touristically, hence being described as the soft power.

Countries have paid attention to the economic weight of this industry and have taken great interest in supporting it and reaping the fruits of such support. For example, we find that Hollywood's activity, the oldest national cinema in the world, has contributed positively and tangibly to supporting the trade balance of the US¹ since the 1980s, which offset much of the decline in manufacturing industries over this period through exporting US movies and creating high-yielding jobs in addition to supporting tourism and the software and information technology industries,² which showed the extent of US development in this field.

While Hollywood is still the largest in terms of total box office revenue, Indian cinema has become the largest national cinema industry since 2011 in terms of the number of movies produced and the number of annual tickets sold that surpass Hollywood and

¹ The revenues of US films (in countries of the world - outside the US) are estimated at \$42.5 billion, which indicates the huge export activity of this industry.

² The software and information technology industries have been closely associated with the cinema industry in the last decade.

is the highest in the world. While Egypt had a great position in this industry in the middle of the last century, it lagged far behind the US, Indian³ and other countries' industries, as we will explain later. The global cinema industry was greatly affected by the COVID-19 pandemic, due to its close association with gatherings, thus the industry ceased completely throughout the world with the start of precautionary measures.

This report aims to assess the extent to which the cinema industry in Egypt was affected economically and socially by the pandemic over the crisis cycle in terms of income and number of employees, as well as the viability of current investments. The report comprises four sections: The first deals with performance indicators of the cinema industry in Egypt compared to its counterparts in several countries. The second provides a quick description of the development of the cinema industry in Egypt and its institutional setup, up to the point before the crisis, as well as the extent of its vulnerability to previous crises. The third section analyzes supply and demand shocks during the stages of the crisis in Egypt. Finally, the fourth section deals with global measures to deal with the crisis with regard to the cinema industry and what should be done in the Egyptian case in this regard. The report also reveals the institutional weaknesses of the Egyptian cinema industry, so as to be tackled in the future.

First: Brief description of the subject of the report

- The size and weight of the cinema industry in any country is assessed by the number of movies produced and revenue annually and the number of theaters and screens compared to the population. Table 1 shows the top fifteen countries in the cinema

³ India produced 1,813 films in 2018, and in the same year Indian cinema achieved the highest annual box office sales in the world (3.5 billion tickets).

industry. India is clearly in the first place with the largest number of films (almost two thousand films per year). The table indicates three groups of countries: the first group, which is the largest in the number of movies produced (India, Nigeria, China, Japan and the US), followed by the second group with half the number of US films (about 300 films)⁴ and includes South Korea, France, England, Spain, Germany and Argentina. Then, there is the third group (Mexico, Italy, Brazil and Turkey) with an average of 150 films per year. It is noted that Egypt is very far from all these countries in the production of movies, producing only 33 movies in 2019, which is not commensurate with the status of this industry and Egypt's global standing.

Table 1. Cinema Production Worldwide+

Rank	Country	No. of Movies Produced	Year
1	India	1.813	2018
2	Nigeria	997	2011
3	China	874	2017
4	Japan	689	2019
5	United States of America	660	2017
6	South Korea	339	2016
7	France	300	2017
8	England	285	2017
9	Spain	241	2017
10	Germany	233	2017
11	Argentina	220	2015
12	Mexico	176	2017
13	Italy	173	2017
14	Brazil	160	2017
15	Turkey	148	2017
♦	Egypt⁵	33	2019

Source: https://en.wikipedia.org/wiki/Film_industry⁶

⁴ With the fewest movies in the first group.

⁵ This information was obtained from journalist and film critic Walid Abu Al-Saud.

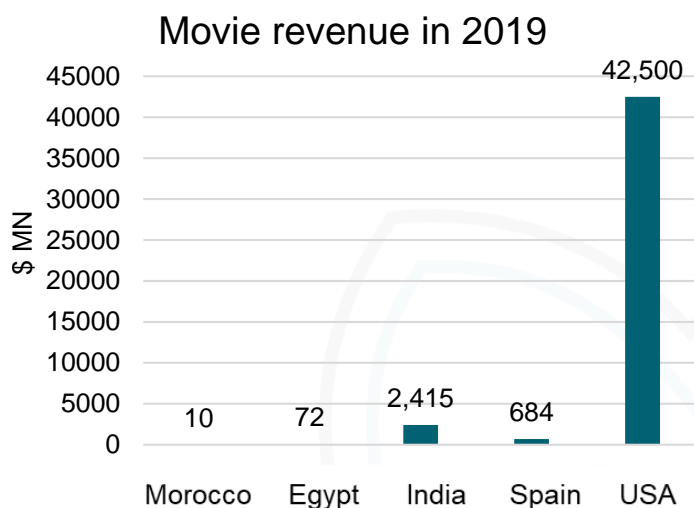
⁶ This source was used due to the presence of a set of data, which includes different countries in a comparative way, and it was reviewed with the experts.

- Regarding revenue, Table 2 and Figures 1 and 2 show a set of basic indicators for the following:
Top ten ticket sale countries; size of cinema revenue in a group of different countries and the per capita annual income of cinema in some countries.
- It is clear from Table 2 that the highest-selling country in terms of tickets is India, followed by China and the US. But the high number of tickets sold does not necessarily mean achieving the highest revenue, as this is linked to the price of the ticket. Thus, we find that the US achieves the highest revenue by a huge difference compared to the Indian case (\$42 billion⁷ and 2.5 billion, respectively), then come other countries with much lower values. We note also that cinema revenue in Egypt do not exceed \$72 million in the same year of comparison.
- By comparing the per capita income of cinema, we note that the per capita income in the US amounts to \$136 dollars while it declines in the case of India, despite its large size due to its huge population (\$1.78 dollars), while per capita income of cinema in Egypt is merely \$0.72 per capita.
- Despite the low sector's revenue in Egypt, it is still higher than Morocco and many other Arab countries that are not mentioned in the table. This confirms that despite Egypt's lagging globally in terms of revenues, it is still the highest in the Arab world. Foremost is its superiority at the artistic level in all industry specializations. However, Morocco allowed moviemakers from other countries to film in its territory, which led to a significant increase in its revenues from this industry as filming for others contributes from 5 percent to 10 percent of the Moroccan cinema revenue annually. This is a huge

⁷The US cinema industry revenue indicates the huge US export activity of this industry.

income without the country incurring any cost. Unfortunately, Egypt rejects this trend, which deprives it of many advantages.

Figure 1. The volume of cinema revenue in selected countries in in 2019⁸



Source: ECES.

