Policy Brief No-9

Tariffs on Movies: Lack of Clarity on Implementation Design and Economic Motivation

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1. US Consideration of Tariffs on Foreign Film Content: Undermining US Commitments and Traditional US Priorities

President Donald Trump's announcement on May 4th that the US government would consider applying tariffs on foreign-produced films has far reaching implications for trade policy if actually carried out. Such implications go far beyond films or even trade in audio-visual and entertainment related services. Let us consider some of the key implications:

1. **Current practice of distribution, screening and viewing of film and related content is entirely through digital means and qualifies as a digitally delivered service**: If implemented, this will be the first instance of a tariff on what has become a digital industry. Film theatres traditionally used 35mm film prints that were physically transported to individual theatres and screened using projectors. Traditional projectors using film prints have now been replaced across most screens by DCPs or digital cinema packages. DCPs are a collection of digital files that contains all the necessary digital information required for playing a movie, including the video, audio, and subtitles. DCPs can be stored on a hard drive or a server, or be stored or distributed using the cloud. Thus, theatrical distribution of films cross-border is now a digitally delivered service.

   Further, films (and related audio-visual entertainment content) are increasingly delivered in a digital format through digital applications directly to the consumers' personal electronic devices (internet connected digital screens or so-called smart televisions, smartphones or other handhelds). US based digital platforms like Netflix, Amazon Prime, and Disney dominate this sector. However, other major content-producing countries like India (Zee5, JioHotstar), China (iQIYI, Viu) and South Korea (Coupang Play, TVING) have their own local players that also have a global presence. All of these digital platforms have foreign-produced content that is streamed digitally to content consumers globally, including in the US, i.e., they constitute a digitally delivered service.

2. **Violates WTO consensus to not impose customs duties on electronic transmissions:** Historically, countries have avoided putting tariff barriers on Mode 1 or cross-border delivery of services. This is especially true of digitally delivered services. WTO members took a decision by consensus to not impose customs duties on electronic transmissions at the Second

Ministerial Conference in May 1998. This so-called moratorium on electronic transmissions has been renewed periodically at WTO ministerial meetings, and remains in place as of date. It needs to be noted that US has been the strongest votary of this principle of moratorium on customs duties on electronic transmissions, and has often argued for making this moratorium permanent instead of the current practice of seeking periodic extensions.

3. **Violates binding US multilateral commitments under General Agreement in Trade in Services (GATS):** The US has also taken a binding commitment to provide market access and national treatment to cross-border delivery of audio-visual services (covering Motion Picture & Video Tape Production & Distribution Services, Radio & Television Services, Radio & Television Transmission Services, and Other Audiovisual Services) in the GATS. This means US is bound by its GATS commitments to allow the commercial streaming of foreign content without discrimination vis-à-vis domestic content. Any tax (in this case a tariff) on foreign content is therefore discriminatory in that sense, and thus violates existing US GATS commitments.

4. **Violates US commitments on market access and national treatment under multiple bilateral agreements:** US has made binding commitments in numerous trade agreements to not impose customs duties on digital products. The USMCA, the US-Korea FTA, US-Panama FTA, US-Colombia FTA, US-Peru FTA, US-Oman FTA, US-Bahrain FTA, US-Singapore FTA, US-Australia FTA and the US-JAPAN Digital Trade Agreement are some examples of trade agreements concluded by the US that contain such a commitment. A tariff on foreign content would also violate national treatment commitments against discrimination of foreign digital products in numerous US FTAs.

If one accepts **the principle that tariffs can be applied on digitally delivered services in contravention of existing multilateral or bilateral commitments**, it can lead to other countries taking up similar measures for reasons of revenue maximization or for protecting their domestic industry. This possibility cannot be ignored, and old certainties of free and open markets for digitally delivered services – especially the non-application of tariffs or other discriminatory taxes on them by importing countries – would need to be seriously reviewed.

As digitally delivered services become an increasingly important component of global trade and come to represent the industry with some of the best-paying jobs, policymakers worldwide will be under increasing pressure to find the means to protect local industry and generate local jobs. They might also seek to generate as much revenue as possible from such trade. With trade in digitally delivered services emerging as the dominant mode for global services trade, with a share of about 53% in overall services exports globally, such protectionist tendencies could be right around the corner. A recent working paper by Centre for WTO Studies, "Negotiating for Digitally Delivered Services-Framework for a Comprehensive Approach'[1], debates some of these emerging challenges.

