11th Annual Conference
Europa Cinemas

Paris
16th – 19th November 2006

Report of the debates

With 1689 screens in fifty-five countries,

Europa Cinemas is the first international film theatre network

for the distribution and exhibition

of European, Mediterranean and African films.

With the support of

MEDIA Plus, Euromed Audiovisual and European Development Fund

(European Union),

Centre National de la Cinématographie (France),

Eurimages (Council of Europe),

French Ministry of Foreign Affairs,

Organisation Internationale de la Francophonie.

Friday November 17, 2006

INAUGURATION OF THE CONFERENCE

Claude Miller (Director, President of Europa Cinemas)
Christophe Girard (Deputy Mayor in charge of Culture, Paris)
Christophe Forax (Member of Mrs Viviane Reding's Cabinet, European Commission)
Xavier Merlin (Director of European and International Affairs, French Cinema Center)
Claude-Eric Poiroux (General Director, Europa Cinemas)

Christophe Girard:

The City of Paris pursues an extremely determined policy when it comes to supporting cinemas. The organisation comprises a body known as “Mission cinéma”, which assists shooting, supports art house cinemas and promotes access to screenings. If one screen is set to disappear, it sees to it that another is created to replace it, ensuring that the city is able to maintain the same number of theatres. It is also aware that any closure is bad for cinema, films, production, distribution and culture, and consequently for the country as a whole.

With 374 screens, Paris is the number one city in the world when it comes to the number of cinemas it offers. It is taking a stand against the increase in the number of multiplexes and is encouraging the preservation of local theatres to ensure the diversity and continued presence of cinemas.

Paris city council would like to pay its sincerest compliments to Europa Cinemas, which, for fourteen years, and well before Europe took on its current configuration, has been working to give European cinema a sense of direction. Today Europa Cinemas brings together exhibitors who are linked to its network right across Europe, giving them all the opportunity to exchange experiences and making it possible to prevent cinemas from closing. Going to the cinema is a choice, a social and cultural act. Over the next twenty years, it will be necessary – in order to preserve a vision aimed at safeguarding cinema, film theatres and audiences – to reflect on and master the technological developments and to protect copyright. It is a demanding battle which we must continue. Exhibitors are the ideal ambassadors and champions – and also the most courageous ones – in the whole cinema adventure.

Claude Miller:

Europa Cinemas is delighted to be able to welcome more than 500 members today. This is a genuine record and a clear demonstration of their commitment. Once again, and more so than ever before, we will have to find solutions that will enable us to control the network’s future.

Christophe Forax:

The European Commission and Mrs Viviane Reding are proud of the existence and initiatives of Europa Cinemas. Although the budget for the MEDIA programme has been revised downwards for 2007, the support given to the cinema network will not be reduced. Europa Cinemas embodies priorities that are close to the heart of the European Commission and the MEDIA programme. The first of these is the organisation of the dissemination of quality films, both national and European. The second relates to the international dimension, which involves welcoming certain non-European works and creating partnerships, such as Africa Cinemas. The third objective is education in the area of cinema, and the best project in this field will also be receiving an award from Europa Cinemas this evening.

As far as digital distribution and exhibition are concerned, the European Commission has three messages. The first emphasises the fact that it must be up to exhibitors to control the rhythm of developments and the technology during this transition. The American DCI (Digital Cinema Initiative) model must not be the sole standard for the transition. The existence of a single standard – and this is the second message – would present risks relating to the abuse of a dominant position, the security of content and cultural diversity. Mrs Viviane Reding and her departments are considering the possibility of commissioning an open European standard for high-quality digital projection. Should this project be adopted? It is up to the distributors and exhibitors of the Europa Cinemas network to answer this question. Finally, with regard to exhibitors who wish to equip their cinemas with digital technology, the European Commission is in discussion with the EIB (European Investment Bank) with a view to ensuring support for leasing contracts entered into in order to acquire this equipment.

Claude-Éric Poiroux:

The European Commission is not the only institution that has supported Europa Cinemas since its creation in 1992. Another is the CNC (Centre National de la Cinématographie), represented by Mr Xavier Merlin.