Table 2. Number of tickets sold in selected countries

Rank	Country	No. of Tickets Sold in MNs	Year
1	India	2.020	2016
2	China	1.620	2017
3	United States	1.240	2017
4	Mexico	338	2017
5	South Korea	217	2016
6	Russia	213	2017
7	France	206	2017
8	Japan	194	2019
9	Brazil	181	2017
10	England	171	2017
♦	Egypt	14.8	2019

Source: https://en.wikipedia.org/wiki/Film_industry

Information for other countries was obtained from: ⁸

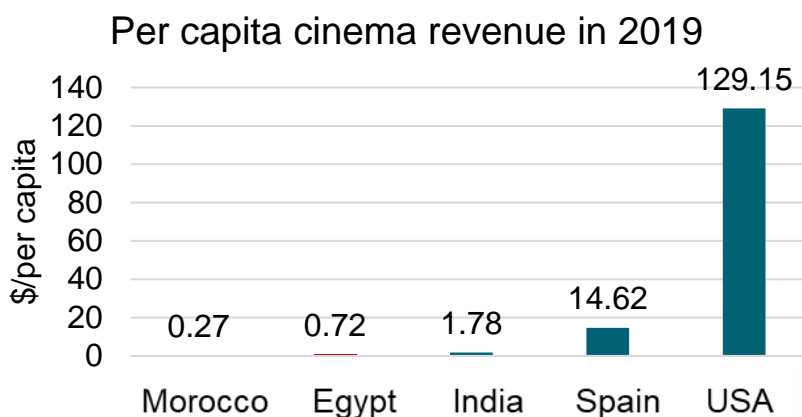
<https://www.youm7.com/story/2019/12/21/%D8%AD%D8%B5%D8%A7%D8%AF-2019-%D8%A3%D9%82%D9%88%D9%89-10-%D8%A3%D9%81%D9%84%D8%A7%D9%85-%D9%81%D9%8A-%D8%A8%D9%88%D9%84%D9%8A%D9%88%D9%88%D8%AF-%D8%A7%D9%84%D8%B9%D8%A7%D9%85-%D8%A7%D9%84%D9%85%D8%A7%D8%B6%D9%89-%D8%AD%D8%B5%D8%AF%D8%AA/4554864>

<https://www.moroccoworldnews.com/2020/03/295700/moroccan-movie-theaters-grossed-9-7-million-in-2019/>

<https://www.billboard.com/articles/news/8547827/2019-global-box-office-revenue-hit-record-425b-despite-4-percent-dip-in-us>

while information about Egypt was obtained from journalist and film critic Walid Abu Al-Saud.

Figure 2. Comparison of per capita cinema revenue in 2019⁹

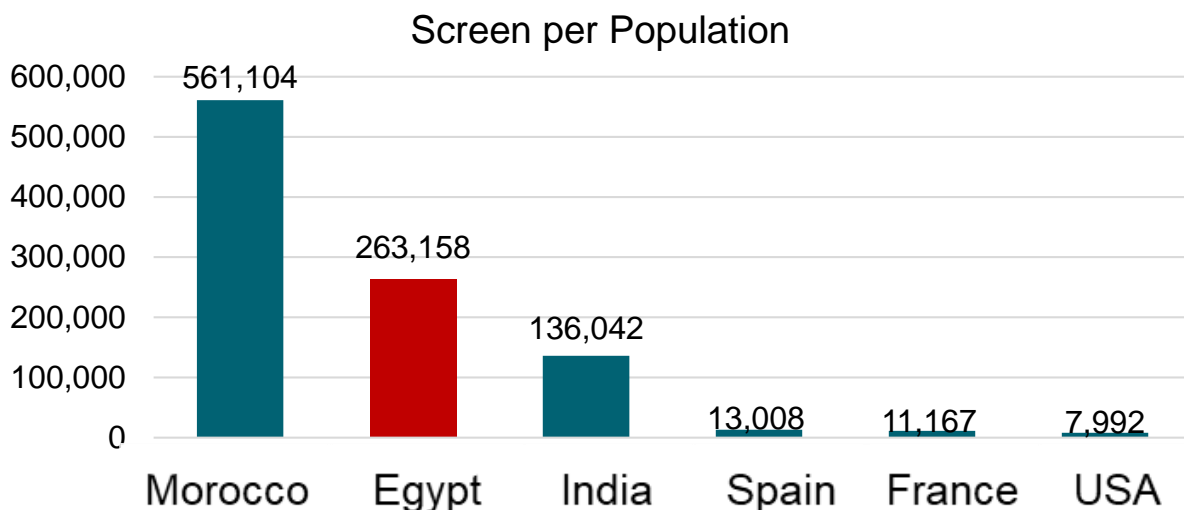


Source: ECES.

As for the number of screens compared to the population, Figure 3 shows the huge differences between countries. For example, there is a screen for every eight thousand citizens in the US, followed by France with a screen for every 11 thousand citizens. While Egypt occupies a low rank (one screen per more than 260 thousand citizens), which means that it is far behind European and Asian countries and the US, which is not consistent with its status and ancient history, as we will explain later.

⁹ Cinema per capita revenue is calculated by dividing the cinema revenue by population of the country.

Figure 3. Number of screens in selected countries ¹⁰



Source: ECES.

Second: Brief description of the development of the cinema industry in Egypt

- Figures 4 and 5 indicate deterioration of the Egyptian cinema industry from its inception to the present time (albeit performance has improved somewhat in recent years). It is noted in Figure 4 that the number of movies produced in 2019 amounted to only 33, which is almost half of the number of movies produced in 1946 (67 films). This means that Egyptian cinema activity in 2019 is much weaker than its beginnings despite eighty years have passed.
- It is also noted in Figure 4 that the number of movies produced in the seventies was stable but high in the eighties with the peak of cinematic production in Egypt in 1986 (96

Information for other countries was obtained from: ¹⁰

<https://www.youm7.com/story/2019/12/21/%D8%AD%D8%B5%D8%A7%D8%AF-2019-%D8%A3%D9%82%D9%88%D9%89-10-%D8%A3%D9%81%D9%84%D8%A7%D9%85-%D9%81%D9%8A-%D8%A8%D9%88%D9%84%D9%8A%D9%88%D9%88%D8%AF-%D8%A7%D9%84%D8%B9%D8%A7%D9%85-%D8%A7%D9%84%D9%85%D8%A7%D8%B6%D9%89-%D8%AD%D8%B5%D8%AF%D8%AA/4554864>