While our aforementioned working paper does point to the increasing possibility of protectionism in digitally delivered services, but given the US overall dominance on services trade, including digitally

[1] Banerjee et al. (2025) Negotiating for Digitally Delivered Services- Framework for a Comprehensive Approach, CRIT Working Paper No. 82, available at https://wtocentre.iift.ac.in/workingpaper/CWS_WorkingPaper_82.pdf

delivered services, setting the precedence on raising barriers on such trade (such as considering discriminatory taxes or tariffs) might seem counterproductive to overall US interests in the immediate term. But let us take a closer look at the sector-specific situation in US trade in audio-visual services to get a better understanding of the underlying economics that might be informing this decision being considered by President Trump's administration.

2. Economics of global film and audio-visual content related trade

A tax on foreign content also does not make sense from an economic perspective. Unlike in goods, US is the globally dominant exporter of services. Historically, US had a trade surplus in services both overall and with most major trading partners, with only a few exceptions. However, since 2020, US imports more services than it exports.[2] But as Chalaby (2025)[3] points out, this is a result of re-shaping of the global film and television market, with digital delivery of entertainment content increasingly becoming the dominant mode of distribution.

Chalaby indicates that the rise of global digital behemoths like Netflix, Amazon, and Disney created a new global value-chain in the film and television market that was characteristically different from the older Hollywood studio-led distributor networks. Film and television industry has now become a much more globalized industry, characterized by the presence of a few lead firms operating in multiple markets and leveraging hundreds of suppliers worldwide. These streaming platforms benefit from transnational network effects and the coordination of supply chains on a global scale. By building large content libraries and accumulating foreign assets, they are transforming international trade flows in the process. In other words, these behemoths are content creators and distributors across the world, and purchase large amount of non-US content that they can market globally.

Since these US global behemoths purchase, i.e., import significant value of foreign content to develop their large content libraries, there has been a remarkable increase in US imports of audio-visual content in recent years, turning the traditional US surplus into a deficit.

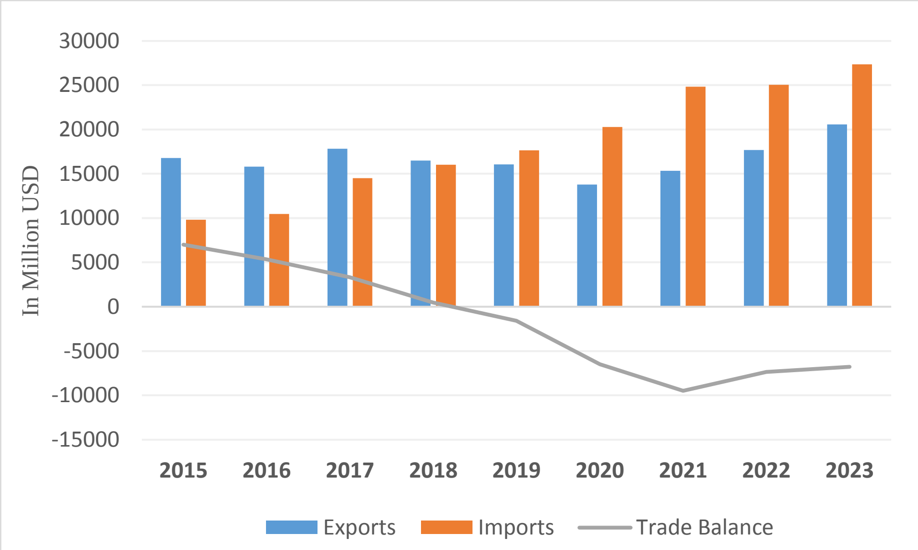
Chalaby points out that while US exports of audio-visual content have increased by just 95.4% between 2006 and 2023, imports have increased by a whopping 898%. While some of this increase represents ever-growing numbers of foreign-born diaspora in US population, and the flourishing interest of a new generation of consumers on international film and television content, this massive increase in imports is largely explained by the growth of the digital streaming behemoths starting mid-2000s. The so-called global triumvirate of global streaming, i.e., Netflix, Amazon, and Disney are all US based.