Xavier Merlin:

Europa Cinemas and the CNC firmly believe that the life of films begins in a film theatre. They are therefore convinced that cinema is reliant on a supply policy. To encourage the public to go to the cinema, we need to offer the widest possible variety of films and, in our case, the greatest possible diversity of European works.

Digital technology has already fundamentally changed the conditions for film production. This development is now affecting distribution – with VOD (Video On Demand) – and the screening of films in theatres. Europa Cinemas is also a pioneer in this field, as it supports digital projection in the cinemas through the MEDIA programme.

At present there are more questions than answers when it comes to digital, and the reflection that is necessary on this topic is becoming a matter of urgency. This is why the CNC, the UK Film Council in the United Kingdom, the FFA in Germany, the ICAA in Spain and the Filminstitut in Austria decided to publish a joint declaration on 22 October 2006 to ensure that European cinema is able to benefit from the advantages that digital cinema brings.

The CNC and Mrs Véronique Cayla will see to it that interoperability is achieved, to prevent distributors and exhibitors from becoming prisoners of an integrated technology and to ensure that they are able to guarantee diversity of programming. Furthermore, it is becoming crucial for European films to be transferred in large numbers to digital prints, as the number of European films available in digital format is currently low, compared to American productions. Films that make up our European cinema heritage must also benefit from this change in format.

To conclude, Europa Cinemas presents a positive image of Europe that we would like to be able to see more often.

Claude-Éric Poiroux:

We are proud today to be able to note the continuous expansion of the Europa Cinemas network. This is due firstly to the fact that new countries have joined the MEDIA programme. In 2006, the programme welcomed Bulgaria and Switzerland; Romania will be added to the list in 2007. The network has theatres in almost

400 European towns and these establishments are clearly helping to give the people of Europe the best possible access to European films. The results achieved by Europa Cinemas are indispensable for European filmmakers and their productions. Once again the figures are on the increase: in 2005, 59 % of the network's screenings were devoted to European productions and 37 % to non-domestic feature-length European films. These are impressive results when set against the figure of 8 % that represents the share of European works programmed by Europe's entire cinema base. The new diversity bonus, introduced last year, encourages exhibitors to take more risks.

However, three main causes for concern are emerging today. Firstly, we are faced with threats relating to the media release timetable, which is in danger of being turned upside down by a new arrival: VOD. It is planned that the next MEDIA programme will include a budget line for the programming of European films via this new distribution channel, which would therefore become a complement to film theatres. However, we can already see the threat that would be posed by shortening the periods in the media release timetable through the creation of a position for VOD. The majority of European films require a long run in cinemas to enable them to benefit from word of mouth. The cinema's exclusivity period therefore becomes crucial and must not be made any shorter.

The second concern relates to the transition to digital. This technology will make it possible to facilitate the international circulation, diversity and understanding of European films. To achieve this, numerous commercial, technical and financial obstacles will have to be overcome. The arrival of digital must not affect the programming freedom that applies with the 35 mm format. The interoperability of the equipment is essential; the management of keys must not restrict programming capabilities; and the greatest possible transparency needs to be created between suppliers and the first parties to enter into digital equipment contracts, as these initial transactions will set a precedent for European exhibitors who subsequently equip their theatres. It is important for the effects of technological and commercial concentration to be avoided. Solidarity will become a priority condition to enable small and medium-sized exhibitors to acquire digital technology. On their own they will not be able to bear a new financial burden that would weaken them to a dangerous degree.

Finally, the last point concerns the weakening of the independents: producers and distributors are able to rely less and less on television channels to coproduce their films and buy them in advance. The cinema industry's audience and position are being eroded from within the television channels. European titles are therefore being affected by a lack of resources. Europa Cinemas is concerned about the health of European distributors and has participated in the creation of Europa Distribution, which, alongside the FIAD (Fédération internationale des associations de distributeurs de films (International Federation of Associations of Film Distributors)), is strengthening the dialogue between the exhibition and distribution sectors. However, Europa Cinemas is also convinced that the independents, whether they are producers, broadcasters, distributors or exhibitors, are driven by the same convictions to defend European films. All these parties need to be united within a single platform that will allow the exchange of ideas and discussion, in order to increase the quality and quantity of European films reaching the screens.

