

Department of History and Civilization

Selling French Films on Foreign Markets
The International Strategy of a
Medium-sized French Film Company, 1919-1938

GERBEN BAKKER

HEC No. 2001/3

EUI WORKING PAPERS



EUROPEAN UNIVERSITY INSTITUTE

European University Institute



3 0001 0034 7588 8

EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

DEPARTMENT OF HISTORY AND CIVILIZATION

EUI Working Paper **HEC** No. 2001/3

**Selling French Films on Foreign Markets
The International Strategy of a
Medium-sized French Film Company, 1919-1938**

GERBEN BAKKER

BADIA FIESOLANA, SAN DOMENICO (FI)

WP 940

EUR



All rights reserved.

No part of this paper may be reproduced in any form
without permission of the author.

© 2001 Gerben Bakker
Printed in Italy in July 2001
European University Institute
Badia Fiesolana
I – 50016 San Domenico (FI)
Italy

SELLING FRENCH FILMS ON FOREIGN MARKETS

The international strategy of a medium-sized French film company, 1919-1938¹

1. Introduction

Motion picture production, an emerging service industry in the first half of the last century, was international from its start: because of high sunk costs and nearly costless reproduction, a particular film was exported to most countries in the world. Forced by competition, film companies wanted to set their production budgets as high as possible, and therefore had to take into account the revenue from foreign markets. This meant that even relatively small and young companies produced their films for an international audience.

This paper examines the international strategy of one such firm: Les Films Albatros, a medium-sized French film production company, founded by Russian refugees in 1919. It kept producing films profitably during the entire inter war period, contrary to most of its competitors, which often were very short-lived. The company produced for the international market, as it could not amortise its film budgets on the French market alone. Sharing risk and international marketing, the company co-produced some of its films with similarly small companies of other European countries.

This paper examines which markets were essential for the firm's continuity, and how this affected its international strategy. Further, the strategy and organisation of the international co-productions will be investigated. Special attention deserves the company's relations with the large French film companies Pathé and Gaumont, which sometimes were competitors, but sometimes also invested in the company's films and made available their studio facilities and international distribution networks.

This research is worthwhile to pursue since it tells the 'other half' of the history of internationalisation: while much literature focuses on large industrial companies, this paper investigates the internationalisation of small, flexibly specialised service companies. It fits in Scranton's framework, who states that the

¹ Address author: Gerben Bakker, Department of History, European University Institute, Via Boccaccio 121, 50133 Florence, Italy. Email: gerben.bakker@iue.it; Tel.: +39-055-247 6345; Fax: +39-055-4685 203. This

Chandlerian model of the modern business enterprise accounts at most for half of American development, and comes up with a model of flexible specialisation to explain the other half.² The paper also shows the role played by 'cultural discounts' in international trade. Furthermore, it shows that the French film industry was already organised around a model of 'flexible specialisation' which would be adopted by the Hollywood studios only in the 1950s. Lastly, the research examines a special kind of internationalisation in service industries: international co-production (joint-venture) on a project basis by medium-sized, independent firms.

This paper focuses on a small company rather than one of France's larger firms, because it can show that in the film industry, even small films could not afford to focus on the French market alone: however small their budgets and output, they had to take into account the world market in all their business decisions. Further, the firm examined here was one of the most prominent and enduring small film companies in inter war France, that kept turning out films during most of the period, while many of its peers went bankrupt.

Another reason for choosing Albatros is that what is left of its archives of contains unique data: for several films, a detailed breakdown of the revenue from foreign markets is available. These kind of data have not been used or found before for film companies in France or elsewhere. Sources that come closest are the revenue ledgers of some Hollywood studios, but these contain only the aggregate foreign revenues, not the breakdown by country.

This paper will first tell something of the background and history of Albatros, and shortly discuss its production strategy. Then the importance of international markets for its films will be examined; i.e. the extent to which Albatros could count on the French market to amortise its film budgets, and the relative importance of several export markets. The last part will shortly address the theoretical implications of the findings.

Due to its prominent place in French film making relative to its size, Albatros, its films and its employees have received considerable attention of film historians.³

preliminary draft contains work in progress and does not constitute formal publication. It is circulated to stimulate discussion and critical comment. Please do not refer to it in writing without the author's agreement.

² Philip Scranton, *Endless Novelty. Specialty Production and American Industrialisation, 1865-1925* (Princeton University Press, 1998).

³ For example Jean Mitry, 'Ivan Mosjoukine', in: *Anthologie du Cinéma* 48 (October, 1969), pp. 393-440; Lenny Borger and C. Morel, 'L'angoissante aventure. L'apport russe de l'entre-deux-guerres', in: *Positif* No. 323 (January

This paper will confine itself to Albatros' business strategy, examined from an international perspective, and will not address the aesthetics of its films, the relation of its film styles to the rest of the French film industry, the place of its managers in the Russian emigration wave and other issues. For these issues readers are referred to the elaborate and well-illustrated work of François Albera.⁴

2. Origins and history of Albatros

Films Ermolieff, the predecessor of Albatros, was set up in Paris by a group of Russian film makers who had fled the Russian revolution. In Moscow, the group was led by Joseph Ermolieff, the director of the Russian production and distribution subsidiary of the French Pathé company (which was at that time the largest film company in the world). After the October Revolution, the group set up a studio on the Crimea, where it kept making films in provisory circumstances during the Civil War. When the red armies finally reached the Crimea, the group escaped to Istanbul, and from there they continued to Marseille. All along their way they kept shooting footage for a film they started on the Crimea.⁵

They ultimately settled down in Paris and quickly founded La Société Ermolieff-Cinema in mid-1920, with financial support of Charles Pathé. Pathé was befriended with Ermolieff and sold them an old Pathé studio in Montreuil, close to Paris. The initial capital of the company was one million francs. Turning their experiences into entertainment, they made their first film from the footage they shot during their flight, about a man who falls in love with a cinema actress and follows her to Paris.⁶

A major asset of the group was Ivan Mosjoukine, a Russian star actor who also enjoyed some international appeal. Minor star actors were Nicolas Rimsky and Nicolas Koline. Besides of them, the group consisted of technical experts; lighting specialists, cinematographers, directors and set designers. For the first few years

1988), pp. 38-42; Kristin Thompson, 'The Ermolieff group in Paris. Exile, impressionism, internationalism', in: *Griffithiana* No. 35-36 (October 1989), pp. 50-57. A contribution focusing more on the business side is Jacques Choukroun, "A propos du premier projet de production de La Grande Illusion," in: *Archives*, No. 70 (February 1997), pp. 24-26, and *Archives*, No. 73 (December 1997), p. 32-33, which examines the Albatros' production budgets for two films: *Les Bas Fonds* and the proposed *La Grande Illusion*.

⁴ François Albera, *Albatros. Des Russes à Paris, 1919-1929* (Paris, Mazotta/Cinémathèque Française, 1995).

⁵ Borger, 'L'angoissante aventure', 38-39; Thompson, 'Ermolieff group', pp. 50-51.

⁶ Thompson, *Ibidem*.

Ermolieff produced three to four low budget films a year. This itself was quite an achievement in the French film market, which was in crisis after the First World War. Many smaller companies, such as the well-known Eclair, went bankrupt and large companies such as Pathé and Gaumont moved out of production and concentrated on film distribution instead.⁷

In 1922, when Ermolieff left to Germany, Alexandre Kamenka took over the management and changed the company's name to Les Films Albatros. Three phases can be discerned in the company's development. In the initial phase, Albatros nearly all the creative and technical specialists Albatros used were Russian émigrés.⁸ In a second stage, which started after 1923, Albatros increasingly used local (French) talent, sometimes contracting famous French directors as Jacques Feyder and René Clair to direct the films, which often had an expressionist style. The use of French talent was partially a necessity due to Albatros own success: because of it, many Russian talents received good offers from elsewhere and left the company. Further, the advent of sound film at the end of the 1920s ended the careers of most Russian actors, who could not speak French without an accent. In a third stage, Albatros bought E. Girard, a small French distribution company which it changed into Films Armor. Armor, which also distributed films from third parties, was one of the larger film distributors in France. At the same time, Albatros shifted its production towards fewer, but more expensive films, which were heavily promoted.⁹

After the coming of sound, Albatros output changed from three to five films a year to one or two films a year, on average. It seems that French sound film limited the international market to a larger extent than it increased the domestic market. However marginal this existence may seem, Albatros did continue film production, and that was quite an achievement in itself, given the highly fragmented and dynamic structure of the French film industry in the inter-war period. At the same time during the 1930s, the large Pathé and Gaumont companies went bankrupt, and most film production was done by small, short-lived companies, compared to which Albatros

⁷ Richard Abel, *French Cinema. The First Wave, 1915-1929* (Princeton, Princeton University Press, 1984), pp. 11-38.

⁸ For a general overview of Russian émigré film makers in Europe in the inter war period see Natalja Nusinova, 'I Russi in Europa. Il cinema della prima emigrazione', in: Gian Piero Brunetta, ed., *Storia del cinema mondiale. Vol. 1. L'Europa. Miti, luoghi, divi* (Torino, Giulio Einaudi Editore, 1999), pp. 359-378; cf. Georges Sadoul, *Histoire du Cinéma Mondial* (Paris, Flammarion, 9th edition, 1972), pp. 180-197.

⁹ Albera, *Albatros*, op. cit.; Thompson, 'Ermolieff group', p. 54.

was very stable and continuous.¹⁰ Interestingly, despite - or possibly because of - vertical disintegration, endemic bankruptcies, and many short-lived new upstarts, the film industry was the fastest growing French industry in the 1930s. It grew at an annual pace of 5.3 percent a year, while all industries together shrank at a pace of 1.6 percent a year.¹¹

3. Production costs

Figures 1 and 2 show the number of films produced yearly and the average production costs of films. The figure shows the boom in the number of films produced in the early 1920s. The average production cost gives a very rough indication, as each individual film is a different business project, and budgets can vary widely. In the early 1920s, production costs varied between ca. 150,000 to 300,000 francs (\$ 10,000 - \$ 30,000). In the mid-1920s they had risen to ca. 500,000 francs and in the 1930s sound films cost between one and 2,5 million francs. These figures are roughly in line with educated guesses about general production costs in the French film industry, which arrive at ca. 400,000 francs in 1923 to 1,9 million francs on the even of the Second World War.¹²

Nevertheless, compared to American movies - which dominated the movie screens - these costs were low. While Albatros produced films in the \$10,000 to \$30,000 range, average production costs in the U.S. were about \$70,000 to \$90,000. When Albatros had increased its costs to \$25,000 to \$50,000, American films averaged \$120,000 to \$200,000. Finally, in the 1930s, when Albatros turned out sound films at \$50,000 to \$100,000, American film cost between \$200,000 and \$300,000. Even compared with British production costs, Albatros produced low budget movies. Average British costs before the arrival of sound were about 1,25 - 1,5 million francs,

¹⁰ Abel, *First Wave*, pp. 11-38; Colin Crisp, *The Classic French Cinema, 1930-1960* (Bloomington, Indiana University Press, 1993), pp. 1-42; Jacques Choukroun, 'Controler les studios, un atout majeur pour les grandes compagnies francaises des années trente?', in: Pierre-Jean Benghozi and Christian Delage eds., *Une histoire économique du cinéma français (1895-1995). Regards franco-américains* (Paris, L'Harmattan, 1997), pp. 111-126.