The US exports of audio-visual services was 20.57 billion USD in 2023, while imports where 27.35 billion, with a trade deficit of 6.7 billion USD. Figure 1 below, which charts US exports, imports and trade surplus in audio-visual services from 2015 to 2023, fully confirms Chalaby's analysis, with US entering deficit territory in 2019. But the key point here is that US imports of foreign content are critical to digital streaming firms' global dominance. By increasing the cost of doing business for its digital giants, US will only be shooting itself in the foot in the longer-run.

Figure 1: US trade in audio-visual services

[2] https://www.citystgeorges.ac.uk/news-and-events/news/2025/may/trump-foreign-film-tariffs

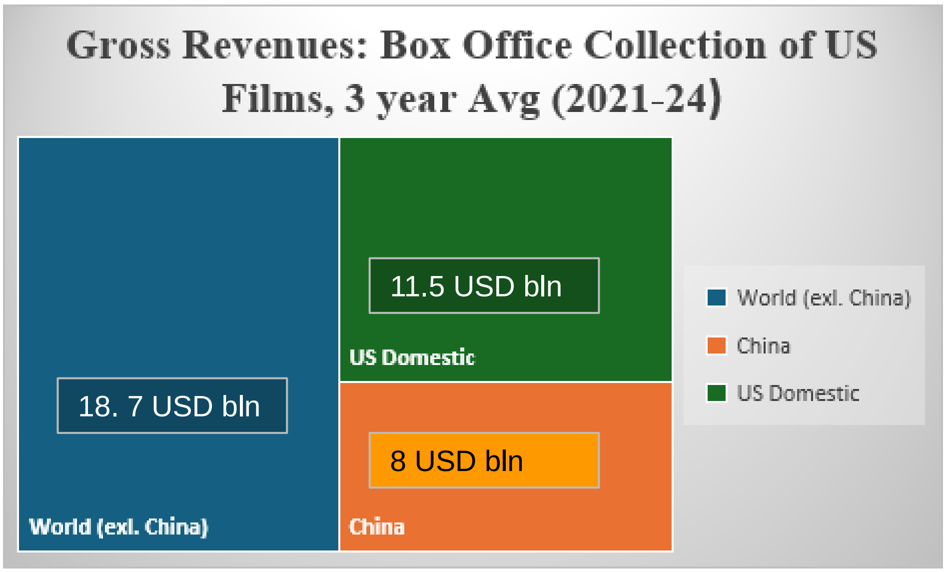
[3] Chalaby, J (2025), Streaming giants and the global shift: building value chains and remapping trade flows, Journal of Communication, Vol. 75, No. 2, 112-124



Data Source: OECD Batis

It also needs to be pointed out that while US does import more foreign content, it still is the world's largest exporter of film and television content in absolute terms. Global markets are critical to the economic success and profitability of films produced by US studios/content producers. As figure 2 below clearly shows, foreign (non-US) box office collections of films produced by US based studios/content producers are more than double of domestic collections.

Figure 2: Gross Revenue Box Office Collection for US Films



Source: Gowerstreet[4]

[4] Data has been taken from https://gower.st/articles/sparkling-december-finishes-2024-high-3bn-global-box-office-2024-total-30bn/

This is reiterated by the fact that the 15 biggest blockbusters in 2024 earned a much higher share of their revenues from international as opposed to US markets, with just two exceptions. Table 1 below lists these films and highlights the two movies that were exceptions in that the US was their major market in terms of revenue collections.

Table 1: Share of revenues (US vs. international) for Top 15 blockbuster films in 2024

Global Top Box Office Performers 2024			
Rank	Movie Title	% US	% Non-US
1	Inside Out 2	38.4%	61.6%
2	Deadpool & Wolverine	47.6%	52.4%
3	Moana 2	43.5%	56.5%
4	Despicable Me 4	37.2%	62.8%
5	Wicked	62.6%	37.4%
6	Mufasa: The Lion King	35.2%	64.8%
7	Dune: Part Two	39.5%	60.5%
8	Godzilla x Kong: The New Empire	34.3%	65.7%
9	Kung Fu Panda 4	35.3%	64.7%
10	Sonic the Hedgehog 3	48.0%	52.0%
11	Venom: The Last Dance	29.2%	70.8%
12	Gladiator II	37.3%	62.7%
13	Beetlejuice Beetlejuice	65.1%	34.9%
14	Yolo	0.5%	99.5%
15	Pegasus 2	-	100.0%