SESSION 1
DISTRIBUTORS - EXHIBITORS: LIBERTY, SOLIDARITY, DIVERSITY!

1st Part:
• Presentation by Daniel Goudineau of the Report "Farewell Film? The Challenges of Digital Cinema“.
• Presentation by Thomas Pintzke of the Study on Economic Models conducted by Rinke Medien Consult - RMC.
2nd Part:
• How to guarantee distributor and exhibitor independence and freedom of choice?
• How shall the role be divided in the transition towards digital for distributors, exhibitors and the technical industries?
• What does European cinema stand to gain? What place for independent cinema?
• How the film theatre can reinforce its role as market leader.

Led by Pascal Rogard (General Director, SACD, France)
In presence of Anne Durupty (Deputy Director, French Cinema Center)

Daniel Goudineau (General Director, France 3 Cinéma, France)
Thomas Pintzke (Consultant, Rinke Medien Consult – RMC, Germany)
Christophe Rossignon (Producer, Nord-Ouest Productions, France)
Thomas Negele (Chairman of German Exhibitors Association)
Jean Labé (President of the French Exhibitors Association)
Julian Levin (Executive Vice President Digital Exhibition & Non-Theatrical Sales & Distribution, 20th Century Fox, USA)
Régine Vial (Distributor, Les Films du Losange, France)
Peter Buckingham (Head of Distribution and Exhibition, UK Film Council)
Nico Simon (Chief Executive Officer, Utopia Group, Luxemburg)

Pascal Rogard:

Although digital technology does not yet have a strong presence in cinemas, it is nevertheless used to a great extent during editing and during the shooting stage for animated films.

Christophe Rossignon:

Digital technology occupies an important position in production, but as yet remains little used in the area of shooting. Considerable use is made of this technology during post-production for purposes of digital calibration. This transfer from film to digital print facilitates special effects, in particular those that are invisible. The quality of digital projection today appears to be equal or even superior to that of 35 mm projection. By way of example, the animated film *Azur et Asmar* by Michel Ocelot was released in France on 25 digital prints. The transition to digital is proving to be inescapable. As a producer, the most important outlet for a film will continue to be the theatre. We will need to carefully consider when this development towards digital should take place and how it should be implemented, in order to ensure the continuity of independent exhibitors and art house networks.

Daniel Goudineau:

The debate concerning the quality of digital compared to 35 mm is now outdated. The transition to digital is gaining speed, but nevertheless remains modest, due to the low level of production of digital projectors. This transition is likely to take another ten years or so.
The digital projector is only the end of the chain of this transformation. We first need to give consideration to the production of digital prints and then to a new method of physical film distribution, an aspect that will bring about a major upheaval.
The report on digital commissioned by the CNC is based on three fundamental principles. The first is that of universality, something by which France sets great store: all cinemas must have access to all films, including

American feature-length films. The second principle comes under the heading of “freedom and transparency”. All operators must retain their freedom and independence to enable them to make the choices they want to make without economic and technical constraints. The final principle relates to respect for the identity and cultural diversity of the territory: this means defending the diversity of cinema and asserting that cinema is a local recreational activity, as it has strong territorial links. It is difficult to imagine cinema being the object of global distribution without any differentiation. We can also add a further principle: that of solidarity between the professions, with respect for each other’s roles. Digital affects all the professions of the cinema industry: producers, distributors and exhibitors. And any technical change could tempt a certain number of operators to encroach into the domain of others.

Today, as far as digital projection is concerned, there is one dominant development model, that of the United States, which came into force this year. It is based on a technical projection and distribution standard, known as DCI, and will apply for the next ten years. This model also consists of an architecture that places a third-party investor between producers/distributors and exhibitors. It organises the entire technical chain relating to digital, namely distribution and the fitting out of cinemas. It is also based on an economic principle referred to as VPF (Virtual Print Fee). The savings achieved by distributors on digital prints are reallocated to the investment in projectors. It is this third-party investor who collects the VPF and who has attracted exhibitors on board. There is, however, one major drawback to this model, as it puts the third-party investor in an extremely powerful position. It threatens freedom and transparency due to the risk that the relationship between the distributor and exhibitor will become deterritorialised.