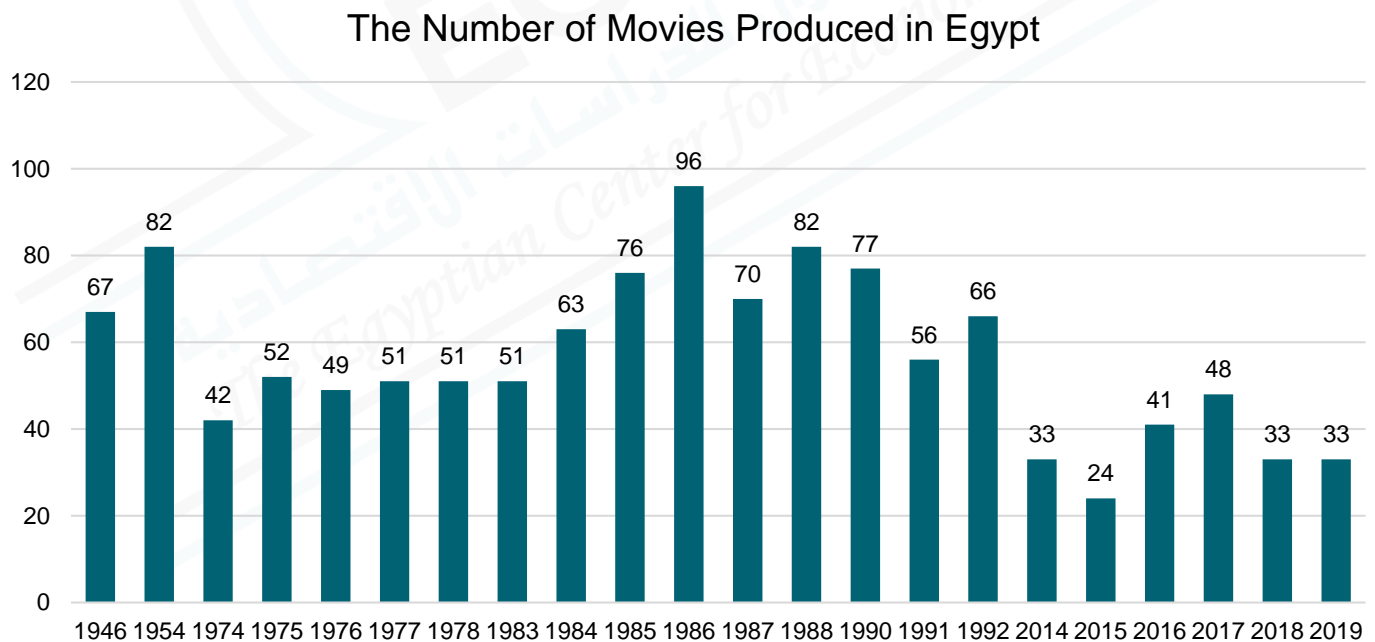
<https://www.moroccoworldnews.com/2020/03/295700/moroccan-movie-theaters-grossed-9-7-million-in-2019/>
<https://www.billboard.com/articles/news/8547827/2019-global-box-office-revenue-hit-record-425b-despite-4-percent-dip-in-us>

while information about Egypt was obtained from journalist and film critic Walid Abu Al-Saud.

films). This was linked to the declining role of the state in cinematic production and the emergence of the commercial private sector extensively. Since then, there has been a continuous decrease in the number of movies produced to reach its lowest point in 2015 (24 movies), reflecting severe reluctance on the part of producers.

- This lackluster picture of the movie industry is complemented with a sharp decline in the number of screens compared to population (Figure 5). For example, the number of screens reached 320 screens in 2019, a screen for more than 260 thousand citizens, compared to the situation in 1966 (i.e., fifty years ago), with a screen for every 117 thousand citizens.¹¹

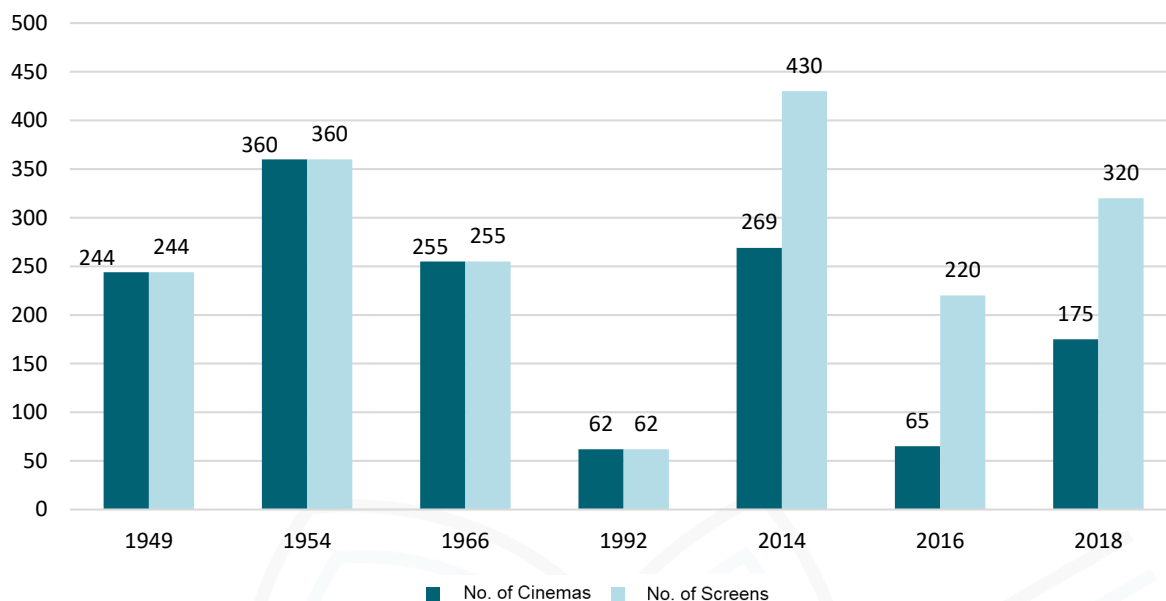
Figure 4. Evolution of the number of movies produced in Egypt



Source: ECES

¹¹ This decline in screen to population ratios comes despite the increase in the number of screens with the development of the cinema industry and the emergence of multiple screens per theater.

Figure 5. Evolution of the Number of Screens¹²



Source: ECES

- Table 3 and Figure 6 show revenue and ticket sales¹³ in Egypt during the past four years, which have witnessed a continuous increase. However, this increase does not necessarily indicate a surge in performance due to its association with specific movies. The increase in revenue in 2019 was 207 percent compared to 2015 as a result of raising ticket prices, improved quality of movies and technological development. But such increase does not indicate a boom, because a boom is linked to the improvement of the industry as a whole and finding solutions to its problems. Also, half of this percentage comes from foreign movies. For example, despite the dominance of foreign movies, specially US movies worldwide, its occupation of a higher position than Arab films (the number of tickets and a percentage of not less than 50 percent of revenue) indicates the weakness of the industry in Egypt and

¹² This information was obtained from journalist and film critic Walid Abu Al-Saud.

¹³ The number of tickets sold reflects the true appetite for watching movies.

its inability to attract the Egyptian viewers despite presenting films in their mother tongue.

- Finally, we point out that cinema revenues do not go in their entirety to movie producers, but are divided on average as follows: 20 percent to the State in the form of tax revenue, 40 percent to the owner of the cinema, and 40 percent to the producer.