Source: Boxofficemojo.com[5]

If other countries retaliated in kind, the US film industry, by far the dominant player globally, would stand to lose enormously. The losses would not be limited to just revenues from films. Hollywood blockbusters generate huge additional business from film-related merchandise, gaming, and events. These films serve as a medium for marketing lifestyle products including fashion, electronics, food-chains, and sports goods. Value-chains in all of these products are dominated by US-owned brands generating revenues and jobs for the US economy.

The global movie merchandise market was estimated to be around USD 32 billion. While there are no formal estimates of the share of this film merchandise market attributable to content produced and marketed by US-based studios/production houses, it is dominated by US entities. In addition, US films and content play a major role in moulding consumer tastes and preferences, especially for young consumers with strategic spin-off benefits for other US entertainment-related exports such as music and live gaming. Last but not the least, US films are a huge source of 'soft power'.

3. Levying the tariff: Potential options, challenges and implications for India

Currently, no details have been provided either by the US President or his administration on the precise nature of this tariff, or its implementation design. The US President for now seems to merely have directed the Department of Commerce and the United States Trade Representative (USTR)

[5] Data has been taken from https://www.boxofficemojo.com/year/world/2024/

office to work out the details for a tariff policy on foreign-produced films. But any such tariff policy would have to have clarity on the following questions to be feasibly rolled out and applied.

1. Will the tariff apply only to movies, or to TV shows and streaming services offerings as well?
2. Would they apply only to international films, or also to American movies produced outside the US?
3. How will the US define what movies are considered to be "produced in foreign lands"?
   a. Does foreign production refer to the movie being shot on-location outside the US? How would then a movie that is partially shot-on location in the US, and partially outside be treated?
   b. Does foreign production include technical and creative services sourced from firms or professionals outside the US? For example, animation, special effects, digital effects (such as VFX), sound recording, editing, background score, dubbing etc. These technical and creative services are an increasingly important services export, and in the future will be progressively linked to another area of services sector growth – gaming. Interactive gaming as a spin-off from successful movies is becoming a big business globally.
   c. There is increasing use of AI in content creation. This covers, but is not limited to, AI-generated imagery – including AI-generated storyline-appropriate videos and film clips that are integrated into the film, and AI generated VFX. Would such AI-related work be considered to be a part of production?
4. Who would be responsible for paying the tariffs?

The catalyst and process of evolution of this proposed policy might provide some clues on the above questions. On January 16, 2025, President Trump announced actor Jon Voight (amongst a few other actors) as a 'Special Ambassador' to Hollywood.[6] The tariff announcement on movies by President Trump on the 4th of May was immediately preceded by a visit to him by Jon Voight, who presented the president with a plan to "rescue" the American film industry.[7]

Trade publication 'Deadline' was able to get access to Jon Voight's proposal to President Trump[8], the salient features of which are shared below –

- The proposal recommends a 10%-20% federal tax credit that would be "stackable" on what states like California, Georgia and New York already provide.
- If a US-based production could have been produced in the U.S., but the producer elects to produce in a foreign country and receives a production tax incentive therefor, a tariff will be placed on that production equal to 120% of the value of the foreign incentive received.
- The proposal applies to content produced for theatrical distribution; U.S. broadcast networks; U.S. cable channels; streaming services (including, e.g., Netflix, Amazon, Disney, Apple, Peacock, Paramount+ and Hulu); and digital platforms (e.g., YouTube, YouTube TV, X, Facebook).
- The proposal pitches for a significant ownership shift between streamers like Netflix and producers so as to overturn "draconian licensing terms".
- The proposal recommends that eligible productions meet a minimum threshold American "Cultural Test".