An alternative model could be proposed in Europe. If this is based on a different standard from the American model, there is a risk that it will find itself detached from the entire cinema industry. Furthermore, working out an alternative model to finance the transition to digital for a certain number of cinemas would lead to the marginalisation of exhibitors who are not benefiting from this initiative. Today, it is impossible to envisage financing digital in all cinemas exclusively by means of public funds.

The solution would be to adapt the American model to the situation in Europe. Initially, we could align ourselves with the American DCI standard, i.e. a minimum resolution of 2K. Advocating a European standard that is not compatible with the American one would not be realistic. Besides, the AFNOR standard suggested by France is compatible with the DCI standard. In order for interoperability to be achieved, it is important to create a neutral technical body to verify the compatibility of all the equipment to be installed in theatres. Over the next three years it is also necessary to encourage the development of digital post-production for all European films so that the supply of digital prints can be increased. This is a responsibility that lies with producers. The European Commission could get involved to make it possible to speed up the development of digital versions of European films.

The freedom and transparency offered by the system will depend on the management of keys. A platform guaranteeing the independence of the operators who generate and manage the keys needs to be created to prevent scenarios of vertical integration.

On a financial level, it is difficult at present to assess the expenditure, maintenance costs and resources that will be required. The only viable financing model in Europe would involve ploughing back the savings made by distributors on digital prints. However, instead of having the print paid for through a VPF, the security keys would be paid for via the independent platform. To correct certain imbalances, small exhibitors would, in addition, have recourse to the support fund, which could be regulated by Europa Cinemas, for example.

Peter Buckingham:

The UK Film Council has taken an interest in digital in order to encourage the programming of European films in British cinemas, which very rarely show them. We have therefore decided to rely on the best possible level of digital projection, which corresponds to the DCI standard. Exhibitors were already keen to employ digital equipment of the highest possible quality in order to avoid competition with home cinema. Any digital projector installed in theatres also had to be able to project Hollywood films. With universality in mind, we have also developed a multimedia station that is capable of showing all types of content.

The worst thing for independent distribution would be the existence of several standards. In this respect, there is no basis for the European Commission's proposal to create a second standard. The DCI standard is entirely acceptable for Europe, guaranteeing picture quality, the fight against piracy and interoperability. Only one standard should exist in Europe.

There is a genuine shared will to introduce digital. The reason why this process is being held up is linked to the choice of the economic model.

Thomas Pintzke:

Two different points of view are emerging with regard to the transition to digital. Firstly, there is that of the pessimist, who is asking himself how much will need to be invested, who will have to pay and how this money will be found. Will we see a decline in diversity and independence, in particular when it comes to programming? Will these investments be guaranteed over the long term?

On the other hand, there is the view of the optimist: digital will bring in greater (advertising) revenues; there will be a reduction in distribution costs, an improvement in the availability of films (meaning greater diversity), access to new content and the possibility of targeting new audiences.

Today, we find ourselves somewhere between these two lines of thought, the pessimistic and optimistic view. In order to move ahead, we need to place the emphasis on technical and economic knowledge, whilst ensuring complete transparency.

The strategy of the market does not give any protection to the weak. It advocates financial agreements between the most powerful operators, often outside the field of cinema. There is, however, another notion, which is based on solidarity in order to defend the weakest players on the market. The political will to prevent the closure of screens as a result of the transition to digital is accompanied by economic assistance in the form of possible tax relief.

Distributors and exhibitors need to agree on the financing of investments in projection systems. We cannot have just one single economic model for the whole of Europe. Each country needs to take its specific local peculiarities into account.

The costs of the transition to digital can be linked to the number of projection hours, as each cinema has its own programming. This notion of a cost based on projection hours could be used for payments by support funds. Such a system may also prove beneficial for small distributors who would accept the operation of a variable print fee. This model should function in accordance with market forces and in a self-supporting way, without the need for any substantial contribution in the form of public aid.