¹¹ The only two other industries which grew in a similar rate, though not as fast, were not service industries but heavy industries: the paper industry grew at a pace of 4.9 percent during the 1930s, the electricity industry at a pace of 3.12 percent. [Alfred Sauvy, *Histoire Économique de la France entre les deux Guerres* (Paris, Economica, 1984)].

¹² Crisp, *French cinema*, p. 16.

and in the late 1930s over 4 million francs, while Albatros produced at about half a million and 2,5 million respectively.¹³

¹³ Rachael Low, *The History Of The British Film 1918-1929* (London, George Allen & Unwin, 1971), p. 276; Margaret Dickinson and Sarah Street, *Cinema and State. The Film Industry and the British Government, 1927-1984* (London, British Film Institute, 1985), p. 131.

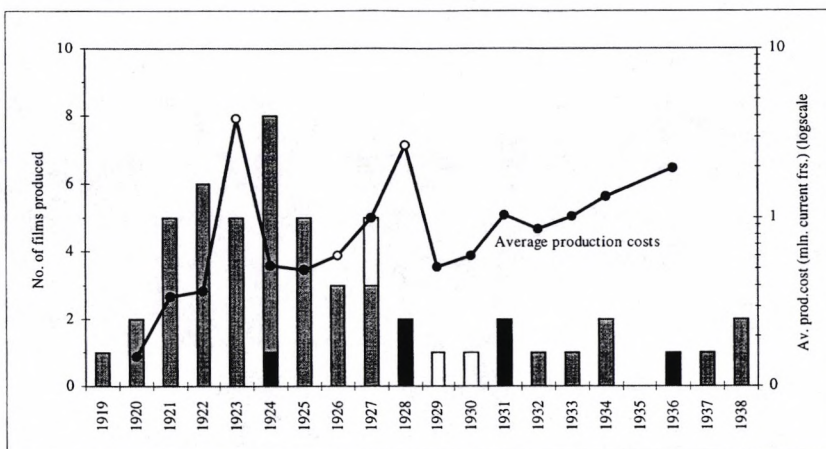


Figure 1. Number of films (linear scale) and average production cost (semi-logarithmic scale) of films produced by Ermolieff/Albatros, 1919-1938.

Note: light shaded bars are Albatros productions; dark shaded bars are French co-productions; white bars are international co-productions.

Source: Archives Albatros.

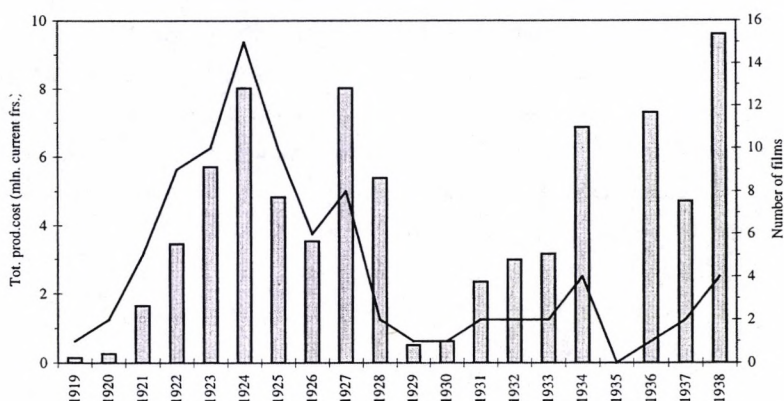


Figure 2. Number of films and total production cost of films produced by Ermolieff/Albatros, 1919-1938.

Note: the line refers to the number of films, the bars to total production costs.

Source: Archives Albatros.

The differences in budgets may be partially explained by the fact that Albatros often paid star actors and directors in a share of box office revenue. Star directors Feyder and Clair for example, received a fixed sum and ten percent of net profits, star actor Nicholas Rimsky received five percent, on top of a monthly salary and a fixed fee per film.¹⁴ In the United States, the emerging vertically integrated Hollywood studios at the time had made this practice disappear, only to re-emerge in the 1950s, when the studios disintegrated.

The typical production strategy of the French film industry in the early 1920s seems to have consisted of producing low-budget films which possibly would not bring in a lot of revenue, but would at least recoup their costs, with the hope on an occasional hit whose revenues would be nearly pure profit. For example, *Les cinq gentlemen maudit* (1919) cost 137,000 francs to make and grossed over a million; *Mater Dolorosa* (1920) cost 48,000 francs and made 183,000 francs, and *La dixième symphonie* (1921) cost 63,000 francs and made 343,000.¹⁵

From a cost perspective, Albatros had difficulties managing film production and keeping costs under control. Seldomly was it able to keep costs within budget. Figure 3 shows that of 10 films produced between 1924 and 1931 (out of a total of 27), only one was completed within budget. All the other ones had cost overruns varying from 6 percent for René Clair's *Un chapeau de paille d'Italie* (1927) to 50 percent for Marcel L'Herbier's *Feu Mathias Pascal* (1924), with the average overrun being 20 percent. Cost-overruns within film production are not uncommon, but they seem to be quite large in this case, especially since most budgets already contain a liberal provision for 'unforeseen costs'. Alternatively, one could question how serious Kamenka himself took the budgets, and if he did not use them as an instrument to really restrict the spending of his creative people, knowing in private that he could afford to spend more on the film once the budget was finished.

¹⁴ Contract with René Clair, 26 July 1926; contract with Jacques Feyder, 16 April 1928; contract with Nicolas Rimsky, 1 August 1924; Archives Albatros, Fonds Albatros, Bibliothèque du Film, Paris; hereafter: Archives Albatros.

¹⁵ Abel, *First wave*, pp. 18, 53.

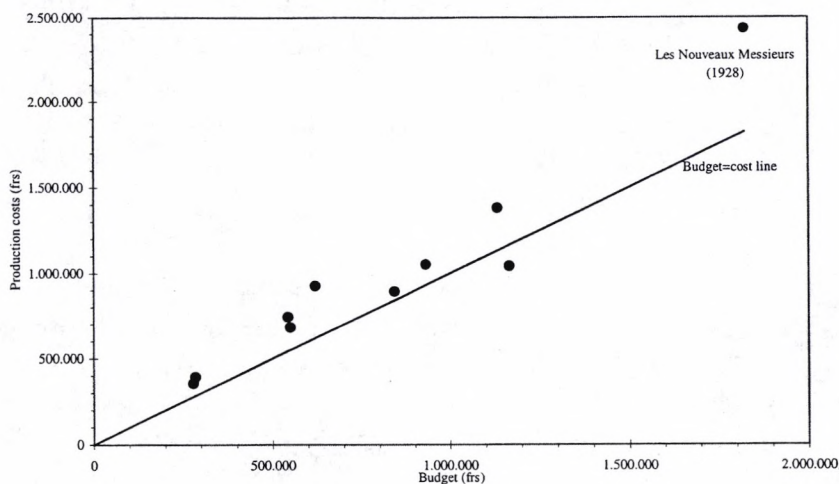


Figure 3. Budget vs. production costs of ten films produced by Albatros, 1924-31.

Source: Archives Albatros.

4. Return on investment

Nevertheless, regarding the bottom line on which film companies are to be judged, the revenue as compared to the budget, Albatros did exceptionally well. Figure 4 shows that of the ten films made between 1924 and 1931, for which both costs and revenue figures are available, only two did not make a profit, although they nearly broke even. The returns vary from a staggering 313 percent for *Carmen* (282 percent including interest cost) to -6 percent (-13 percent) for *Un chapeau de paille d'Italie* (table 5). The average (annualised) return on investment per film was 63 percent (51 percent), and the return on the total investment Albatros sunk in these 11 films was still an impressive 47 percent (43 percent). This does not seem too surprising, given the fact that cinema was France's fastest growing industry in the 1930s, a fact often ignored by economic historians.¹⁶

However, even for film industry standards this figure seems quite impressive, given the fact that film producing is often considered as spreading the risks of hits and

¹⁶ See above.

flops in a production portfolio.¹⁷ Fox Film Corporation for example, a major U.S. film company, only reached a return on invested capital (sunk in 294 films) of 22,61 percent (excluding cost of capital) for the period 1924-1929, market leader Metro-Goldwyn-Mayer reached a return of 44,27 percent in the same period (on 259 films), and the fast growing, innovative Warner Brothers, which introduced sound film, reached a return of 47,29 percent, while RKO reached a return of 25,92 percent for 1929 only (table 6).¹⁸

The one outlier, *Carmen*, was the big hit that Albatros experienced. The film was made at a very low budget, about half a million francs, but was an international success.¹⁹ Without this hit, Albatros' profitability would have been considerably lower, but since the whole film industry is based on hits and misses, it would not be appropriate to exclude the film from the calculations.

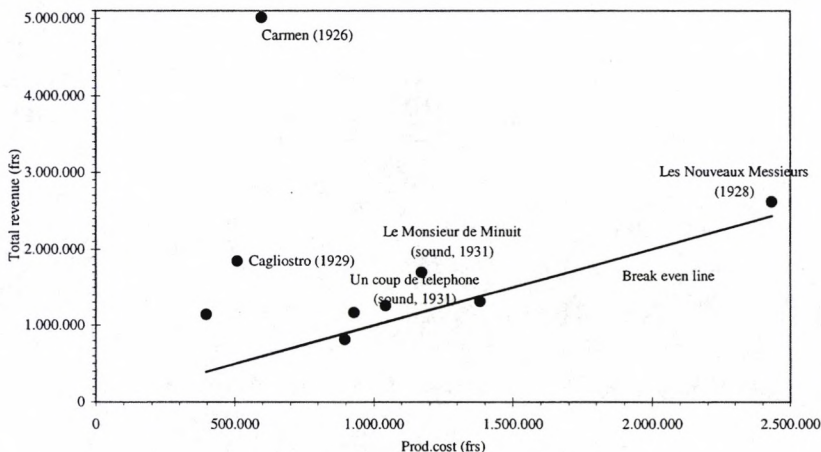


Figure 4. Production costs vs. revenue of nine films produced by Albatros, 1924-31.