[6] https://edition.cnn.com/2025/01/16/entertainment/trump-jon-voight-mel-gibson-sylvester-stallone-ambassadors-hollywood/
[7] https://www.npr.org/2025/05/07/nx-s1-5389865/trump-movie-tariffs-jon-voight-tax-incentives-hollywood
[8] https://deadline.com/2025/05/jon-voight-hollywood-plan-read-in-full-trump-tariffs-1236387042/

Jon Voight's team later clarified that *"All of the ideas contained in the document were crafted solely for the purpose of discussion. They are not intended to drive definitive political action, nor do they reflect any formal policy or position."*[9]

The tariff proposals in Voight's document and the President's announcement of a 100% tariff do not seem to be completely aligned. Voight's proposal requires tariffs only where countries have offered subsidies or production incentives, as a means to negate their attractiveness. Voight's proposal also does not clarify the exact definition of what constitutes a movie 'produced in foreign lands'.

The fourth question, on who is likely to pay this tariff, could be subjected to some educated conjecture. A report by PIIE surmises that the US is likely to either – *"look to collect tariffs from large digital distributors like Netflix, Amazon Prime, and Disney, and movie chains like AMC Theatres and Regal Cinemas"* or *"collect the tariff from the big US studios, like Universal, Paramount, Warner, DreamWorks, Walt Disney, and Sony."*[10]

Table 2 below puts forward some of the possible alternatives on how such a tariff policy may be designed, and discusses some of the challenges and implications associated with them.

Table 2: Potential Tariff Policy Design and its implications

[9] https://www.npr.org/2025/05/07/nx-s1-5389865/trump-movie-tariffs-jon-voight-tax-incentives-hollywood
[10] https://www.piie.com/blogs/realtime-economics/2025/another-trump-first-movie-tariffs

	Possible Design of Measure	Economic Impact	Impact on India	Mode(s) Impacted
1	**A tariff equivalent to (or a multiple of) the production incentives received from foreign country, limited to films produced by US studios/production houses** *Several countries, mostly in the EU, but also in GCC, Australia and NZL provide generous incentives. But film production is getting complicated, with multiple co-production houses and content targetting a global audience. Some content is produced by and for digital streaming conglomerates like Netflix, Amazon Prime, Disney etc. Administering such a policy would be hugely complicated*	Would make movie production costlier, with costs being passed on to the consumer, not just in the US but worldwide. Given that US' top performing films earn a greater proportion of their revenues from international markets, this would increase content costs worldwide and make US-produced content less competitive	Currently limited since India is not a big suibsidizer of foreign production. But given the rise of digital content as well as outsourcing of digital production (editing, sound recording, special effects etc.), Global Capability Centre-related incenitves that cover these activities could be targeted	Mode 1 and Mode 3 (US subsidiaries in other countries receiving subsidies, or parents of foreign production houses in US receiving subsidies and thus their content getting tariffed)
2	**Foreign production related services by US studios/digital content producers being tariffed (not linked to foreign incentives)** *All foreign expenditures by US content producers for production support (i.e., imports of services related to content production, including digitally delivered services) are made s.t. tax (effectively a tariff on services imports). This also has implementation complications, for e.g., NETFLIX can pay for such services through a foreign subsidairy or JV, making assessment of such payments extrenely difficult,* ***but not impossible***	Would increase overall cost of production, and might even lead to making content primarily produced using US services less competitve in the US market and even globally, since the cost of ancillary support services will increase	India is a major exporter of content production technical and support services, including digitally delivered services related to content development and production. US is the main importing market. Such a tariff might have a significant negative impact on Indian exports	Mode 1
3	**General tariffs on all foreign-produced content consumed in the US. This would cover theatrical release and digital streaming** *Easiest to implement, it would simply require US authorities tax a portion of proceeds from theatrical and streaming content. However, there is no clear defintion of 'foreign-produced content'. If applied to films largely shot overseas, or produced by production houses headquartered outside US, would disproportionately impact non-US content*	Would increase the cost of non-US content for US consumers, as well as for content deemed to have been 'foreign-produced' (however defined). Since non-US content (foreign films/shows etc.) would definitely be impacted, might lead to reciprocal moves by other countries. Since US is a major exporter, this might have a huge negative impact on US exports of audio-visual entertainment, and even lead to significant challenges for US-based digital content streaming services like NETFLIX or AMAZON who dominate the global market	Would impact US revenues for Indian content, which is substantial and growing due to a large captive diaspora market.	Mode 1 and Mode 3 (US based distributors of Indian content)

Source: Developed by the authors

Option # 1 links the tariff to those films that were shot outside the US or involved use of non-US based technical and creative services, and received incentives from the host country for either use of location, use of services, or both. The tariff itself would be some multiple of the incentives received.