Patrick Vanhoudt:

The European Commission has specified a minimum quality standard to ensure that digital is accessible to all. Certain exhibitors would have neither the need nor the means to pay for maximum quality projection. The European Investment Bank will also be willing to listen to them.

Julian Levin:

20th Century Fox supports the production of independent films, but also independent distribution and exhibition. In this area it works in partnership with Europe. Digital will give audiences a better cinema experience in theatres and will increase profitability and management efficiency for professionals. The current status of digital in the United States resembles a kind of organised chaos, and this is set to continue for another 18 months. The decision in favour of a single standard (DCI) makes it possible to realise economies of scale and to reduce costs, whilst ensuring reliability that is comparable with the 35 mm format. For the distribution of digital films, 20th Century Fox would like to cooperate with Europe, taking into account the specific local aspects of each country and their markets. It should be possible to bring this about fairly quickly, as the costs of the transition to digital look set to fall.

Pascal Rogard:

Have American studios already set a date for the complete transition to digital, or do they want to maintain a dual system for a certain time and continue to distribute 35 mm prints?

Julian Levin:

The studios do not know how long the complete transition to digital will take. They are assuming that it will still take another fifteen years or so for the United States. Until then, 20th Century Fox will provide the two systems, both the 35 mm and digital formats. Elsewhere it could take around twenty years – and in these cases too it will be necessary to maintain a double stock of prints. However, certain countries, particularly in Europe, that are equipped with only a small number of traditional theatres, are already winning the race to go digital and will be fully equipped with this new technology well before the United States.

Thomas Negele:

German exhibitors urgently need the conditions for the transition to digital to be clarified. An accurate assessment of the cost of investments, the savings that will be achieved by distributors, the risks of piracy etc. is required. The strategy to be adopted needs to focus on the long term, as the time for the transition is already more or less planned. We need to avoid repeating the errors that were made at the time the DVD was introduced, when we misjudged the market and the competition presented by this new format.

The financing of the transition to digital by third parties is not particularly desirable. A system of direct debits with readjustments is more realistic. A contract has been drawn up with the FFA (Filmförderungsanstalt) to regulate the question of public rights, interoperability, solutions relating to ownership and financing mechanisms (subsidies, loans etc.). European certification of equipment is required.

Nico Simon:

The Utopia network has 30 digital screens spread throughout the Benelux countries, out of a total of 100 theatres. This equipment was acquired 18 months ago as a pilot investment. However, Utopia will not be installing any other digital screens until a viable economic model is chosen. It is not for films that we need digital, but for cinemas, to enable them to increase their quality. They need to remain the best place to see a film. Switching to digital will also make it possible to ensure the independence and diversity of the exhibitor, as of the point when there is just one single standard and full interoperability – something that is unfortunately not yet the case.

The European Commission must see to it that economic models that are open to all are introduced. Distributors, in particular American ones, have a duty to provide keys for all the screens of an individual cinema.

We can currently see a certain amount of convergence between producers, distributors and exhibitors with a view to finding an economic model. This will have to be worked out with complete transparency.

Jean Labé:

The single digital standard has been requested from the European Commission for five years in order to ensure that the advantages available with 35 mm can still be enjoyed. The DCI standard now exists, and this, alone, should be adopted by Europe, i.e. a resolution of at least 2K. The European cinematographic image will need to be of genuinely high quality.

The interoperability and certification of equipment will, of course, be obligatory, and the management of keys must guarantee, above all else, programming freedom. All keys need to be entrusted to a single establishment to allow a print to change cinemas in accordance with the exhibitor's wishes and, of course, depending on the period of exhibition contractually agreed with the distributor.

The duty of the FNCF (Fédération nationale des cinémas français) is to help small and medium-sized establishments to transfer to digital. A cooperative could be set up. However, digital will remain a tool and will not be sufficient on its own to increase attendance figures for European films. New processes will need to be implemented in addition to technologies if we want European cinemas to obtain larger market shares.