Source: Archives Albatros.

¹⁷ For a case study of the 'production portfolio strategy' of a Hollywood major see John Sedgwick and Mike Pokorny, 'The risk environment of film making. Warner Brothers in the inter-war years', in: *Explorations in Economic History* Vol. 35 (1998), pp. 196-220.

¹⁸ Fox Film Corporation; Glancy, 'Warner Bros. film grosses', op. cit. A high return needs to be compared to the absolute amount of cash generated, as in general as absolute profits increase substantially, returns go down [for example: for a small computer company an annual revenue growth of 300 percent during three years will not be surprising, while for IBM such a growth rate would mean that its revenue would be equal to U.S. GDP very fast].

¹⁹ Richard Abel erroneously calls *Carmen* a commercial flop, without quoting any sources on which this statement is based. Presumably it is based on subjective articles in film magazines. Abel writes: "When it opened in the Salle Marivaux, in November 1926, Feyder's film had the misfortune to follow Douglas Fairbanks's swashbuckler, The Black Pirate. Needless to say, *Carmen* was Raquel Meller's first commercial flop." [Abel, *First Wave*, p. 134].

Table 5. *Return on investment of several Albatros film, 1924-1931.*

Year	Film Title	Return	Ret./Cap.
1924	L'Heureuse Mort	0.27	0.20
1925	Paris en cinq jours	1.02	0.87
1924	Feu Mathias Pascal	0.17	0.08
1926	Carmen	3.13	2.82
1927	Le Chasseur de Chez Maxim's	-0.03	-0.11
1927	Un chapeau de paille d'Italie	-0.06	-0.13
1928	Les nouveaux messieurs	0.05	-0.03
1929	Cagliostro	1.36	1.19
1931	Le Monsieur de Minuit	0.28	0.19
1931	Un coup de telephone	0.13	0.05
	Average	0.63	0.51

Return = (Annualised) return on investment, as fraction of invested capital

Ret./Cap. = (Annualised) return on investment, including interest costs

Source: Archives Albatros, Film Files.

Table 6. *Return on total invested capital, Albatros and selected U.S. companies, 1924-1931.*

	Albatros	MGM	Warner	Fox	RKO
Total cost (million francs)	10	1,822	1,195	1,306	163
Total revenue (million francs)	17	3,157	2,136	1,773	231
Return on investment	0.47	0.44	0.47	0.23	0.26
Return incl. cost capital	0.43	0.37	0.40	0.15	0.19

Returns are annualised returns on investment, as fraction of invested capital.

Albatros: selected films 1924-1931 (37 % of total)

MGM: all films, 1924-1929

Fox: all films, 1924-1929

Warner: all films, 1924-1929

RKO: all films, 1929 only

Source: Archives Albatros, Film Files; Glancy 1992, 1995; Jewell 1994.

5. The French domestic market

Figure 7 shows the gross and net revenue on the French market for all films Albatros produced and distributed between 1924 and 1929, 26 in total. In total, Albatros received just under 8 million francs for these films in this period. Films Armor, the distribution subsidiary since 1925, will have retained about four million francs as distribution fee.²⁰

Figure 8 examines the production costs and net revenues from the French market for 27 films Ermolieff/Albatros films produced between 1920 and 1931 (out of

²⁰ On average, Albatros received 67 percent of gross rentals. The distribution subsidiary is not taken into account in calculating return on investment in film production: it may have been the case that losses or poor returns on some films were somewhat alleviated by profits from the distribution arm.

a total of 46 films).²¹ Strikingly, in only two cases was a film able to break even on the French market alone, and in only one film, *Carmen*, turned a French profit. This clearly demonstrates that focusing and tailoring the films exclusively to the French audience, the French market, was not a viable option for Albatros. To stay in business, the company was forced to take into account the international market. On average for these 27 films, only 60,75 percent of a film's costs were amortised in the French market. Of total capital sunk in all these films together only 56,27percent was recouped in France.

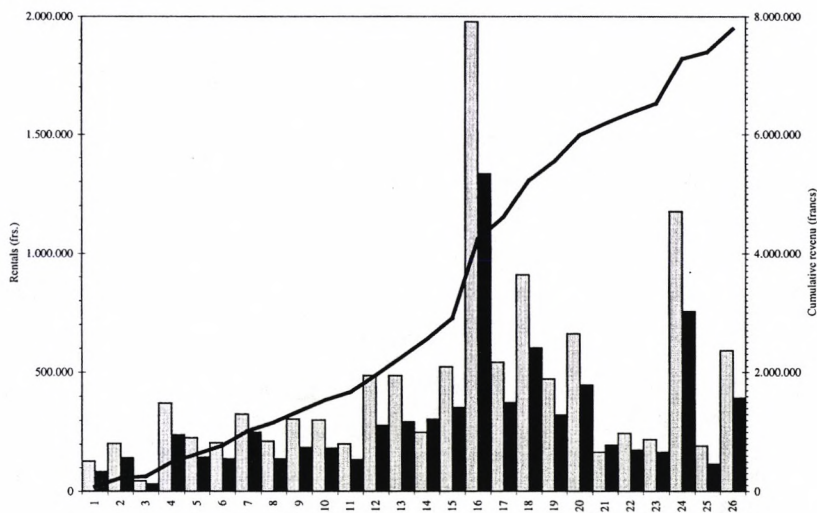


Figure 7. Revenue of films distributed by Albatros, per film and cumulative, 1924-1929.

Note: light bars are gross-rentals, dark bars are net rentals, black line is cumulated net revenue. Numbers refer to the number Albatros assigned to each film.

Source: Archives Albatros.

²¹ Unfortunately, what is left from the Albatros Archives is far from complete and damaged by fire. This means that not all films for production costs are known, net revenues are available.

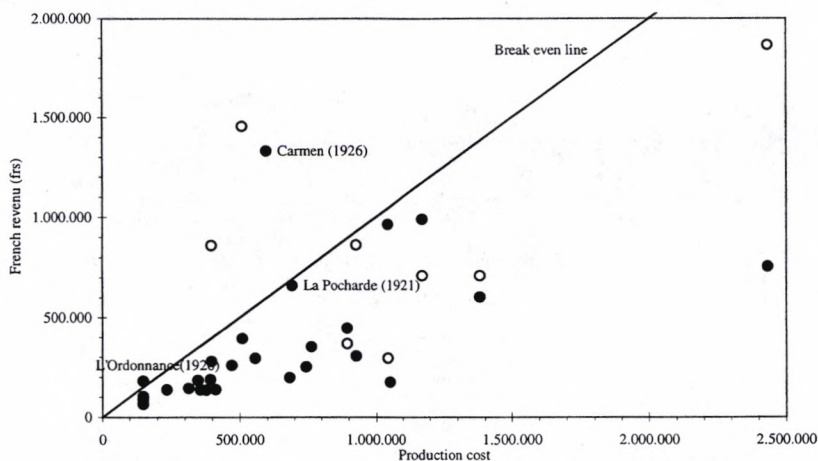


Figure 8. *Production costs vs. net French revenue of 27 films produced by Albatros, 1920-31.*

Note: filled rounds are French revenues; hollow rounds are foreign revenues.

Source: Archives Albatros, Film Files.

Interestingly, the cases in which the revenue comes closest to the break-even line roughly are either lower budget films (as could be expected) or the two sound films. Although only two cases make it hard to generalise, this suggests that sound film substantially increased domestic revenues, and probably decreased foreign revenue. The key question for the effect of sound on French film companies then would be if the degree in which domestic revenue increases is higher than the degree in which foreign revenue decreases.

In contrast to Albatros, American companies could already amortise their film budgets on the U.S. market alone. Between 1924 and 1929, the U.S. net revenues of Metro-Goldwyn-Mayer were 1.15 times its outlay on film production. For Warner, that figure was even 1.99, probably due to its concentration on sound film, and Europe's delay in adopting the new technology. For RKO, in 1929 only, the figure was 1.15, the same as MGM.²² These figures, as the figures for Albatros above, are not proportionally reflected in company profits, because they take only into account all costs put on the account of a certain film (including studio overhead charges).

²² See sources table 6.

Indivisible costs, such as headquarters or scenario departments, as well as costs of capital, are not accounted for.

Before Albatros started to distribute its own films, it generally obtained a *minimum guarantee* from a distributor (mostly Pathé Cinema), a prevalent trade practice at the time. The guarantee is the minimum amount the distributor guarantees to pay for a film which is distributed on a percentage basis, even if the film flops. After gross rentals have recouped the guarantee, the excess revenue will be shared between distributor and producer (Albatros received on average 67 percent of gross rentals). This way, the film producer transfers part of the risk to the distributor, and at the same time is able to finance the production: either the distributor advances the guarantee, or the film producer discounts the 'guarantee contract' at a bank.²³ It can be assumed that the minimum guarantee reflects the minimum expectations producer and distributor have about the success of a film. It is therefore interesting to look at how these expectations compare to the actual situation.

Figure 9 shows minimum guarantees and actual French revenues for eleven films Albatros distributed in 1924 and 1925, as well as for *Carmen* (1926) and *Les Nouveaux Messieurs* (1928) for which the company also obtained minimum guarantees. After 1925, when Albatros distributed through its own subsidiary, it generally did not receive minimum guarantees. Seven films were in line with expectation, which means that their revenue was on or slightly above the guarantee. One of the films, *Carmen*, was an outlier, with a very high guarantee and revenue that just meets this guarantee.²⁴ Four films were significantly above the guarantee, varying from 1,44 times the guarantee for *L'affiche* (1924) to 2,13 times for *Paris en cinq jours* (1925). Only one film did not live up to expectations, *Feu Mathias Pascal* (1924), which recouped only half of the minimum guarantee, but did surprisingly well in foreign markets.

²³ Distributors, in their turn could partially transfer the risk to individual cinemas or chains, using the same technique, often requiring cinemas to book entire blocks of films.

²⁴ The exceptional high guarantee for *Carmen*, which was made at a low budget, remains a puzzle. It is possible that the guarantee was done for administrative or fiscal reasons, or urgent financial problems at Albatros, and had nothing to do with the film.