Table 3. Egyptian Cinema Revenue Structure* from 2015 to 2019¹⁴

Year	Total revenue annually (Million) (EGP)	Egyptian movies		Foreign movies	
		Value (Million EGP)	**Percent	Value (Million EGP)	**Percent
2015	378	177	47%	201	53%
2016	526	257	49%	269	51%
2017	690	316	46%	374	54%
2018	843	396	47%	447	53%
2019	1157	633	55%	524	45%

*All revenue before tax.

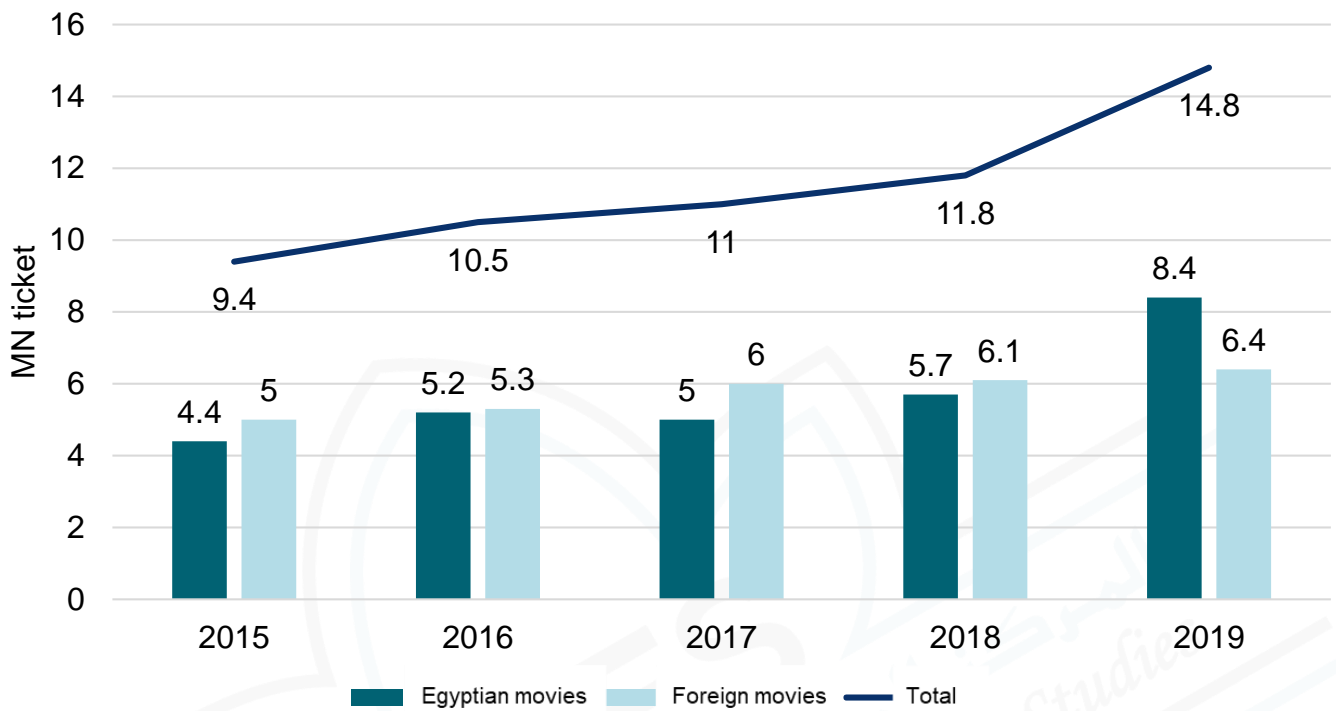
**Percentage of movie revenue from gross revenue for the same year.

Source: ECES

¹⁴ The information in the table was sourced from the following:

Data for foreign movies from Allied Film Distribution, the distributing company for Disney movies, Sony (Colombia) and independent movies, and data for Arabic films are sourced from journalist and film critic Walid Abu Al Saud.

Figure 6. Number of Arabic and foreign movie tickets sold annually (2015-2019)¹⁵



Source: ECES

To understand the causes of the deterioration of the movie industry, we begin by describing the value chain and the size of the sector, then identify the main features of the industry and its development over the years:

- The value chain of the movie industry (Figure 7) consists of three main stages: the preparation stage (idea and preparation), the implementation phase (production, photography, montage, etc.) and the post-production stage (distribution, internal and external marketing and digital marketing). Each stage has its specific requirements and expertise and its interrelations with other sectors.¹⁶ The

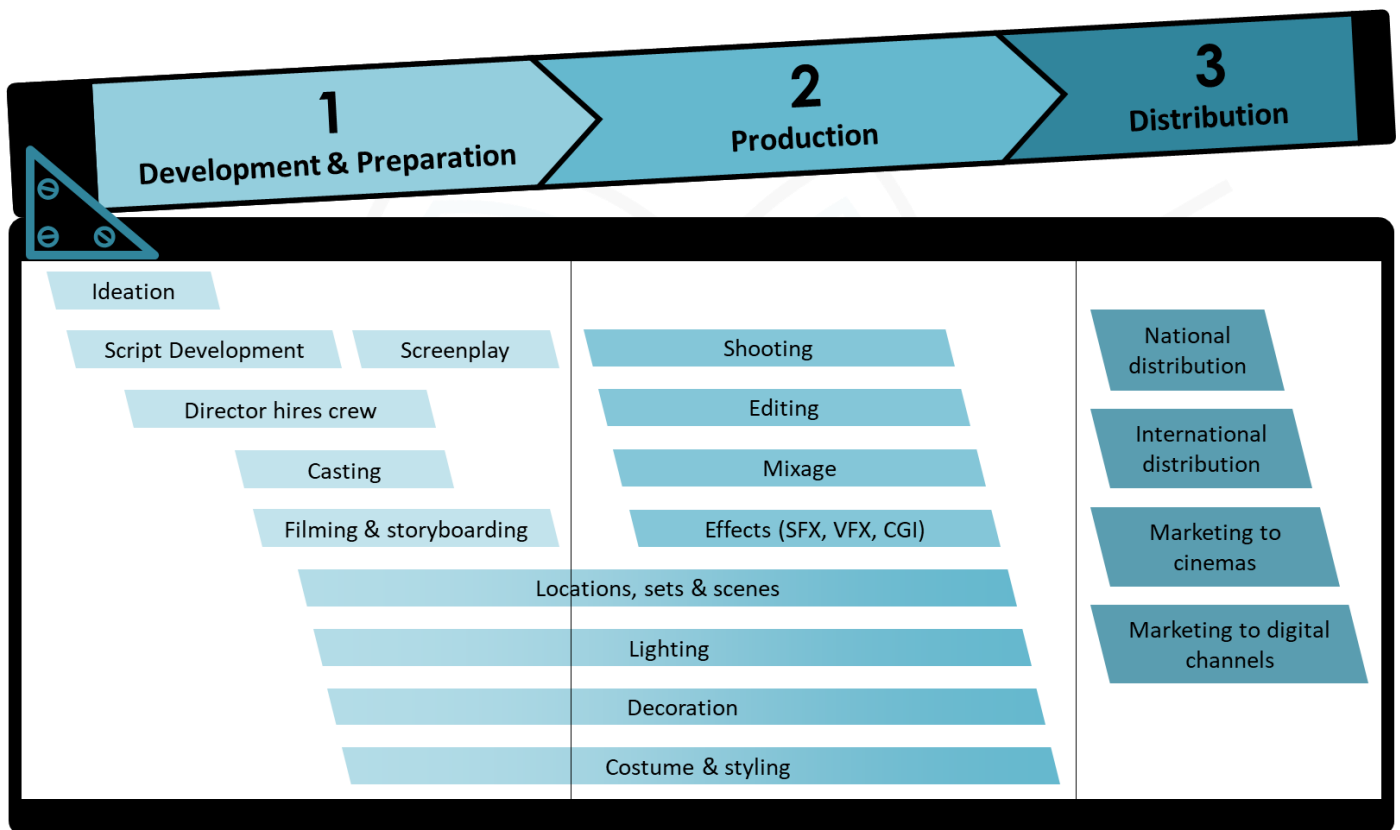
¹⁵ The information was sourced from the following:

Data for foreign movies from Allied Film Distribution, the distributing company for Disney movies, Sony (Colombia) and independent movies, and data for Arabic films are sourced from journalist and film critic Walid Abu Al Saud.

¹⁶ The sectors of apparel, accessories, furniture and other industries are related to the implementation stage. The technological and software industries are related to the post-production stage.

system as a whole operate with many internal connections and interfaces between the technical and technological dimensions, rendering the value chain in the cinema industry one of the most complex value chains. Figure 7 shows the activities associated with each stage.

Figure 7. The Cinema Industry Value Chain



Source: ECES

Table 4 illustrates some of the main features of the cinema industry in Egypt, the most important of which are as follows:

- The presence of a cinema industry chamber since 1947, which means that the State has long recognized it as an industry like any other manufacturing industry. The transformation of cinema since the beginning of the 2000s into an artistic and cultural activity comes mainly as a transformation to a weaker level with which the rights of this

industry were lost such as export subsidies or any other industrial government incentives. This means that changing the institutional framework for the cinema industry has been closely related to the deterioration of the performance of this industry as a whole despite its strong beginnings.

- The cinema industry has its own economics. The presence of high fixed costs on cinemas owners means that there is a minimum level of occupancy that must be satisfied in order to cover production costs and achieve reasonable profits. This percentage ranges from 30 to 40 percent on average over the year.
- This industry is very seriously affected by weak intellectual property rights in Egypt (Law No. 82 of 2002), where piracy is prevalent, leading to the reluctance of producers to produce. Piracy has begun several years ago, represented in the piracy of movies after being directly shown in cinemas and leaked to illegal sites on the Internet as well as some illegal channels that are shown on satellites. This is one of the biggest problems facing movie makers, as the movie's revenue drops by 60 percent once it is leaked.¹⁷
- Although the cinema industry in Egypt is a national industry, it is greatly affected by the cinema activity in the Arab countries, as well as developments of international cinema, including timing of new movies and festivals. The Egyptian cinema is particularly affected by the increase in cinematic activity in the Arab countries; in particular the increase in the number of screens; as these countries are the primary consumers of Egyptian movies.

¹⁷ There are currently 80,000 police reports filed by producers for piracy.

- Increasing the price of the movie ticket through additional tax obligations to the State in the form of value-added tax and the police fee means shifting the cinema from a low-cost entertainment activity that is appropriate for all groups to a high-cost activity exercised on occasions only (specifically holidays).¹⁸
- The cinema industry and various theaters are free to set ticket prices as long as they honor their obligations to the State.

Table 4. Basic Features of the Cinema Industry in Egypt

The size of the cinema sector and the nature of investment activity therein	<ul style="list-style-type: none"> - The number of companies operating in the sector currently amounts to a maximum of 400 companies in various specialties, although members of the Chamber of Movie Industry amount to 3000 members as the Chamber registers members of the activity rather than companies.¹⁹ There are companies that combine more than one activity, such as production and movie theaters while others that have only one of them.²⁰ - The Egyptian Chamber of the Movie Industry includes three main divisions, namely: the theaters division, the production division and the laboratories and studios division, which are the three main activities related to the industry. - Movie theaters are rented by companies producing or investing in the field on an annual basis, regardless of the size. The rental value of the theater in a commercial center
---	---

¹⁸ In recent years, the ticket price has been raised in an attempt to cover the larger expenses associated with fixed costs than to increase profitability.

¹⁹ The company may have several theaters, but joins the Chamber in the name of each screen.

²⁰ A number of these companies are out of business due to the deterioration of the cinema industry.

represents 20 percent of the income of the theater.

- Therefore, the rent of theaters is considered fixed annual expenses for those who invest in the field.
- In addition to fixed expenses, there are salaries of 40 percent of workers in this industry who work in activities linked to theaters (tickets, cleaning and technical teams).

Workers in the movie industry in Egypt

- The cinema industry is a labor-intensive industry with at least half a million workers (40 percent permanent labor and 60 percent variable labor linked to the cinema industry in all its stages and all specialties). A significant portion of this belongs to the informal sector.
- One of the most important features of this industry is that it needs graduates of specialized higher education. Therefore, it is an area that avails job opportunities for university graduates—the category that suffers the highest unemployment rates as mentioned in previous ECES reports on the labor market,²¹ the informal sector,²² and education.²³

The institutional framework and the role of the State and the private sector

- Establishing the Cinema Industry Chamber in 1947 and including it into the Federation of Egyptian Industries.
- The nationalization of the movie industry in Egypt during the 1960s, when the Public Cinema Authority was established to produce feature films.
- The Public Cinema Authority was dismantled in the early 1970s and replaced by a public body that includes theater and music along with the

²¹ Views on Crisis, Labor Market, No. 13 [http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_5_14-5_17_16%D8%B1%D8%A3%D9%8A%20%D9%81%D9%8A%20%D8%A3%D8%B2%D9%85%D8%A9_%D8%B3%D9%88%D9%82%20%D8%A7%D9%84%D8%B9%D9%85%D9%8414-5-2020%20\(final\).pdf](http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_5_14-5_17_16%D8%B1%D8%A3%D9%8A%20%D9%81%D9%8A%20%D8%A3%D8%B2%D9%85%D8%A9_%D8%B3%D9%88%D9%82%20%D8%A7%D9%84%D8%B9%D9%85%D9%8414-5-2020%20(final).pdf)

²² Views on Crisis, Informal sector, No. 7 http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_4_6-6_37_306-4-2020-last%20by%20Ebrahim-1.pdf

²³ Views on Crisis, Education, No. 5, [http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_3_31-8_4_25education%20final%20\(2020.03.31\).pdf](http://www.eces.org.eg/cms/NewsUploads/Pdf/2020_3_31-8_4_25education%20final%20(2020.03.31).pdf)

cinema. The authority stopped cinematography, contenting itself with the activity of the private sector, and since that time the State's role in cinematography has completely receded. Over the last two years, 2018 and 2019, the role of the State in production, distribution and marketing activities has returned.