Régine Vial:

Europa Distribution groups together around fifty independent European distributors. These parties are enthusiastic about the advent of digital, but also have a fair number of concerns. Today, the mission of an independent distributor is to defend a screenwriter and his film, which is often a personal project that is also supported by an independent producer. The independent distributor seeks out and uncovers new talents. However, in future its mission will need to face up to the vertical and horizontal integration imposed by the majors and the television stations, which have a substantial impact on day-to-day distribution activities. The market share enjoyed by independent distributors is increasingly being squeezed, and the increase in the number of films and the number of prints made is being accompanied by a reduction in the amount of time that films spend in cinemas. The public is getting the impression that any feature-length film is a kind of consumable. This situation is now severe and it is difficult for distributors and exhibitors to survive it. Only solidarity and agreement in relation to the cinemas that we are defending will make it possible to avoid the worst possible scenario.

The advent of digital risks enabling the most powerful distributors to speed up the rate at which they release films and make prints, thereby crushing independents. For Europa Distribution the Virtual Print Fee is a disastrous initiative. It removes the freedom to discuss that has always existed between the distributor and exhibitor. We do, however, approve of the Virtual Key Fee and this idea of independent key management described in the report by Mr Daniel Goudineau.
The acquisition of digital masters remains a problem for European distributors. The CNC and the MEDIA programme should support producers in creating masters of their films.

Claude-Éric Poiroux:

I would like to remind you that, since last year, Europa Cinemas has been implementing a plan (to the value of 7,500 euros per cinema per year) to encourage and support exhibitors who want to acquire the necessary equipment and project European films in 2K digital. A manual outlining how to proceed needs to be published by Europa Cinemas to ensure that the various parties involved in the network are able to move towards digital in a well-balanced way.

SESSION II – WORKSHOP 1
IN SEARCH OF EQUITABLE ECONOMIC MODELS FOR DIGITAL CINEMA

- Detailed presentation of the RMC Study on Economic Models. Evolution of industry-public sector initiatives.
- What economic choices and what standards for the durable development of digital cinema?
- Investment support schemes: roles of the public and local authorities.
- How to manage the transitional period between analogue and digital?
- Can digital projection attract new audiences?

Led by Anders Geertsen
(Director of Distribution, Danish Film Institute, and Head of the Commercial Module of the European Digital Cinema Forum)

Thomas Pintzke and Kim Ludolf Koch (Consultants, Rinke Medien Consult, Germany)
David Hancock (Senior Analyst Film & Cinema, Screen Digest, United Kingdom)
Dr. Siegfried Fößel (Project Coordinator, Digital Cinema, Fraunhofer Institut, Germany)
Patrick von Sychowski (Head of Digital Business Development,Deluxe Europe)
Patrick Vanhoudt (Economist from the Projects Directorate, European Investment Bank, Luxemburg)
Klaus Hansen (Head of Danish Film Producers Association)
Edward Fletcher (Distributor, Soda Pictures, United Kingdom)
Marcus van der Zwaag (Distributor, Cinemien, The Netherlands)
Age Hoffart (Distributor, Oro Films, Norway)
Chris Koppelmeier (Project Manager German Roll Out)
Christophe Lacroix (Consultant, ex-Head of Distribution Buena Vista France)
Michel Humbert (Exhibitor, Member of AFCAE, France)

Anders Geertsen:

Today there is a firm consensus surrounding the DCI standard to be adopted by Europe. If digital is used with a single standard, savings will be possible. It is a basic principle. So, how will these cost reductions be distributed? Will there be third-party involvement to ensure that the savings realised are passed on to the exhibitor?

Dr. Siegfried Fössel:

The DCI specification is excellent and is set to become an SMPTE standard in 2007. Germany, via the FFA and the Fraunhofer Institut, is currently developing its own digital packages to make sure it retains its independence in relation to Hollywood. The JPEG 2000 compression format proposed by DCI is under consideration with a view to making it an ISO standard and promoting interoperability. Verification and testing channels have been created to certify the compatibility of the different equipment before it is launched onto the market. However, it is still not known whether these certifications will be able to be validated by the manufacturer itself or by an independent organisation. On this point, we are also waiting to observe the European collaborations of other agencies, such as the UK Film Council and the CNC. With the FFA, the Fraunhofer Institut is also trying to find an economic model specifically for the country as well as an authority that will generate and manage the public keys. It is also establishing a training programme geared towards projectionists and managers of digital cinemas.