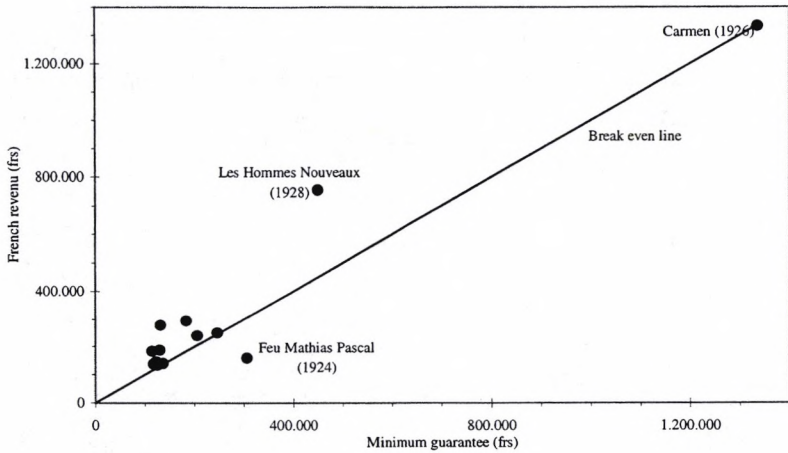


Figure 9. *Minimum guarantee versus French net distributor's revenue of 13 films produced by Albatros, 1922-31.*

Source: Archives Albatros, Film Files.

In the case of *Kean* (1923), for which no information on a minimum guarantee is available, Albatros seems to have highly overestimated the French market. In its budget and expected revenue calculations, it hoped to get two million francs, about 40 percent of total revenue, from the French market, while the prevailing share for films at the time was between fifteen and twenty percent.²⁵ At times, foreign rights were sold before production had finished, or sometimes before it even had started. For example, before production was finished rights to *Le Bossu* (1934) were sold to Spain, Argentina, Uruguay, Paraguay, Chile, Peru, Bolivia, Syria, Egypt and Palestine.²⁶ For *Les Bas Fonds* (1936) rights to Bulgaria, Palestina, Japan, Denmark and Norway were sold before completion.²⁷

²⁵ File 'Kean', Archives Albatros.

²⁶ Conseil d'Administration, 30 June 1934, Archives Albatros.

²⁷ Conseil d'Administration, 12 August 1936; 16 November 1936, Archives Albatros.

6. Selling French films in foreign markets

Figure 10, which compares French vs. foreign revenues confirms that in many cases, foreign revenue is substantially higher than French revenue, although foreign revenue per film fluctuates a lot. This confirms the dependence of Albatros on foreign markets. French revenue figures reflect the popularity of the films in France quite well, but the same is not necessarily true for the foreign revenue figures. In the major markets, such as Germany, Britain, the United States, and to a lesser extent Italy and Spain, Albatros often made percentage deals, in which it shared in revenue after a minimum guarantee was recouped. In these cases revenue figures will reflect popularity. For most of the smaller countries however, Albatros asked a fixed price for the territorial rights to its films, generally for a period of three to five years. In these cases, revenue reflects more expectations and past successes of Albatros films than the actual appeal of the film to the national audience. If the film became a hit, the local distributor would profit, and not Albatros.²⁸

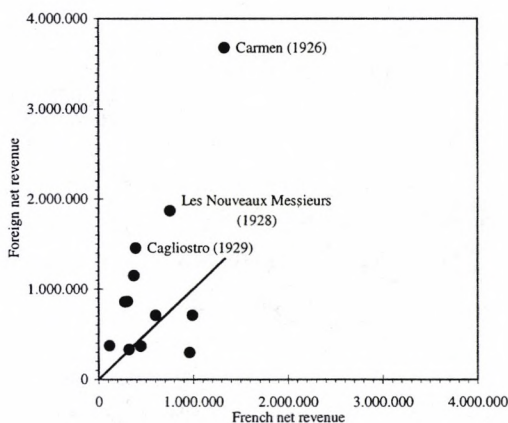


Figure 10. *French vs. foreign revenue of 11 films produced by Albatros, 1922-1931.*

Note: the line connects all points where French revenue equals foreign revenue.

Source: Archives Albatros, Film Files.

²⁸ This is the reason why these countries look so incredibly small, even if grouped together, in the world pie charts below. It may also be a reason why small countries often lack a domestic film industry, since local distributors will already make hefty profits capturing the rents of cheap foreign copyrights.

For some films, unfortunately not all, the tables have been preserved which show the revenue per territory, which enable to examine the relative importance of foreign territories for Albatros. For one film, *Paris en cinq jours* (1925), all the contracts for foreign rights could be examined, instead of only a summary table with revenues for all countries. Figure 11 shows the revenue broken down by different territories. Surprisingly, only eleven percent of the films revenue were generated in the domestic market. The British market was very important. This is probably partially because Britons spent much more on cinema per head of population - about ten times as much as French consumers, according to the contemporary trade press. Even a moderately popular French film would already mean substantial income for the French producer, and even more so considering the lower French budget. However, the British market was a difficult and demanding one for French producers; for several films Albatros did not manage to secure British distribution, or received only a marginal sum. For the United States a similar story holds, with American cinema consumption per head even higher. Even so, securing American distribution was even more difficult for Albatros, and it only succeeded in doing this in a few cases.²⁹

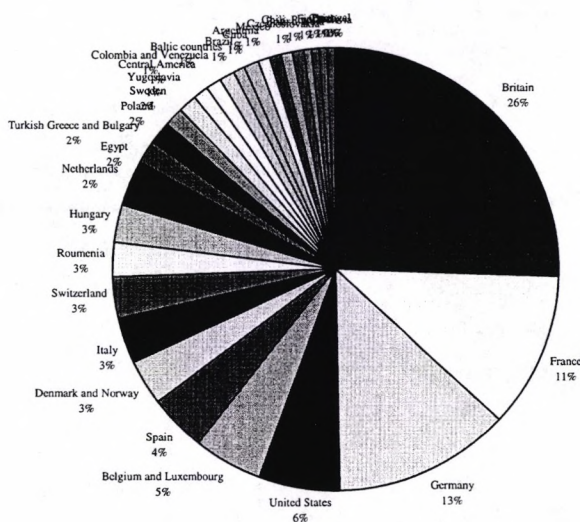


Figure 11. *Paris en cinq jours*, net revenue per country as percentage of total revenue, 1925-1928.

Source: Archives Albatros, Film Files.

²⁹ See below.

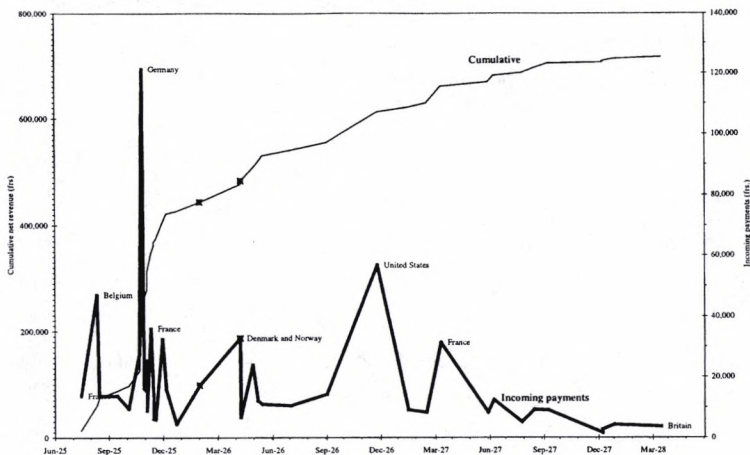


Figure 12. *Incoming payments and cumulative net revenue for 'Paris en cinq jours', 1925-1928.*

Note: the first black block denotes the break-even point before interest cost. The second black block denotes the break-even point after interest cost.

Source: Archives Albatros, Film Files.

France and its Francophone neighbours, Britain and Germany, were Albatros' main markets. Only a fifth of revenues comes from a bunch of small territories. As noted above, this does not necessarily reflect local appeal and revenues of the film, as Albatros asked fixed sums for these territories, probably because they were too small to invest energy in negotiating revenue shares and monitoring the contract. Paradoxically, Albatros also managed to market some of its films in the U.S.S.R., the country most of its employees had fled. This was probably facilitated because Pathé Consortium Cinema, which handled part of Albatros international distribution, acted as intermediary and closed a deal with Celtic Cinema, a Russian company.³⁰ In the mid-1920s, Albatros received a minimum guarantee of \$ 37,000 (ca. 925,000 francs) for a block of seven films from Celtic.³¹

Because in the case of *Paris en cinq jours* individual contracts could be examined, it is possible to reconstruct the flow of net revenue to Albatros over time. Figure 12 shows that most revenue was made in the first few months after release, as

³⁰ The first contract was dated 7 February 1923. Alpera, Albatros, 168.

³¹ Undated contract, probably late 1924, file A33, Archives Albatros.

could be expected, but that after these months the film continued to generate substantial revenue. Seven months after release, the film broke even (nine months including cost of capital) and did Albatros start to make a profit. The fact that many foreign revenue came in late and very irregularly suggests that it was not easy to close deals for foreign distribution, i.e. that the market did not work perfectly. Indeed, for some films, no deals could be made at all for some countries. For the larger markets the main problem was to convince a distributor of the appeal of a film, for the smaller non-western markets the problem was more to find a reliable distributor and the work of meeting and closing the contract, which often depended on presence and travel of agents.

For some big non-western markets, most notably India and China, inadequate copyright enforcement and outright unawareness of the concept of copyright minimised the price Albatros could ask for its films, as a letter from an Indian distributor to Albatros demonstrates:

"Re: monopoly rights for India: - Please note that we are not at all interested in monopoly rights for films. There is practically no weight for the term as 'monopoly rights' in India. Nobody cares more for monopoly rights of any films. In India we always prefer to buy from the open market because of numbers of copies are coming in India from other countries of the world and we are quite unable to prevent copies of the same monopolised [sic] films, coming in India from different sources. So when the position of India is such we are unable to pay for monopoly rights. We require films without monopoly rights whatsoever and you are absolutely free to offer the same copy to any part in India."³²

For some Asian territories, Albatros experiences several copyright infringements. It generally detected pirates through reports from agents or local distributors, and through the network of Russian émigrés. In Persia and the Philippines it asked the French ministry of foreign affairs for help several times. It exchanged favours by making copies available to the ministry for diplomatic events, mostly in Asia. An official of the ministry reports comprehensively how the King of Siam loved *Carmen*.³³

A reason why the market did not work perfectly and Albatros was not able to close all foreign deals shortly after release at prices that the market would bear, is that films are only an intermediary product. They require a substantial additional sunk

³² Victory Film Co., Bombay, to Les Films Albatros, 29 December 1926, File 'Carmen', Archives Albatros.

