

19. On the question of monopoly it is first to be noted that some degree of monopoly or chain operation of picture-theatres exists in every country. It is in fact inherent in the business. The theatres sell not goods, but service. Group operation is the most economic in most service industries, but particularly so in this case, since the same film is used over and over again to provide the service, and group operation simplifies and gives flexibility to the booking arrangements. The producer is involved in very high overheads. He is seldom capitalized sufficiently for more than one year's operations. He therefore finances each year on the returns from the films produced in the preceding one. It is an advantage to him to have early knowledge of the probable returns from each market. "Block-booking" contracts are therefore the rule. A blanket contract covering a number of theatres is desirable, and his agent, the renter, therefore offers better conditions to the chain exhibitor than to the independent. On the exhibition side, better hiring terms (thus conserving overseas funds), earlier releases, and more convenient booking arrangements can be made for a chain of theatres. With the safeguards provided in the New Zealand legislation, block-booking is an advantage to the exhibitor as well, since he can plan ahead for the theatres.

20. It is not apparent that the public is in any way prejudiced by this system. The views of the entertainment-seeking public are evidenced by the box office. High prices are readily paid and people travel considerable distances to see the early release of popular pictures. To use the trade expression, the public "shops for its pictures" and any attempt to force the public taste results in them staying away in thousands. The chain exhibitor, by his control of a number of theatres, can operate what is called a "horses for courses" policy and show the same type of film regularly in a particular theatre. In this, as in other matters, the box-office result is the deciding factor. The show consists of the picture plus the theatre. The chain operator has an advantage in getting early release of the pictures. He usually has adequate finance and the amenities offered in this theatre at least do not suffer in comparison with the independent. The evidence available indicates that the standard of amenities in New Zealand is higher and the prices of admission much lower than in any other English-speaking country.

21. This is not to say that some control or review of theatre monopoly operation may not be desirable and in the interest of all concerned—even the monopolist. There have been suggestions made in the past, and they may be reviewed when the inquiry is held, that the buying-power of the chain companies prevents the independent exhibitor in the suburban theatre, or in the intermediate town on circuit, obtaining reasonable release dates. The comparative importance of the larger towns and the central situations in the cities, in which the chain-theatre exhibitor mostly operates, makes a determination on the facts a matter of some difficulty. The information available to the departmental officers does not disclose any outstanding evils in the chain operator-independent situation. Government may consider, however, that whereas in New Zealand something in excess of half the total business is under one control and more than three-quarters in two hands, there exist possibilities of economic pressure both on the renters and on other exhibitors which at least justify the situation being kept under observation.

22. Some reference should be made here to what is known in the trade as the "K.O.G." agreement (Keep Off the Grass) applying to the hiring of films for first release in the principal city theatres. The effect of the agreement was to divide the films available between the two circuits so that each retained its basic "service" or "services" and the remaining supplies were contracted for on a basis determined from year to year according to the requirements of their respective theatres in each centre. Each operator agreed not to tender for the "services" allocated to the other under the agreement. It was a recognition, based on experience, of the danger to the stability of the industry of even two-party buying on a fully competitive basis. It would appear that the results achieved by the arrangement had some benefits for the renter as well as for the exhibitor, but the former would probably represent that these benefits were mainly at his expense, that there are objections in principle to a unilateral decision, and that it involves an extension of the monopoly principle. It is possible, however, that stability in the industry might be arranged by means which would be even less acceptable to the renter.

23. It is common knowledge that Government is inclined to look askance at monopoly controlled by private enterprise. It is, however, difficult to see an alternative. Repeated experience has demonstrated that three-party competitive first-release buying of film-supplies benefits only the foreign producing interests. This would be even more the case if all or most first-release theatres were controlled independently. It may be contended that a more equal division of interest between the major chains would be desirable, but, short of Government intervention, it is not easy to see how this could be brought about. The business is definitely speculative in character and appears to be most successful under administrative and operational methods which would be regarded by Government Departments as highly unorthodox. The order of reference as drawn will probably not exclude consideration of the advisability of some form of Government control or supervision.

THEATRE LICENSING SYSTEM

24. The 1934 Committee in recommending the continuation of a restrictive licensing system (paragraph 65) suggested administration by a tribunal and the attachment of certain conditions to licences. It also made a general recommendation that such matters should be considered by an Advisory Committee set up under the principal Act. This latter procedure was followed, and in order to hold the position in the meantime the regulations were issued in 1935 in the same form as in 1932.