Option # 2 considers a scenario where all international content would be made subject to tariff. The assumption in this scenario is that not just content produced by non-US firms (and content produced by US firms outside the US using non-US facilities and services) but all foreign production-related content would be potentially made s.t. the tariff.

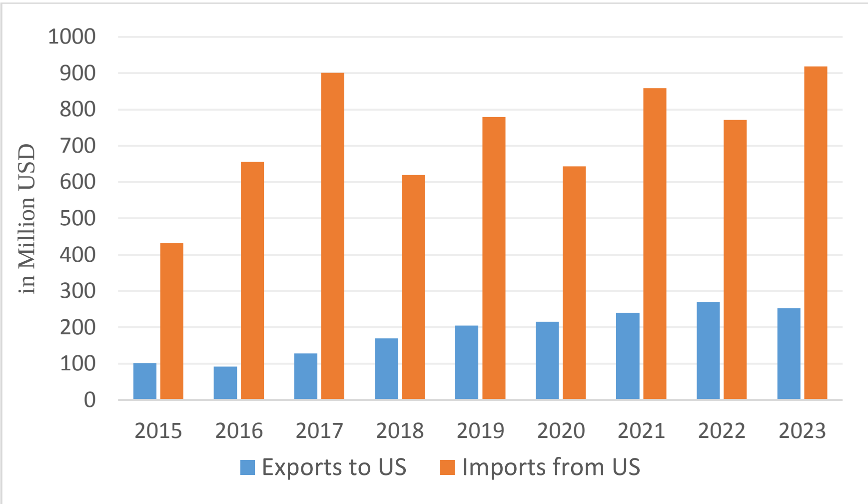
Option # 3 is the simplest formulation among the three scenarios. It assumes that tariffs would be imposed on foreign-produced content (which itself would have to be defined). But theoretically, all revenues earned from either theatrical or digital streaming of content could be made subject to a tax, notwithstanding the complexity of defining 'foreign-produced' content, especially for content produced or commissioned by US entities.

From an Indian point of view option 2 and 3 will have the most negative impact. We discuss India's trade in audio-visual services with the US in more detail in the following section.

4. India's Trade in Audio-Visual Services with the US and Potential Impact of US Tariffs

India is a net importer of audio-visual content from the US. Indian film and television content consumption in the US remains largely diaspora-centric, along with some demand from diaspora originating in countries which also have a strong preference for Indian films and television – like Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran, and GCC member states. Unlike Japanese, Korean or European content, India is still to find a large consumer base outside its diaspora in the US market. Figure 3 below shows a persistent trade deficit in audio-visual services for India in audio-visual services trade with the United States from 2015 to 2023, with India consistently importing far more from the U.S. than it exports.

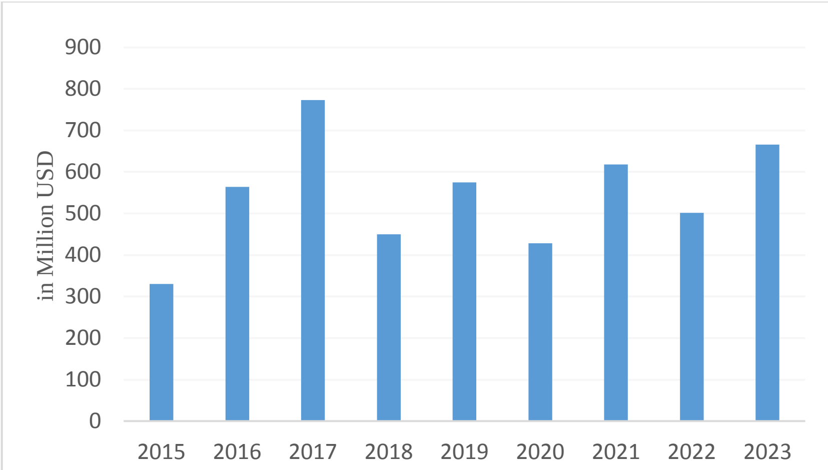
Figure 3: India-US Bilateral trade in audio-visual services



Data Source: OECD Batis

While India's exports to the U.S. have gradually increased from around 100 million USD in 2015 to about 250 million USD in 2023, imports from the U.S. have remained substantially higher, peaking above 900 million USD in several years. This reflects the dominance of U.S. media and entertainment services in India, which is being reflected as high trade deficit for India with US in audio-visual services (Figure 4 below).