³³ Archives Albatros, Film Files.

investment of the local distributor, and of the local cinemas who use this intermediary product as an input to provide a service to their customers, i.e. watching movies. For this reason, proprietary foreign distribution networks, such as the Hollywood studios put into place at the time, offer a large advantage. First, they guarantee that all films will be distributed in the foreign country anyway, and since screen time is a scarce good which limits the total number of film tickets that can be sold in any country, international distribution networks guarantee access to this scarce resource.³⁴ Furthermore, proprietary international distribution networks guarantee fast foreign revenues, since no time has to be invested in closing deals, and it prevents local distributors from capturing the rent of the copyright to the film.

Table 13 gives the breakdown by groups of countries of the foreign revenue of all films for which foreign and total revenue could be reconstructed. It shows that the relative importance fluctuated a lot between films, probably dependent on the ability of Albatros to close deals and different national audience tastes. In general the French zone provides a quarter to a third of revenue. Although the actual amount fluctuated considerably between these two values, the zone was a stable source of revenue on which Albatros could securely count. The revenue for the Latin European zone oscillates between ten and twenty percent, Eastern Europe between about ten and fifteen percent. Both the revenue of the English zone and Western Europe fluctuates enormously, apparently dependent on the closure of good distribution deals, and also on how well the film's quality connects to local tastes.³⁵ The revenues from Scandinavia (3 to 5 percent), Latin America (5 to 10 percent) and Asia (2 to 5 percent), are small, but somewhat stable.

³⁴ This means that the number of films which can be exhibited in a country is not unlimited, and that therefore an increase in quantity of films offered will not decrease the prices, and lowering the price of an individual film, however far down, will not guarantee a sale.

³⁵ See below.

Table 13. *Relative importance of country groups in Albatros film revenues, 1924-1931, and US film revenues.*

Year	1924	1924	1925	1926	1926	1928	1928	1931	1931	1925	1,934
Film	A	B	C	D	E	F	G	H	I	US	US
France	24.3	21.1	11.4	18.3	9.2	17.8	15.9	58.2	63.5	1.0	5.3
French zone	33.6	30.7	19.2	26.2	15.4	23.8	24.4	69.2	93.9	2.3	5.9
Latin zone Europe	9.1	19.9	10.6	20.4	7.0	12.1	15.0	7.7	3.8	1.2	4.9
English zone	10.0		32.0	18.5	38.5	14.5	4.9			82.3	78.0
Western Europe	10.5	19.1	14.5	14.2	15.2	13.9	2.2	1.3		4.6	4.7
Eastern Europe	22.2	14.0	8.9	5.9	7.6	9.7	17.0	7.9	2.2	1.2	2.4
Scandinavia	4.5		5.5	3.2	4.4	4.6	8.9	2.7		2.0	0.5
Latin America	6.0	5.3	6.8	7.4	5.1	14.7	18.9	7.1		4.0	1.8
Asia/Middle East	4.0	10.9	2.6	4.3	6.7	5.9	8.8	2.1		2.3	1.9

Numbers show percentage of films total net revenue from respective zones.

US = Total revenue shares for American films, on average

French zone: France, Belgium, Switzerland, Luxembourg and colonies

Latin zone Europe: Spain, Portugal, Italy, Roumenia

English zone: Britain and colonies/dominions, U.S., Ireland

Western Europe: Germany, Netherlands, Austria

Key to the films:

A = L'Heureuse Morte

B = Feu Mathias Pascal

C = Paris en cinq jours

D = Carmen

E = Jim la Houette, Roi des Voleurs

F = Les nouveaux messieurs

G = Les deux timides

H = Le Monsieur de Minuit

I = Un coup de telephone

Source: American trade press; Film Files, Archives Albatros.

The two sound films for which revenues are available suggest that the arrival of sound changed international demand dramatically. The two films derive respectively 70 percent and 94 percent of their revenue from the French zone alone, and are able to break even within it. For many foreign territories, French sound films could not be sold at all.³⁶ The experience of Albatros was in line with the general situation in the French film industry at the time. According to some estimates, in the mid-1920s French language films received 35 to 40 percent of total French box office revenue, which in the mid-1930s had increased to between 65 and 70 percent.³⁷ In 1933, foreign revenue of two other French producers, the large Pathé-Nathan company and the smaller Osso were 20 and 17 percent of turnover respectively.³⁸ As noted above, since cinema was France's fastest growing industry in the 1930s, the coming of sound

³⁶ Especially in this early sound period dubbing or subtitling had not fully developed yet, and many territories had not yet locked in on one of the two techniques.

³⁷ Crisp, *French cinema*, pp. 24-25; Part of the shift was caused by protectionist measures of the French government

³⁸ Ibidem, p. 20.

must have been beneficial to the industry at large, after all pluses and minuses are summed.

If the international demand distribution of Albatros is compared with that of American film companies, a remarkable difference shows. American film producers derived about two thirds of their revenue from the domestic market, and were already able to break even domestically. In 1925, Great Britain accounted for 12 percent of revenue (**figure 14**). However dominant the American film industry may have been in all other countries, these countries were small fry to the Hollywood studios. Each individually, they were only marginally important for revenue. The only somewhat significant countries were Germany and Australia/New Zealand, with ca. three percent of total revenue each, and after that Canada, Scandinavia and Argentina, with each about two percent. All other countries, France included, contributed one percent or less.

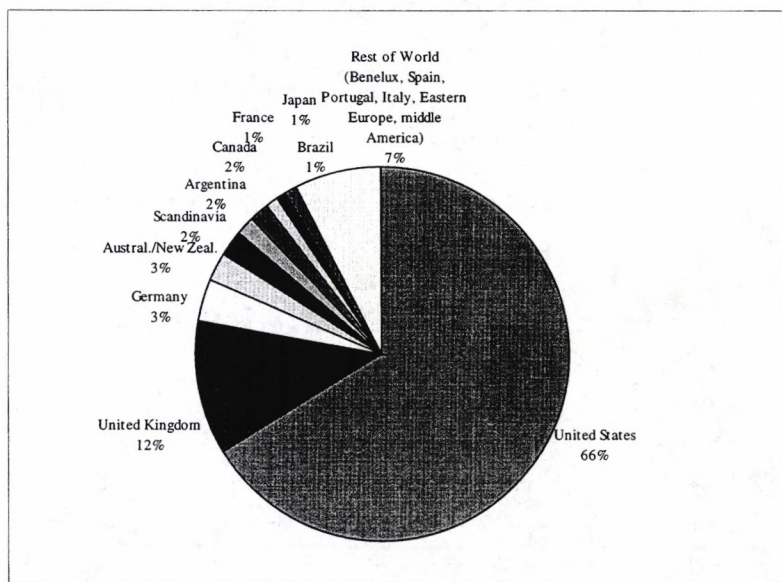


Figure 14. *The world according to Hollywood, 1925: share of countries in distribution revenues of US films.*

Source: Seabury 1926.

In 1934, the picture was roughly the same, despite slight changes (**figure 15**). Britain accounted now for ten percent of revenue, while German and French revenue had

risen to five percent and Italian revenue to three percent. All other countries brought 1,3 percent of revenue or less.³⁹ The increased importance of larger European markets and several smaller markets is possibly related to the set-up of foreign distribution networks by the emerging Hollywood studios which took place during the middle and late 1920s. This increased their foreign revenue, because of the reasons stated above.⁴⁰

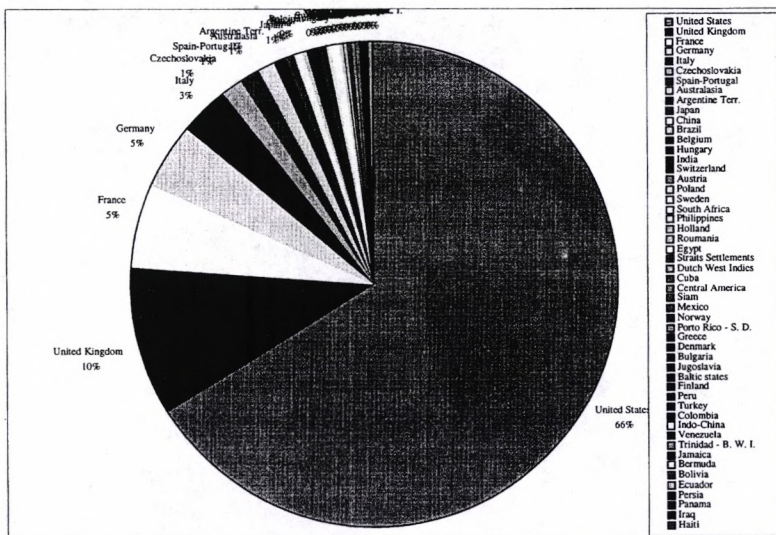


Figure 15. *The world according to Hollywood, 1934: share of countries in gross distribution revenues of US films.*

If we compare the difference of groups of countries between American companies and Albatros, it shows that 80 percent of American revenue came from the English zone and that Albatros was more dependent on revenue from Latin Europe and Latin America, Scandinavia and Eastern Europe than U.S. producers.

³⁹ Checking figures 12 and 13, which are based on estimates in the trade press, with American company data, roughly confirms the tables, and suggests that the domestic share of revenues might have been even higher than 67 percent: between 1924 and 1929, MGM's domestic revenues were 66,5 percent of total revenues, for Warner the figure was 74,37 percent, and for RKO in 1929 only 81,38 percent.

⁴⁰ Another reasons may be that the rise in European protectionism stopped competition of third countries in export markets, while American companies somehow managed to get around it.

