

European cinema in the digital era

2010/2306(INI) - 24/09/2010 - Non-legislative basic document

PURPOSE: to lay down the opportunities and challenges for European cinema in the digital era.

BACKGROUND: the audiovisual landscape is mutating rapidly worldwide, opening up myriad opportunities for the European cinema and audiovisual industry provided that the inherent challenges of **investment in equipment**, training and new models can be overcome. Digital technologies have already made European audiovisual works more easily accessible outside their country of origin thanks to new ways of transporting audiovisual content (such as video on demand and catch up TV).

Ensuring that there is circulation of European works and diversity of European cinema available to viewers will require a wide range of operators (distributors and exhibitors). One of the challenges will be to maintain cinemas in spite of the entry barrier represented by the **high costs of digital equipment** that threatens the existence of a number of European cinemas.

Some European exhibitors are still hesitant about investing in digital equipment since over the last 15 years they have made substantial investments in the upgrading of their facilities and in the creation of mini /multiplexes.

The digital cinema distribution revolution therefore raises **two major issues**:

- the important investment in digital equipment has to be borne by exhibitors, but the savings will be made by distributors (thanks to the lower cost of digital copies);
- digital equipment represents a cost that can be borne by cinema chains and multiplexes but that is often out of reach for certain smaller independent (frequently arthouse) cinemas.

This could lead to a dual exhibition/distribution market, where only multiplexes and high value commercial films would benefit from the digital cinema revolution. Cultural diversity and renewal of talent however depend on maintaining Europe's unique network of cinemas.

It is clear that the European Commission has an important role to play in the digital transition of cinemas, in particular by contributing to the establishment of a framework for this Transition. It is for this reason that it has presented its communication on the opportunities and challenges for European cinema in the digital era.

CONTENT: Member States' support measures focus in general on the creation and production phases of filmmaking. These films will from now on also need digital masters and digital screens in order to be shown and to reach their potential audience. Access to digital equipment and to digital masters will become crucial to remain competitive in a rapidly evolving market. Ensuring that there is circulation of European works and diversity of European cinema available to viewers will require a wide range of operators (distributors and exhibitors). One of the challenges will be to maintain cinemas in spite of the entry barrier represented by the high costs of digital equipment that threatens the existence of a number of European cinemas.

It is clear that the European Commission has an important role to play in the digital transition of cinemas, in particular by contributing to the establishment of a framework for this transition, covering elements such as:

- standardisation;
- collection and preservation of film in digital format;
- regional support to digitisation (including EU Cohesion Policy);
- compatibility with Treaty rules;
- support to exhibitors of European films (MEDIA Programme);
- access to finance (European Investment Bank and MEDIA).

The European Commission is aware that the transition to digital projection has a number of inherent risks that have to be tackled to enable European cinemas to benefit from its opportunities.

To reach that objective it is necessary to ensure:

- **flexibility and transparency in the standardisation process**, so that digital cinema projection standards can meet the diverse needs of European cinemas;
- **legal security in the field of State aid for the digitisation of cinemas**, in the form of clear assessment criteria enabling Member States to design their schemes accordingly;
- **EU financial support for the digital transition of cinemas showing European films** or having an impact on regional development.

Financing the digital cinema transition: the objective of the European Commission action plan is to create a favourable environment for the digital exhibition of European films. Different initiatives have been and will be launched to support the take-up of and the investment in new digital technologies. With the help of the **European Structural Funds and the new MEDIA scheme**, the ultimate objective of the Commission is also to promote European citizens' access to digital cinema.

Two types of intervention are proposed:

1) to design a new MEDIA scheme to support the digital transition of European cinemas. In line with the principle of subsidiarity and the Programme's objectives the support will focus on cinemas screening a majority of recent European films. This will comprise the basic award criterion for the applicant cinemas. The new digitisation scheme will grant support directly to cinemas and co-finance a clearly identified set of digital equipment costs in the form of **flat-rate financing**. MEDIA support can be cumulated with national support; however, priority will go to cinemas/countries that cannot benefit from VPF deals or from national support schemes for digitisation. The cinemas based in those countries will be given particular attention, in line with the priorities of the MEDIA 2007 Programme. To be able to grant support in the form of flat-rate financing a study on digital equipment costs has been commissioned to determine a sliding scale of unit costs. The scheme will be finalised and launched at the end of 2010, on the basis of the findings from this study;

2) to facilitate the access of exhibitors to credit or to support their financing costs. The possibility of opening the MEDIA Production Guarantee Fund to exhibitors and/or of creating a new i2i scheme for them is therefore being considered. The European Investment Bank (EIB) could also play a role in the digital transition by helping national funds/digitisation plans access commercial loans.

Timetable: the Commission therefore intends to put into place the following elements of an action plan for the transition to digital cinema projection for European cinemas:

2010

- a progress report on the adoption of digital cinema projection standards to ensure that this reflects the needs of European cinemas and that alternatives are explored for European
- cinemas that do not need or cannot access 2k equipment;
- a study on the costs of digital equipment to provide important data from across the EU;
- a new MEDIA support scheme for the digitisation of cinemas screening a significant percentage of European (non-national) films.

2011

- adopt a Recommendation on promoting digitisation of European cinema;
- examine the possibility of extending the MEDIA Production Guarantee Fund to exhibitors or find a similar way to facilitate their access to credit.

2012

- monitor the digital transition and review all its different aspects in the whole audiovisual chain (training, digital masters, programming...);
- develop appropriate criteria to assess State aid support for digital projection in the Cinema Communication.