- Currently, cinema in Egypt is affiliated with four ministries:
 - key Ministries: Culture, Trade and Industry
 - Sub-Ministries: Planning and Finance.²⁴
- In 2018, the Ministry of Culture restructured the National Cinema Center and adopted plans to protect cinematic heritage.

Financial obligations towards the State

The financial obligations of the cinema industry in Egypt towards the State are divided into two types:

The first type is taxes, which are divided into taxes that are imposed on foreign and Arabic movie tickets as follows:

Arabic movies:

- Entertainment tax (5 percent)
- VAT (5 percent)
- Police fee (2 pounds per ticket).

Foreign movies:

- Entertainment tax (20 percent)
- VAT (5 percent)
- Police fee (2 pounds per ticket).

There is double taxation between entertainment tax and value-added tax.

As for the second type, it is the cost of services related to theaters such as electricity, where cinemas are treated as a commercial category, being the highest

²⁴ https://masrelbalad.com/home/single_news/1934

segments in terms of electricity cost: Electricity expenditures are estimated at no less than EGP 200 thousand per screen per year on average.

The relationship of Egyptian cinema with Arab and international cinema

- With the limited number of screens, the Egyptian cinema industry has become closely linked to the role of cinema in different Arab countries. Production companies show movies in several countries at the same time so that they can maximize revenue. This applies to all Arab countries, especially the UAE, Lebanon, Tunisia, Morocco, Algeria, and recently the Kingdom of Saudi Arabia, which promises this industry great prosperity as the Saudi cultural openness started in 2019.

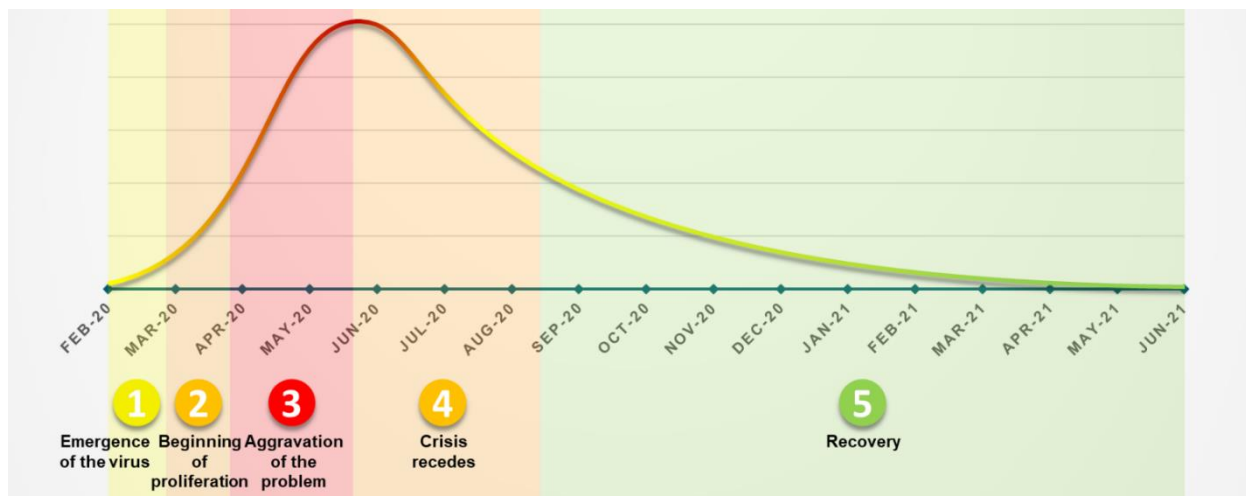
Sources: ECES.

- Finally, the cinema industry was not affected by any of the crises mentioned other than the Revolution of January 25, 2011, with the negative impact being slight as cinemas were closed for only one month.

Third: Demand and supply shocks in the context of the crisis cycle

The global cinema industry was directly and significantly affected by the pandemic as a result of its association with gatherings as mentioned above. Below is an analysis of the extent of the impact on the Egyptian cinema industry's during the crisis cycle in its various stages. Figure 8 below shows the stages of the crisis:

Figure 8. Stages of the Crisis



Source: The Egyptian Center for Economic Studies.

Below is a brief description of each stage:

The first stage: Emergence of the virus

The crisis began and aggravated in China only. The rest of the world, including Arab and European countries, were not yet affected by the crisis.

The second stage: Beginning of proliferation

The spread of the virus globally. Arab countries began to be affected at the end of February and initiated precautionary measures to prevent the spread of the virus. European countries are greatly affected.

The third stage: Aggravation of the problem

The situation in the world has worsened, tougher measures in the Arab countries, especially Saudi Arabia and European countries,

a major worsening of the crisis in Italy, beginning of the virus's receding in China, and beginning of its spread in the United States.

The fourth stage: Crisis recedes

The beginning of recovery from the virus globally, starting from China, which is expected to be followed by European countries, and finally, Arab countries and the United States.

Fifth stage: Recovery

Gradual recovery in all countries, including Arab countries, although the latter's recovery is expected to be delayed due to being strongly impacted by the global economy and its weak impact on it.

The demand and supply shocks are defined as follows:

- **Demand shock:** Sudden change in the demand to watch cinematic shows and the audience's reluctance to go to theaters as a result of precautionary measures.
- **Supply shock:** Movie makers are unable to provide the required product in response to the demand shock or other causes linked also to the pandemic.

The impact of the crisis cycle on the cinema industry will be analyzed (Table 5) through monitoring the rate of unemployment of workers in this industry, the ability of investments to coexist, especially the ability of theaters to adhere to precautionary measures and make profit without additional investments. The analysis is based on the following concepts and assumptions:

- 1- Precautionary measures directly affect the cinema industry as a result of the curfew.

- 2- The standard traditional theater halls do not achieve the necessary precautions required for social distancing.
- 3- The economics of the cinema industry require occupancy rates of not less than 50 percent in order for the producers to accept showing their movies, achieving the minimum return on investment. This ratio is higher than average due to the lack of a guarantee of show continuation.
- 4- The presence of 40 percent permanent employment in the cinema industry means that production companies and theaters are burdened with expenses in the absence of any type of income.
- 5- The Egyptian cinema is directly related to the Arab cinemas, as well as the international cinema.
- 6- Closing theaters also affects the State's tax revenues.
- 7- The season of the cinema industry in Egypt is associated with occasions such as Eid Al Fitr, Eid Al Adha, mid-year and year-end holidays, and Sham El-Nessim).
- 8- The return of cinematic activity depends not only on the return of travel and tourism activities, but also on the easing of precautionary measures.
- 9- The impact on the cinema industry revenue was calculated in relation to the 2019 revenue.