7. Catering for global tastes

The significant fluctuation in Albatros' revenue is probably caused by differences in local tastes and the ease and skill with which Albatros conducted its international business. Local tastes differ a lot, and are generally not stable. In cultural products, constantly new fads and fashions emerge. Albatros was often confronted with very specific demands of foreign distributors about changes in films. A Cuban distributor writes for example:

"What is necessary for the Cuban public, and we pretend to know it well, are films which contain at the same time comedy and drama and vaudeville, and a type of good film for the Cuban market is *Les Ombres qui Passent*. But the part that takes place in the snow as well as some historical parts are not appreciated in Cuba."⁴¹

A Mexican distributor complains:

"Le Chasseur de chez Maxim's is a film which is not suitable for Mexico, it is not interesting for our audiences; the scenes have to be shortened considerably and new titles in Spanish have to be made; the current ones are owed to an Argentine who uses words which the censorship in Mexico cannot accept. Because the film has no Spanish title, we will call it 'Paris by night'."⁴²

Sometimes, films could not be shown at all in a country, if they were prohibited by the censorship authorities. This happened frequently to Albatros. In 1924 the German authorities prohibited the showing of *Tempêtes*,⁴³ and in 1937 for example, the sale of *Les Bas Fonds* to Italy and Canada were cancelled because it did not withstand the censors.⁴⁴ Most foreign sales contracts contained the stipulation that the contract was terminated if the local censors did not approve the film.⁴⁵

Interestingly, one of the characteristic production methods the Hollywood studios developed in this time was stringent quality control. First of all, a national production code pre-empted any possibilities that a film which followed the code was deprived of nation-wide release. But most importantly, studios had special officers who studied the screenplays, and checked them with subsidiaries in foreign countries and sometimes foreign ambassadors in the United States, as well as religious and

⁴¹ Undated, probably 1925, Officina de information cinematographica, Archives Albatros, quoted in Albera, *Albatros*, p. 165.

⁴² Letter, 19 February 1930, quoted in Albera, *Albatros*.

⁴³ Letter Pathe Consortium Cinema to Albatros, 6 June 1924, Archives Albatros, quoted in Albera, *Albatros*, p. 165.

⁴⁴ Conseil d'Administration, 16 December 1937, Archives Albatros.

⁴⁵ Author's examination of foreign sales contracts in many film files in Archives Albatros.

social organisations. This prevented any surprises when the investment in the film had already been made, and thus minimised the risk that part of the market would disappear. No evidence has been found that Albatros attempted similar quality control.

The fluidity and unpredictability of local tastes, which could be less easily dealt with, could be more easily coped with by means of another device: the movie star. Interestingly, popularity of stars varied considerably between countries, but within countries it was quite stable over a time-span of years. The only major star Albatros had was Ivan Mosjoukine, and correspondence between Albatros its distributors show how important this star was in selling films in foreign markets. Sometimes just his name was enough to do business. For example, S. P. K. Alexeieff & Cie., distributors in Kharbine, China, write:

"According to rumours which came to us through the magazine *Kinotvorchestvo*, Mosjoukine has left your company. Is it true? That is very unexpected for us. Do you have other films with him or is Feu Mathias Pascal the last one? (15 April 1925) Our contract stipulates that Alexeieff is interested in films with Mosjoukine, because of the Russian audience and because *Le lion des Mogols* did not go well with the Russian audiences. But replacing in the contract "Mosjoukine" by "superproduction" does not convene to you."⁴⁶

Albatros' Swedish distributor, J. Zohn, writes:

"(...) On the distribution of *Double Amour*. The domination of the market here by American films with comedians is very well-known and very strong. The big distributors, like Svenska Film Ind. do not buy such films [as *Double amour*], even if they carry Angelo and Lisenko. The French films have not been introduced here yet, but I think that we can do something with noteworthy films, especially those with Mosjoukine."⁴⁷

The Beirut distributor, who also was the local distributor for Universal, the Hollywood studio, writes:

"Films Mosjoukine: We would be most grateful if you could tell us if there are still films available for our region in which this artist plays. We hope you will deal with this promptly and we let you know that we are very interested in both new and old productions of this artist."⁴⁸

⁴⁶ Letter, S. P. K. Alexeieff & Cie., China, to Les Films Albatros, 20 June 1925, quoted in Albera, *Albatros*, p. 165.

⁴⁷ Letter J. Zohn, Stockholm to Les Films Albatros, 19 September 1925, Archives Albatros, quoted in Ibidem.

⁴⁸ Letter, Cattani & Haddad, Beirut, to Les Films Albatros, 1 May 1925, Archives Albatros, quoted in Ibidem, p. 166.

In a contract with a Berlin distributor, Albatros even differentiates its prices for films with and without Mosjoukine. The Berlin company had to pay 27 dollarcents per meter for films with Mosjoukine, and 22 dollarcent a meter for all other films.⁴⁹

Apparently Albatros also tried to establish its trademark as a household name to foreign cinema goers, as it stipulated in many contracts explicitly that its characteristic triangular trademark had to remain in the film and should be visible on all publicity and advertising.⁵⁰

8. Selling French films to Anglo-Saxons

For Albatros, local tastes were particularly a problem in Anglo-Saxon markets, and especially so in Britain and the United States. When it tried to sell *Carmen* to Wardour Films, a major British distributor, the latter insisted on watching the film first before agreeing on anything, and sent a person to Paris especially for that purpose. When it finally agreed to take the film, Wardour was careful enough to have a stipulation put in the contract that it basically could do anything it wanted to the content of the film:

"The lesser shall have the right to cut and re-edit the said film alter the sequence or generally make such modifications, change the coloring, alter the tinting as it may think fit and undertakes before returning the negative to the Lessee that such negative shall be reassembled in its original condition."⁵¹

And so it did: Wardour complained that at 12,000 feet - three hours - the film was way too long for a British and cut it by a third, and was angry that it had had to pay customs duty on the full 12,000 feet.⁵² On another film, *Le Chasseur de chez Maxim's* (1927), Wardour wrote: "I regret that we are unable to use your film *Le Chasseur*. Unfortunately the basic theme is most unsuitable for the English market, and we could only exploit it over here at the expense of our prestige."⁵³

In the United States, Albatros tried to sell *Carmen* in vain. It somehow did not seem to connect to American taste, or American distributors were reluctant to

⁴⁹ Contract, 3 December 1922, Archives Albatros.

⁵⁰ For example, contract between Les Film Albatros and Wardour Films, Ltd., London, 5 November 1926, Archives Albatros.

⁵¹ Contract between Les Film Albatros and Wardour Films, Ltd., London, 5 November 1926, Archives Albatros.

⁵² Letter Wardour Films Ltd., London to Les Films Albatros, 2 August 1927, Archives Albatros.

⁵³ Letter Wardour Films Ltd., London to Les Films Albatros, 1 September 1927, Archives Albatros.

distribute French movies. An employee of Metro-Goldwyn-Mayer, who looked at the film remarked the following:

"I beg to acknowledge receipt of 8 reels of film Raquel Meller in 'Carmen' which has been viewed by the executives of the M-G-M Distributing Corporation, as a result of which I have the following report to make: Raquel Meller is a little too heavy to play 'Carmen' for American audiences and on the whole there was no favourable impression with the personality. I hereby return to you with thanks said 8 reels of film by the bearer thereof."⁵⁴

Albatros' American agent suspected that the plan of the French government to restrict the showing of foreign movies would not help to change the U.S. distributors attitudes towards French films:

"We are not at all discouraged and intend to continue our work: Eventually, we will put the picture over. Just how, when or where, I can't say. As to taking on additional pictures - not yet. We'll clean this one of our book first. The activity of your country in its film ratio plan is not going to help the sale of the picture, but in spite of that I know that we will sell it. It is just a matter of waiting until the market is in such a position that they must take a big picture."⁵⁵

The incompleteness of the archives make it difficult to establish how many films Albatros distributed in all in the U.S., but the impression is that it were very few. Of the films for which detailed information on foreign revenue exist, three movies were distributed in the United States: the U.S. rights to *Paris en cinq jours* (1925) were sold 15 December 1926 for 63,050 francs, six percent of total revenue of the film. The fact that the picture was only sold over a year after its French release suggests Albatros had a hard time selling its products in America.⁵⁶ The U.S. rights to *Le Lion des Mogols* (1926) were sold for an unprecedented 600,000 francs, roughly a third of the film's total revenue.⁵⁷ For *Un Chapeau de Paille d'Italie* (1927) Albatros reached an agreement with Moviegraphs, Inc., a small American film distributor, under which it would receive 35 percent of U.S. rentals of the film. Again, the contract was signed only in June 1929, long time after its French release, and Moviegraphs did not manage

⁵⁴ Antonio G. Gonzales, Metro-Goldwyn-Mayer, New York City to Frank Tichenor, Eastern Film Corporation, New York City, 2 February 1928, File 'Carmen', Archives Albatros.

⁵⁵ Frank Tichenor, Eastern Film Corporation, New York City, to Les Films Albatros, 3 February 1928, File 'Carmen', Archives Albatros.

⁵⁶ Contract 15 December 1926, Contract file 'Paris en cinq jours', Archives Albatros.

⁵⁷ Contract file 'Le lion des Mogols', Archives Albatros.

to secure any bookings at all, since the sound film was now firmly established in the U.S.⁵⁸

Other files in the Albatros archives only give evidence of a U.S. sales or distribution contract for the sound films *La Porteuse de Pain* (1934), and *Les Bas Fonds* (1936).⁵⁹ The latter was again distributed by a small U.S. distributor, Mayer-Burstein. The Internet Movie Database mentions three other films to have had a U.S. release: *Les nouveaux messieurs* (1928) / *The new gentlemen* (U.S. release 1929); *Les deux timides* (1928) / *Two timid souls* (U.S. release 5 December 1928); *Le Messenger* (1937) / *The Messenger* (US release 1937).⁶⁰ However, it is unclear how reliable this information is, and it has not been corroborated so far.

It is certain that Albatros did not manage to secure distribution of its films by one of the major Hollywood studios which dominated American distribution and exhibition, or by one of the three major independent producer/distributors. The encyclopaedia of the American Film Institute, which includes all films released by the these major companies - including foreign films - does not mention any film of Albatros.⁶¹

One would assume that after the coming of sound, at least French Canada would be a major market for Albatros, as it is today for French films, despite the differences in accent. However, although it is very well possible that Albatros did sell a lot of films in Canada, little evidence has been found in the remains of its archives. For *Jim La Houette* (1926) it sold Canadian rights together with U.S. rights. For *Le Procureur Hallers* (1930), its first sound production, it sold Canadian rights for 175,000 francs and 50 percent of rentals, and this seems an exceptional sum, since it sold Canadian rights to *La Porteuse de Pain* (1933) for only 13,500 francs, and estimated the value of Canadian rights to *Bon Chat Bon Rat* (1939), a film which was never completed, at most 35,000 francs. Between August and December 1931,

⁵⁸ Contract file 'Un Chapeau de Paille d'Italie', Archives Albatros; Letter Max A. Goldberg, Moviegraphs, Inc., New York City, to Albatros, 27 February 1931: "Gentlemen-We wish to inform you that to date we have not been able to secure bookings on your film 'The Italian Strawhat'. It has been and still is absolutely impossible to obtain any bookings for silent films. If conditions should change, we will be glad to inform you."