David Hancock:

The USA presently has 1,300 digital screens out of a total of 25,000 existing film theatres and has entered an industrial-type era of development, which it is the first to experience. Europe has not yet equipped itself at this level due to the fragmentation of the market. In descending order, the European countries with the most digital screens are as follows: the UK, Germany, Italy and the Netherlands. 84 % of theatres are equipped with 2K. Barco is the principal equipment manufacturer for Europe. At present, half of all digital (DCI) film releases globally take place on American soil. The key driver for the development of digital will be, above all, commercial logic. We will need to take into account the different market structures in Europe. The notion of “fair share” (fair distribution of costs) must be applied between the different players, based on the number of hours of digital projection or the price of the digital print, thanks to the savings it will create for distributors.

Thomas Pintzke and Kim Ludolf Koch:

A compromise must be found between the reading key manager and the exhibitor, who must retain his programming freedom. Moreover, producers are going to have to spend more for the production of master prints of their films. It is important that the latter are also included with the distributors and exhibitors in an equitable cost distribution system. On average, the cost of a digital print will be 10 times less than that of a 35 mm print, i.e. a saving somewhere in the region of 900 euros.

The digital projector represents a long-term acquisition. This equipment has to be insured, which also means additional expense. In order to be operational, the equipment must function for at least 1,320 screenings per year. The life of a projector is expected to be 7 years, thus guaranteeing 20,000 projection hours. It is important that the exhibitor remains the owner of his equipment. All in all, including the financial resources generated (advertising, national and local subsidies), the total cost of investment for digital exhibition is 25,000 euros per screen.

The Flexible Print Fee is a type of fee that is calculated according to the number of hours the projector is used. It would range from 3 to 4.80 euros per hour. The Flexible Print Fee must remain optional like the Virtual Print Fee (fixed price per print), since, from one film to another, the creation of prints and the length of exhibition – which depends on attendance figures – could result in considerable variations in profitability between these two compensation systems for investments in equipment. In summary, distributors will have to pay a fee of 800 euros per print or 4.80 euros per hour of projection.

Chris Koppelmeier:

The FFA in Germany is now aware of the complete process required for the switch to digital. It is a valuable partner for the country, and will act as moderator between the various operators. Germany is now awaiting an interoperability specification, which must be shared by Europe. It is keen for this to be developed rapidly and for the economic model for investment in equipment to be ready for summer 2007.

Patrick Vanhoudt:

If exhibitors are to take out a loan of 100,000 euros from a bank to invest in digital equipment, they will be obliged to increase ticket prices by 60 cents to 1 euro, depending on the size of their establishment. The European Investment Bank can only reduce this cost in a marginal way, by 50%, so as not to be in competition with private banks. The grouping of leasing companies would make it possible to obtain reductions on equipment prices from manufacturers. The EIB can borrow capital at low rates due to the guarantee given to it by the member states. Having benefited from these European funds at low interest rates, the leasing companies would in turn offer exhibitors competitive repayment rates. At the moment, these leasing companies are wavering, as they are not sure how long this digital equipment will actually be around for.

The EIB is considering a method of intervention which would relate to the compulsory equipment investment costs and be provided prior to the different payments offered by the VPF and the FPF.

Klaus Hansen:

Digital can enhance the cinema experience in theatres and also offer screenwriters and directors scope for additional creativity. However, digital will not lower production costs and is actually likely to increase them. It will also not create any additional opportunities for producers to make profits. They cannot therefore be responsible for financing the equipping of theatres. They have not yet been helped to absorb the extra expenses resulting from digitisation at post-production level. Their voice needs to be heard more within Europe to enable them to participate in this complete transition to digital.

Age Hoffart:

Norway is one of those rare countries where you still find film theatres that are owned by the local authorities. There are fifteen distributors in operation – 420 screens, of which 2 are digital. On average, a film is released on 19 prints. As in other European countries, distribution budgets have expanded, the number of prints per film has increased and exhibition periods have been shortened. For Norwegian distributors the transition to digital constitutes a revolution just as great as the switch from silent to talking movies. The authorities are expected to release funds to support digital in 2009. In 2010, 35 mm should have disappeared entirely from cinemas in Norway. For large cinemas, distributors will have to pay an average of 40% of the equipment costs. In future, the key will represent the contract between the distributor and exhibitor.