Figure 4: India's trade deficit with US in Audio-Visual services



Data Source: OECD Batis

While US is a major exporter to the Indian market, and India is not a major player in the US audio-visual market in relative terms, the US remains an extremely important market for Indian audio-visual services exports. US share in India's audio-visual services exports have varied between 33% to 43% in the recent past (2015-2023). In other words, US represents a third or more of the market for Indian audio-visual services exports. US represents a significant portion of the global revenues for Indian film content, especially for Hindi, Telegu and Malayalam language films (Table 3 below). On the other hand, India's share of US imports of such services have remained just around 1%, with the figure for 2023 (latest available year) being just 0.92%.

Table 3: Share of Revenue by Geography				
Export Market	Hindi	Telegu	Tamil	Malayalam
United States	50%	70%	12%	25%
Canada	8%	0%	0%	0%
United Kingdom	10%	12%	18%	15%
UAE	18%	0%	0%	50%
Australia	8%	18%	0%	0%
New Zealand	2%	0%	0%	0%
Singapore	2%	0%	25%	0%
Malaysia	2%	0%	35%	0%
Sri Lanka	0%	0%	10%	0%

Source: Times of India, and authors' calculations

A US tariff on Indian film and television content needs to be seen in light of the following facts:

1. US enjoys a trade surplus with India, while having a deficit with the rest of the world in audio-visual services.
2. India is not a subsidizer of film production services.

Therefore, whatever concerns some sections of the US film and entertainment industry might have with losing business to foreign producers and service providers, none of those perceived concerns apply to the US-India bilateral situation. India has become an exporter of technical services to US film production (the bulk of such exports are captured under other sectoral heads such as other business services). But such exports can be seen as competitively-priced inputs in the global value-chain film and television production that only help US content become more competitive in the global market.

On the other hand, US remains an important market for Indian audio-visual exports. Thus, any tariff on Indian exports would lead to loss of revenue and profitability for Indian content producers. While no formal studies exist, tariffs are unlikely to significantly reduce the overall demand for such content given that it is driven by strong diaspora preferences. But it would most likely lead to Indian content producers internalizing some of the impact from tariffs, with their US distributors also doing the same to minimize the pass-through to final consumers.

Depending on how such tariffs are eventually imposed, their design, and their impact on Indian exports of audio-visual services, Indian policymakers should consider engaging with their US counterparts to find an optimal solution that is based on the understanding that India represents a substantial and growing market for US content, and US enjoys a trade surplus in this sector with India.

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About CRIT

India's Foreign Trade Policy (FTP) Statement 2015-20 suggested a need to create an institution at the global level that can provide a counter-narrative on key trade and investment issues fromthe perspective of developing countries like India. To fill this vacuum, a new institute, namelythe Centre for Research on International Trade (CRIT), was set up in 2016. The vision and theobjective of the CRIT were to significantly deepen existing research capabilities and widen them to encompass new and specialised areas amidst the growing complexity of the process of globalization and its spill-over effects in domestic policymaking. Secondly, enhancing the capacity of government officers and other stakeholders in India and other developing countriesto deepen their understanding of trade and investment agreements.

About CWS

The Centre for WTO Studies which is a constituent Centre of CRIT, pre-dates the CRIT since it was created in 1999 to be a permanent repository of WTO negotiations-related knowledge and documentation. Over the years, the Centre has conducted a robust research program with a series of papers in all spheres of interest at the WTO. It has been regularly called upon by the Government of India to undertake research and provide independent analytical inputs to help it develop positions in its various trade negotiations, both at the WTO and other forums such as Free and Preferential Trade Agreements and Comprehensive Economic Cooperation Agreements. Additionally, the Centre has been actively interfacing with industry and Government units as well as other stakeholders through its Outreach and capacity-building programs by organizing seminars, workshops, subject-specific meetings, etc. The Centre thus also acts as a platform for consensus- building between stakeholders and policymakers. Furthermore, the inputs of the Centre have been sought after by various international institutions to conduct training and studies.

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