The Internet Movie Database (<http://www.imdb.com>) mentioned July 1927 as U.S. release date, and the same distributor, Moviegraphs, Inc., but this information must be incorrect.

⁵⁹ Conseil d'Administration, 19 November 1935; Conseil d'Administration, 29 June 1937, Archives Albatros.

⁶⁰ The Internet Movie Database (<http://www.imdb.com>).

⁶¹ American Film Institute, *Catalogue Of Pictures Produced In The United States. Feature Films 1921-1930* (New York and London, R. R. Bowker, 1971); ---, *Catalogue Of Pictures Produced In The United States. Feature Films 1931-1940* (New York and London, R. R. Bowker, 1979).

Albatros' 50 percent share amounted to about 10,125 francs (C\$ 405); other figures are not known.⁶²

9. Co-productions

The three international co-productions in which Albatros participated took place between 1927 and 1929. This was a time in which a 'Film-Europe' movement emerged in the European film industry. Since American companies had the advantage of a huge domestic market size, the idea was that European companies should increase the size of their 'domestic market' to be able to compete internationally, by way of mergers, joint-ventures, co-productions and distribution deals. The ideal was that a film producer anywhere in Europe would have access to the whole European market.⁶³

In 1927, Albatros produced *La Comtesse Maria* together with the Spanish production company Julisar. The film was budgeted at 931.590 francs and actually cost 1.050.975 francs. The net French revenue of the film was only 175.557 francs, low compared with other Albatros films of similar or lower costs.⁶⁴ Unfortunately, foreign revenue accruing to Albatros is not known. The correspondence between Albatros and Julisar shows that crafting the film to the tastes of two different audiences was the main problem. The Spanish producer/director Benito Perojo defends to Albatros the fact the four of the five main roles are filled by Spanish actors and actresses as follows: "You know very well that lately I have not been able to sell 'Vertige' in Spain even though it is a very good film, because the roles are played by young French actors, and those are way too effeminate, and that it is a huge problem for Spain. People cannot accept that and refuse the film."⁶⁵

In the same year, Albatros produced *Lèvres Closes* with Svenska Film Industrie, the main Swedish film production company. Budgets and costs are not known, but again the film did only modest business in France: it netted Albatros 166.235.

⁶² Archives Albatros, files of the respective films.

⁶³ Kristin Thompson, 'Early alternatives to the Hollywood mode of production', in: *Film History* Vol. 5 (1993), pp. 386-404.

⁶⁴ File 'La Comtesse Maria' Archives Albatros.

⁶⁵ Letter, Benito Perojo, Bidart, to Don Jose Maria Palles, Barcelona, 17 July 1927, File 'La Comtesse Maria', Archives Albatros.

In the spirit of the 'Film Europe' movement, Albatros made advanced negotiations to form a joint-venture with Emelka, a German firm and Julisar, a Spanish company. Albatros and Emelka would co-produce the films. Emelka and Julisar would do the Spanish and German distribution, Albatros would take care of distribution in France, Belgium and Switzerland. The joint-venture company would receive 60 percent of gross distribution revenue in all countries, and half of all profits would be distributed among the three partners, the other half would remain in the joint-venture, as reserve towards future productions. However, in the end the new company never materialised.⁶⁶

The low revenues within France, combined with the foreign revenue which had to be shared, probably made Albatros more careful about further co-productions. It ventured only one other one, *Cagliostro* (1929), with the German production company Wengeroff. Albatros' share of the film budget was 510,000 francs, and the film did reasonably well in France, netting 393,800 francs. Foreign revenue was well over a million francs.⁶⁷

The coming of sound probably made Albatros stop co-productions, as the company became more dependent on the French market, and international co-productions seemed to gross less in France. The only international co-productions in the sound era was the short subject *Amour et Profanation* (1932), together with Chavez-Hernanos, a French producer, and Cinema House, Ltd., a British company,⁶⁸ and *Le Procureur Hallers* (1930), together with the French Chavez-Hernanos and the German Terra Films. For the latter, a French and German version were made, with different actors and directors; only stages and technical facilities were shared.⁶⁹ Albatros did also co-operate several times with British International Pictures, a British film production company. The two companies exchanged some rights to produce another version of each films. For example, Albatros obtained the right to produce a French version of the film *Almost a Honeymoon* (*Le Monsieur de Minuit*, 1931),

⁶⁶ 'Projet de contract', undated, but before 1 November 1928, as that was indicated as the date the first film would start production, Contract files, Archives Albatros.

⁶⁷ Albatros statements show a total of 1,456,178 francs in net revenue from foreign sales. It could not be established if it had to share this sum with Wengeroff. Many territories are blank on the revenue ledger, and this could be either the result of a split in international rights between Wengeroff and Albatros, or simply the result of sound film making silent films unsellable [File 'Cagliostro', Archives Albatros].

⁶⁸ Conseil d'Administration, 15 March 1932.

⁶⁹ Archives Albatros, File 'Le Procureur Hallers'.

which it co-produced with Chavez-Hernanos. British International Pictures at one time obtained exterior footage from Albatros shot for *Carmen*, to be used in a new film.⁷⁰

From 1928 onwards, Albatros increasingly reverted to French co-production. This strategy resulted from the higher production costs of sound films, and because sound film had made it more dependent on the French market. Initially, Albatros stopped film production completely, because of the uncertain market environment: "We have not been able to do it [assess the book value of completed films], because the sudden shock that shudders through the motion picture markets because of the apparition of sound film, makes every estimate, even approximately, impossible, especially for the older films. At present, most foreign countries have stopped nearly completely to buy them. We must put on hold all film production until the situation becomes clear."⁷¹

The company found it simply too risky to continue making films on its own and found a solution by co-producing each new film with another French company.⁷² In practice, it produced most sound films with Chavez-Hernanos, a small French film company. It made further deals with larger companies to spread risk. For several Albatros/Chavez-Hernanos films, for example, studios were rented from Gaumont-Franco-Film-Aubert (GFFA) on advantageous conditions, one of the two big French companies at the time, while GFFA ensured French and colonial distribution of the film through its French network. For a few other films, it used the same construction with Pathé Consortium Cinema, France largest film company and GFFA's major competitor. Both companies were bankrupt at the time, but kept afloat and managed by their creditors, with help from the French government.

Apparently to minimise the risk of the financial impact of a flop, in the late 1930s Albatros start to found new companies specifically for the production of one film, for example La Société pour la Production et Exploitation de 'Le Messenger' or La Société pour la Production et Exploitation de 'Grisou'.⁷³

⁷⁰ Conseil d'Administration, 30 January 1931, Archives Albatros.

⁷¹ Conseil d'Administration, 25 April 1929. In the early sound period, French North Africa was one of the few territories where Albatros could pleasantly continue to exploit its library of silent films, but by early 1935, silent films had also become unsellable over there [Conseil d'Administration, 24 March 1935].

⁷² Annual report 1929, Archives Albatros.

⁷³ Conseil d'Administration, 2 April 1937; 16 December 1937.

10. Some theoretical observations

The point that arises attention in the history of Albatros, is its extreme dependence on foreign markets, despite the fact that it is a small company. It is difficult to explain this theoretically, and below just a few possible explanations will be briefly mentioned, leaving the ultimate answer still open to discussion.

In the sense of new international trade theory, the international trade in films seems to show large increasing returns, but paradoxically, the increasing returns in the film industry do not coincide with *extreme, absolute* geographical concentration and national specialisation, with *all* world film production concentrated in one location.⁷⁴ Interestingly, in this case films are not technologically sophisticated goods, in the sense that they have a large unit size, and require huge investments in production equipment and technological know-how, such as with passenger jets, for example. Also, many film companies are not large at all. It seems that in the market, there is place for many, many film producers, but each one needs to export its product to all major export markets, in order to survive.

The paradoxical situation is that the production costs of an individual film are small compared to the market size, but that nevertheless the film producer still has to export the film to break even. In the hypothetical case that all national markets were perfectly protected, and film producers/distributors could only distribute their films within their national market, they would not be able to sustain production costs at the level with international trade, not even the companies within the largest market, the large Hollywood studios would be able to do this, as they depended on the foreign markets for their profits.

One attempt to explain this peculiar situation might focus on specialisation, as markets for some small niche products are so small, that the world market can only accommodate a few producers. However, film producing companies are not nested in niche markets, as their films compete all with each other in a single market for films. Even if genres and audience profiles are different and would limit direct competition between films, film companies would still compete for access to screen-time. Although therefore not helpful from a market perspective, from a production

⁷⁴ For a concise overview of new trade theory see the collection of articles in Paul R. Krugman, *Rethinking International Trade* (Cambridge, Mass., MIT Press, 1990).

perspective, theory on flexibly specialised production could offer some insights.⁷⁵ Films are highly differentiated products and many film producing companies do not always compete directly with each other. They sometimes co-operate, share creative talent, sell each others films, and at other times compete - but even then, they often try to co-ordinate their actions: film distributors, for example, will do the utmost to avoid releasing two major films at the same day.⁷⁶

It might also be the case that the international trade explanation *does* hold, but that the situation simply is obscured by the fact that most costs in film production are endogenous. High exogenous costs that keep out new entrants do not exist, and the essential production factors, the creative talent, cannot be company property, and thus can freely move between companies. It could be said that the international trade theory explains that most film production did concentrate in Hollywood, in the hands of only a few companies, showing indeed increasing returns in international trade combined with huge investments in production technology and production. But then, because of the endogenousness of the costs, and partial cultural trade barriers, a lot of other companies can exist in a marginal, low-revenue, low-profit part of the market alongside the big ones.⁷⁷ And in the end (the 1950s) the endogenousness freedom of creative inputs even caused the production of the large Hollywood companies to disintegrate and deconcentrate, with distribution remaining the only concentrated part of the business.

A lot can be explained by the basic characteristics of the film industry alone: films have low transport costs and high endogenous sunk costs. Further, they can be reproduced nearly costlessly, so the classical question about quantity and marginal costs which governs the economics of many production processes is irrelevant for the film industry. Also, no foreign production plants are necessary therefore, since films basically are inputs for a multitude of small foreign production plants which provide a service: cinemas.

Further, the increasing returns per film have a ceiling: in general every consumer buys just one ticket to see one film and will not increase consumption of

⁷⁵ Scranton, *Endless Novelty*, applies the theory of flexible specialisation on the history American manufacturing, and contains several elaborate case studies, as well as interesting theoretical insights.