Table 5. Details of the impact of COVID-19 on the cinema industry during the crisis cycle²⁵

Stage	Demand and/or supply shock	Analysis	Impact
Stage 1: Emergence of the virus (December 2019 - January 2020)	<ul style="list-style-type: none"> • A slight shock started on the supply side. • There is no shock on the demand side at this point. 	<ul style="list-style-type: none"> • The slight supply shock came due to the closure of cinemas in China due to the impact of the movie market in China on other cinematic markets globally. • The virus has not yet reached Egypt at this stage, so fear and anxiety have not spread among cinema goers. 	<ul style="list-style-type: none"> • The closure of cinemas in China resulted in a decrease in revenues of foreign movies in Egypt with continued revenue from usual Egyptian movies, because until this stage there is no impact on Arab markets. • No financial pressure on producing companies to lay off labor or the like. • No effect on State revenue from taxes levied on box office revenue.
Stage 2: Start of the virus (February - mid-March 2020)	<ul style="list-style-type: none"> • Continued slight supply shock. • No demand shock yet. 	<ul style="list-style-type: none"> • The virus has reached Europe, thus postponing shows of most European movies. 	<ul style="list-style-type: none"> • Previous effect on Egypt continues. • A negative impact on theaters in Egypt due to limited new foreign movies.

²⁵ The scenarios presented depend on data collected by ECES.

		<ul style="list-style-type: none"> • Some European film festivals have been postponed. 	
Stage 3: The problem aggravates (mid-March to the end of May 2020)	<ul style="list-style-type: none"> • violent supply shock (aggravation of previous supply shock) • Violent demand shock 	<ul style="list-style-type: none"> • A cabinet decision to close theaters in Egypt was issued on March 17, 2020. • A decision was issued to suspend events of public nature, including film festivals. • The Arab cinema market came to stop with significant impact on the revenues of Egyptian movies distributed in Arab countries as a result of taking precautionary measures. • Halting and postponing the filming of many movies as a result of precautionary measures and 	<ul style="list-style-type: none"> • The movie sector lost EGP 270 million (through the loss of both seasons of Sham Al-Naseem and Eid Al-Fitr).²⁶ The state lost EGP 288 million, which is the average tax return on tickets in recent years. • By surveying a sample of production companies, 40% of workers (200,000 workers) were not laid off nor their wages cut as of end of May. • Theaters and production companies bear fixed costs with no return on investment²⁷ (each within its field) • Postponing cinematic activity means that 60% of workers in the

²⁶ Assuming that 2020 will achieve 2019 revenue as a minimum and assuming the four seasons have the same weight of revenue as in 2019.

²⁷ Films remain packed.

		also due to the low optimistic outlook due to Saudi market joining the Arab markets.	sector (300,000 workers) will remain without work.
<p>Stage 4: the crisis recedes (Last May-August 2020)</p>	<p><u>This stage is divided as follows:</u></p> <p><u>From end of May to end of June:</u></p> <p>The supply and demand shock continues almost like in the previous stage.</p> <p><u>From beginning of July to mid-August:</u></p> <p>Gradual decline in supply and demand shocks.</p>	<ul style="list-style-type: none"> • According to State statements, theaters and other activities will reopen in mid-June, with precautionary measures followed. • According to the institutions concerned with the industry in many European countries, cinemas and cinema-related activities will reopen in late June with precautionary measures followed. • Theaters in Egypt will continue open with precautionary 	<p><u>The pessimistic scenario:</u></p> <ul style="list-style-type: none"> • Despite this opening, precautionary measures that will be taken will lead to a negative impact on cinema economics, as occupancy rates are expected to reach only 25 percent, which makes production companies reluctant to show their movies because cinema economics will not cover production costs. Therefore, there is a possibility of reducing wages or layoffs of some permanent workers (200 thousand workers).

		<p>measures followed.</p> <ul style="list-style-type: none"> • The return of the European cinema market or non-return in the event of a setback. 	<p><u>The optimistic scenario:</u></p> <ul style="list-style-type: none"> • Theaters in Arab countries will also reopen, thus offsetting the weak revenues resulting from low occupancy rates in Egypt • The optimistic and pessimistic scenario continue according to the development of the disease in the Egyptian case. It is certain that in the event of postponing international movies expected to be shown in July, it will be a new setback for the international cinema and in turn the Egyptian cinema.
<p>Stage 5: Recovery (beginning in September 2020)</p>	<ul style="list-style-type: none"> • Supply and demand return to pre-crisis normal. 	<ul style="list-style-type: none"> • Finding a vaccine and crisis recedes completely. 	<p><u>Optimistic scenario:</u></p> <ul style="list-style-type: none"> • A third²⁸ of 2019 revenue is expected.²⁹

²⁸ Opening is from the first of September.

²⁹ Part of what was lost in previous events is offset with the beginning of return of cinema in addition to the traditional summer vacation season.

	<ul style="list-style-type: none"> • Return of supply and demand with the possibility of new shocks. 	<ul style="list-style-type: none"> • Reopening cinemas to their full capacity. • The return of cinema goers. • Producers move to complete filming suspended movies and produce new movies. • Full return of air traffic. • The return of film festivals. • Continued fluctuation regarding return of the virus locally and globally. 	<ul style="list-style-type: none"> • Gradual return of the cinema industry, and thus a gradual return of its workers (500,000 workers). • Generating revenue for the state through taxes imposed on theaters. • Increasing income for cities in which film festivals are held, as cinema festivals contribute to supporting these cities at both economic and tourism levels. <p><u>The pessimistic scenario:</u></p> <ul style="list-style-type: none"> • Bankruptcy of production companies and layoffs.
--	---	--	---

Source: ECES.

Table 6. Global Measures to Face up to the Crisis

Country	Protection of workers in the sector at various stages of the industry ³⁰	Actions taken at the level of financial support and financing ³¹	Actions taken at the administrative level ³²	Precautionary measures inside cinemas ³³	Actions taken at the level of film festivals ³⁴	To create new ways to distribute and show the film product ³⁵	Create a website or an online forum ³⁶	Establishment of a sector-specific relief fund (government support and financing facilities)	Attracting viewers to follow cultural activities electronically	Conduct training sessions for filmmakers	Focus on a specific type of movies
France	✓	✓	✓	✓	✓	✓					
Italy	✓	✓	✓	✓	✓						
Germany	✓	✓		✓	✓		✓				
England	✓	✓		✓	✓		✓	✓			
Spain	✓	✓			✓				✓		
Sweden	✓	✓		✓							
Belgium	✓	✓	✓	✓	✓						✓
Bulgaria	✓	✓	✓	✓							
Croatia	✓	✓	✓	✓							

³⁰ Such as the necessity of wearing gloves and protective masks, maintaining the rule of social distancing, and reducing the number of workers on site and other procedures.