⁷⁶ See for example Michael Storper, 'The transit to flexible specialisation in the U.S. film industry. External economies, the division of labour and the crossing of industrial divides', in: *Cambridge Journal of Economics* Vol. 13 (1989), pp. 273-305.

this film if the price would come down.⁷⁷ Combined with screen-time being a scarce resource and having a limited capacity, this means that a film producer can not simply export a film to every country in the world. In some markets, the producer may not be able to sell a film at all, even not a bottom price, since the price mechanism does not work. Screen time is scarce and needs a minimum throughput of cinemagoers, and the local distributor has to incur huge sunk costs to release a film. Therefore the qualities of the film will be more important than its price, and deficiencies in quality⁷⁹ can in nearly no respect be compensated by price.⁸⁰

It can be said that given the international market size for each film, and because films are not products but copyrights, in the long term film budgets will always reach the level of their market size (minus some profits), as the creative inputs themselves cannot be property, and will maximise the rents they can capture from their talent. It is noteworthy that the rise to dominance of the vertically integrated Hollywood-studios from the early 1920s coincided with the widespread use of seven-year contracts, which in practice could last as long as fifteen years, to bind creative talent to a company.⁸¹

⁷⁷ A glance at table 6, showing a hundred- to two hundred fold difference in revenue between Albatros and each individual Hollywood studio, suggests that these other companies lived a marginal existence indeed.

⁷⁸ Only at some huge blockbuster films, a core group of admirers often sees the film repeatedly, but these are rare exceptions, only for very big hits, and do not play a role in the vast majority of films. And even then, this increase in consumption is not caused by a fall in ticket price, and also has a limit of two, possibly three times seeing a film.

⁷⁹ 'Quality' refers here to product properties, not to artistic quality or merit.

⁸⁰ This is also because a distributor often gets a share of revenue, but then the question would simply be: why don't the distributors lower the price to cinemas and cinemas the price to consumers, and still the same reasoning holds.

⁸¹ See for example Jane M. Gaines, *Contested Culture. The Image, The Voice And The Law* (London, British Film Institute, 1991).

11. Conclusion

Les Films Albatros, a small upstart company initially run by Russian émigrés, was typical for the fragmented French film production industry in the inter-war period. Even in its first few years of existence when it produced films at extremely low budgets, it was depended on foreign markets to break-even. When from the early 1920s onwards, it started to increase its film production costs, it became even more dependent on foreign markets. One major asset it had to ensure a steady appeal in several foreign markets was the popular star actor Ivan Mosjoukine.

After Mosjoukine had left Albatros, the company started to contract more and more French creative talent, among which the directors Jacques Feyder, Marcel L'Herbier and René Clair, as well as to venture into several co-productions to share risk and ensure international appeal of its films. However, often the increase in international appeal of a film led to a decrease in popularity in France, and after a few ventures Albatros stopped international co-production. Within France it ensured strategic market access by forwardly integrating in distribution by buying a distribution company.

The foreign markets on which Albatros depended were unstable and chaotic terrain for the company. In most cases even the combined revenue of the French and Latin European zones - the most stable consumers of its films - was not enough to recoup the production costs of a film, and often even when Eastern European countries were added, Albatros could still not break even. Albatros' films generally lacked appeal and access to distribution in the two most important film markets: Britain and the United States. While the reasons for this lack of appeal have not been the topic of this paper - it may very well be caused by the differences in Anglo-Saxon and Francophone tastes, or, in the case of the U.S., by an oligopolistic industry structure - , they deprived Albatros of what could have been a major source of revenue.

Nevertheless, despite all these problems, and despite the fact that Albatros had difficulties to complete its films within budget, the evidence which is left in its archives indicates that its films reached an impressive return on investment of 48 percent, which was on par with contemporary rates in the American film industry.

The coming of sound turned Albatros' production strategy upside down. The consequent jump in exogenous production costs forced it to concentrate on fewer

films, which it generally co-produced with a French partner-company. Further, sound reversed the structure of its international demand: domestic revenue jumped, and Albatros' films now came close to break-even in France, and often reached a profit in the European Francophone zone alone, while export revenues declined sharply. For the French film industry at large the coming of sound must have been beneficial. Despite or maybe thanks to vertical disintegration, endemic bankruptcies and many new upstarts, it was the fastest growing industry in 1930s France. While other industries shrank, the film industry grew at an average rate of over five percent a year.

The film industry is a rare example of an industry that industrialised a service - entertainment - and started to trade in it internationally. The case of Albatros arises questions as to why this export-driven service-industry showed increasing returns to scale in international trade, even for very small companies, and with film production costs that were minuscule compared to market size.

This research suggests that because of low transport costs, high endogenous sunk costs, costless reproduction, easy tariff-evasion and the absence of foreign 'production plants' the film industry showed high scale economies in international trade, which held for *every* company: not only for the large integrated 'studios', to which new international trade theory so often alludes, but also for a small film producer such as Albatros. Further research is necessary to see if this surprising finding also holds for other service industries.

LITERATURE

Abel, Richard, *French Cinema. The First Wave, 1915-1929* (Princeton, Princeton University Press, 1984).

Albera, François, *Albatros. Des Russes à Paris, 1919-1929* (Paris, Mazotta/Cinémathèque Française, 1995).

American Film Institute, *Catalogue of Pictures Produced in the United States. Feature Films 1921-1930* (New York and London, R. R. Bowker, 1971); ---, *Catalogue of Pictures Produced in the United States. Feature Films 1931-1940* (New York and London, R. R. Bowker, 1979).

Borger, Lenny and C. Morel, 'L'angoissante aventure. L'apport russe de l'entre-deux-guerres', in: *Positif* No. 323 (January 1988).

Choukroun, Jacques, 'Controler les studios, un atout majeur pour les grandes compagnies francaises des années trente?', in: Pierre-Jean Benghozi and Christian Delage eds., *Une histoire économique du cinéma français (1895-1995). Regards franco-américains* (Paris, L'Harmattan, 1997), pp. 111-126.

Choukroun, Jacques, "A propos du premier projet de production de La Grande Illusion," in: *Archives*, No. 70 (February 1997), pp. 24-26, and *Archives*, No. 73 (December 1997), p. 32-33.

Crisp, Colin, *The Classic French Cinema, 1930-1960* (Bloomington, Indiana University Press, 1993).

Dickinson, Margaret and Sarah Street, *Cinema and State. The Film Industry and the British Government, 1927-1984* (London, British Film Institute, 1985).

Gaines, Jane M., *Contested Culture. The Image, The Voice And The Law* (London, British Film Institute, 1991).

Internet Movie Database (<http://www.imdb.com>).

Krugman, Paul R., *Rethinking International Trade* (Cambridge, Mass., MIT Press, 1990).

Low, Rachael, *The History Of The British Film 1918-1929* (London, George Allen & Unwin, 1971).

Mitry, Jean, 'Ivan Mosjoukine', in: *Anthologie du Cinéma* 48 (October, 1969).

Nusinova, Natalja, 'I Russi in Europa. Il cinema della prima emigrazione', in: Gian Piero Brunetta, ed., *Storia del cinema mondiale. Vol. I. L'Europa. Miti, luoghi, divi* (Torino, Giulio Einaudi Editore, 1999).

Sadoul, Georges, *Histoire du Cinéma Mondial* (Paris, Flammarion, 9th edition, 1972).

Sauvy, Alfred, *Histoire Économique de la France entre les deux Guerres* (Paris, Economica, 1984).

Scranton, Philip, *Endless Novelty. Specialty Production and American Industrialisation, 1865-1925* (Princeton University Press, 1998).

Storper, Michael, 'The transit to flexible specialisation in the U.S. film industry. External economies, the division of labour and the crossing of industrial divides', in: *Cambridge Journal of Economics* Vol. 13 (1989), pp. 273-305.

Thompson, Kristin, 'The Ermolieff group in Paris. Exile, impressionism, internationalism', in: *Griffithiana* No. 35-36 (October 1989), pp. 50-57.

Thompson, Kristin, 'Early alternatives to the Hollywood mode of production', in: *Film History* Vol. 5 (1993), pp. 386-404.



EUI WORKING PAPERS

EUI Working Papers are published and distributed by the
European University Institute, Florence

Copies can be obtained free of charge
- depending on the availability of stocks - from:

The Publications Officer
European University Institute
Badia Fiesolana
I-50016 San Domenico di Fiesole (FI)
Italy

Please use order form overleaf

Publications of the European University Institute

To The Publications Officer
European University Institute
Badia Fiesolana
I-50016 San Domenico di Fiesole (FI) - Italy
Fax: +39-055-4685 636
e-mail: publish@iue.it
<http://www.iue.it/>

From Name

Address

.....

.....

.....

.....

- ☐ Please send me a list of EUI Working Papers
☐ Please send me a list of EUI book publications
☐ Please send me the EUI brochure Academic Year 2002/2003

Please send me the following EUI Working Paper(s):

Dept, n°, author

Title:

Dept, n°, author

Title:

Dept, n°, author

Title:

Dept, n°, author

Title:

Date

Signature



Working Papers in History

Published since 2000

HEC 2000/1

Concepción GARCÍA-IGLESIAS
The Gold Standard and its Influence on
Growth Rates for the European
Periphery, 1865-1913

HEC 2000/2

Daniel A. TIRADO/Elisenda PALUZIE/
Jordi PONS
Economic Integration and Industrial
Location - The Case of Spain Before
WWI

HEC 2000/3

Elisenda PALUZIE/ Jordi PONS/
Daniel A. TIRADO
Trade Liberalization, Market Integration
and Industrial Concentration: The
Spanish Economy During the 19th
Century

HEC 2000/4

Belén MORENO CLAVERÍAS
Le crédit dans les économies familiales
catalanes au XVIII^e siècle à partir des
inventaires après-décès

HEC 2000/5

Luisa PASSERINI/ Marina NORDERA
(eds)
Images of Europe

HEC 2000/6

Daniela FINALDI-BARATIERI
The "Only" European Schools in the
European Union?

HEC 2000/7

Andrea Filippo SABA
Dal paesaggio all'impresa. La storia
ambientale fra strumento enciclopedico e
scienza olistica

HEC 2000/8

J. Peter BURGESS
Meaning and Science in Weimar - Crisis
and the Cultural Foundations of Reason

HEC 2001/1

Regina SCHULTE/
Pothiti HANTZAROULA (eds)
Narratives of the Servant

HEC 2001/2

Dorena CAROLI
L'essor de l'État-providence russe
(1992-1998)

HEC 2001/3

Gerben BAKKER
Selling French Films on Foreign Markets
- The International Strategy of a Medium-
sized French Film Company, 1919-1938

* * *

*out of print