³¹ Examples of measures taken at the financing level include: setting support plans and increasing the budget for the movie sector in emergency situations, reducing the burden of taxes imposed on filmmakers in the current period, providing financial support through loans granted by banks, and postponing the due date of taxes and others.

³² The measures taken at the administrative level were to hold meetings only through the Internet and various websites, and procedures for dealing safely at the administrative level.

³³ All cinemas have been closed in all countries, to be reopened in the coming months in the context of taking precautionary measures, such as maintaining social distancing with a distance of no less than 2 meters between each viewer and the other. Also, there are some countries that have not yet defined the precautionary measures that will be taken when opening theaters. There are some countries that have decided to subsidize the price of a movie ticket.

³⁴ One of the most important measures taken at the level of film festivals is the postponement of all film festivals to October, November and December, but there are some festivals that have decided to hold one of their parallel events through electronic communication.

³⁵ Some countries have distributed films through some viewing platforms without prejudice to the laws on intellectual property rights or the possibilities of viewing in specific times.

³⁶ Like Germany, which created a page to collect information about the international cinematographic market and film festivals around the world, as well as England, which created a forum to discuss all issues related to various segments of the sector.

Czech	✓	✓	✓	✓	✓						
Denmark	✓	✓	✓	✓							
Finland	✓	✓									
Norway	✓	✓	✓	✓							
Iceland	✓	✓		✓							
Estonia		✓		✓							
Greece	✓	✓	✓	✓							
Ireland		✓	✓	✓						✓	
Lithuania	✓	✓	✓								
Malta		✓									
Netherlands		✓	✓		✓						
Poland	✓	✓	✓	✓	✓						
Portugal	✓	✓		✓	✓	✓					
Romania		✓									
Serbia	✓										
Slovakia	✓	✓	✓	✓	✓	✓					
Slovenia		✓	✓								
Switzerland		✓			✓	✓					
Ukraine					✓						

Source: ECES drawing on data about European cinema's dealing with the crisis.³⁷

³⁷ <https://cineuropa.org/fr/newsdetail/388352/hello>

Interventions required to mitigate the effects of the crisis:

1. Reducing taxes imposed on movie tickets for a period of six months so that the owners of theaters and producers can offset losses they incurred during the current period, or at least until the industry returns to its usual levels of occupancy.
2. Revisiting the tax burden on the movie sector and eliminating double taxation.
3. Postponing the tax obligations of the producing companies and theaters until the end of the year so that they can recover from the crisis.
4. Adopting measures similar to those taken by other countries (Table 6) in an integrated manner combining facilitating the implementation of precautionary measures by the State and financial support for the industry.
5. Adding the cinema industry to other sectors that benefit from the soft loans provided by the central bank during the crisis, as current conditions of loans do not suit the needs of the cinema industry.³⁸
6. Classification of the cinema industry in an intermediate category (between manufacturing and commercial activity) so the cost of electricity and others is reduced and in order to help the sector postpone its obligation to pay rent to commercial centers until the industry gradually returns to normal.
7. Contribute to movies that are produced during the crisis period by allocating some of the state-owned advertising sites for free until the end of 2020, that is until the cinema gradually returns to normal in both operation and revenues.
8. Consulting with workers in this industry with a view to developing quick and detailed software for more comprehensive digital platforms than the ones currently in

³⁸ Mentioned in institutional weaknesses.

place, so that preparation can be made, even partially, if the current crisis persists or repeats.

Institutional weaknesses revealed by the crisis:

1. One body should be responsible for the cinema industry rather than the current institutional fragmentation, provided that this body is similar, for example, to the National Center for the Cinema in France.
2. Reaching a fundamental solution to the problem of piracy by updating and activating the intellectual property law, especially that the last electronic crime law does not address this problem.
3. To support the industry by establishing a fund whose financing depends primarily on a percentage of the entertainment tax imposed on the foreign movie ticket,³⁹ as it has annual continuity that guarantees continuous funds. This should preferably be related to the number of copies allowed for a foreign film in order to maximize revenue and thus provide additional resources to support the local cinema industry, for example, support for youth and experimental movies.⁴⁰
4. More generally, the State's resumed support of the movie industry as a labor-intensive and economically promising industry through specialized programs as in other countries, regardless of the Corona crisis, and as was happening in Egypt before the crisis, such as: support provided from the Export Development Authority, which was offered for only two years before 2011, as well as the support provided by the National Center for Cinema, which amounted to EGP 20 million and was given for only two years, then stopped in line

³⁹ For example, the difference between the entertainment tax on foreign movie tickets (20%) and the entertainment tax on the Egyptian movie ticket (5%) is placed into the fund (15%).

⁴⁰ This proposal relates to studying the possibility of not limiting the number of copies of foreign movies in order to increase revenue.

with benefits received from the Industrial Modernization Centre.

5. Banks should study the financing needs of the cinema industry, taking into account the special nature of this industry, in consultation with filmmakers.
6. Increasing the number of screens through the use of cultural palaces as additional cinema theaters and introducing the procedural or legal changes required. This expansion achieves more geographical and cultural justice. In addition, considering the provision of land in appropriate places at nominal prices that motivate investors to establish modern theaters, especially in non-urban provinces.
7. Canceling all bureaucratic and customs⁴¹ procedures related to prohibiting foreign filming in Egypt to generate income for the State.
8. The State should play its role as a regulator of the industry and not a direct participant in production and / or distribution, as most successes of the global cinema industry operate as per this model.
9. There should be a good and strong representation of the Egyptian cinema industry in various international festivals such as the Cannes Festival and others as commensurate with its heritage and its great cinematic history, regardless of whether or not Egyptian movies are shown in the festival.⁴²
10. With the opening of new cinematic markets in many Arab countries, Egypt needs to promote the Egyptian cinema industry, and transfer the Egyptian expertise in this field to these countries by encouraging productive and marketing partnerships and others.

⁴¹ Most problems in this area are related to customs procedures.

⁴² In the framework of spreading the Egyptian film internationally.

Disclaimer

This report was prepared for distribution to members of the Egyptian Center for Economic Studies only and may not be published or distributed without the written consent of ECES management. The data, analyses or information contained in this report do not constitute any form of recommendation or assurance of the commercial feasibility of the activity subject of the report or its ability to achieve certain results.

The data and investment analyses contained in this report were prepared based on the viewpoint of ECES, and rely on information and data obtained from sources we believe in their validity and integrity. We believe the information and conclusions contained in this report are correct and fair at the time of their preparation, and should not be considered as a basis for taking any investment decision. ECES is not responsible for any legal or investment consequences as a result of using the information contained in this report. Any errors that may have occurred at the time of preparing these data are accidental and unintentional.

Egyptian Center for Economic Studies (ECES)
All rights reserved