Edward Fletcher:

Although the UK is the most advanced country in Europe as far as the number of digital theatres is concerned, it has to confront a real cultural barrier due to the English language. It is hard for British distributors to offer works that are not Anglo-Saxon in origin. There is very little interest amongst the British public. Today, there are more than a hundred digital screens. The distributors provide the digital masters, the subtitles, the encoding keys ... But we also have to understand that the savings realised by independent distributors will enable them to increase their marketing budgets. He will have a choice to make between that and the VPF. Digital presents a major technical advantage for independent exhibitors, who will be able to programme a film three months after its release without any deterioration in quality resulting from it having already been projected many times over.

Marcus van der Zwaag:

The Netherlands has more than thirty digital screens. An independent distributor specialising in digital has just arrived on the Dutch market. Distributors understand that they have to help exhibitors obtain the proper equipment, but since this equipment remains in the ownership of the exhibitors, they are the ones who will have to provide most of the financing. Moreover, the distribution sector is already in deficit, faced with competition from home cinema. Digital will lead to a larger number of prints per distributed film and therefore to additional costs. The presence of a third party is required to manage the VPF. This third party should not have a commercial vocation.

Christophe Lacroix:

DCI seems to be a compromise, in the same way as 35 mm was preferred to 70 mm even though the latter is of superior quality. The distributor will not disappear in the digital chain, since he will still be responsible for marketing. The distributor will also have to make sure that the alternative contents shown in theatres do not encroach upon the market for his films. There is no cause to be concerned about the power of the distributor over the exhibitor via the intermediary of KDM keys, since today it is the exhibitor who decides to stop the career of a film and not the distributor. Certificates could logically be held by the laboratories who produce the masters of the prints.

Michel Humbert:

Digital does not guarantee, for the time being, the diversity of production and distribution or programming freedom. What will happen to films released on very few prints? In France, in 2005, out of 580 films exhibited, 170 were released on fewer than 19 prints.

SESSION II – WORKSHOP 2
HOW TO INCREASE THE POTENTIAL OF EUROPEAN PRODUCTIONS IN THEATRES?

• Increasing the potential of European films: joint distributor-exhibitor strategies (case studies).
• Does the disengagement of television channels impact offer diversity?
• Does the concentration of operators and the media respect the success of independents?
• What's new in the chronology of the release windows?
• The emergence of VOD ("Video on Demand"): Impact on theatre attendance.

Led by Michael Gubbins (Chief Editor, Screen International, United Kingdom)

Stefan de Potter (Distributor, Cinéart/Cinélibre, Belgium)
Isabelle Dubar (Distributor, ID Distribution, France)
Antonio Medici (Distributor, BIM Distribuzione, Italy)
Marcin Piasecki (Distributor, Kino Swiat, Poland)
Linda Pariser (Exhibitor, Corner House, United Kingdom)
Enrique Gonzáles Macho (Exhibitor and distributor, Renoir Cinemas and Alta Films, Spain)
Jean-Jacques Varret (Distributor, Films du Paradoxe, France)
Johannes Klingspom (Head of Verband der Deutschen Filmverleiher, Germany)
Nicole La Bouverie (General Delegate, Procibel, Belgium)
André Lange (Head of Department Markets & Financing, European Audiovisual Observatory)

Stefan de Potter:

Indie Circle is a purchasing consortium, currently made up of distributors from five different countries: Belgium (Cinéart), France (Haut et Court), Italy (Lucky Red), the Netherlands (A-Film) and Switzerland (Frenetic). These independent distributors realised that they shared a common taste in terms of the selection of works that they were distributing as well as the same expertise in relation to the situation of European cinema. This initiative is based on the idea of offering international sellers or producers five European territories simultaneously for the distribution of the same film. The film is purchased with all the rights for these five territories, making it possible to lower costs, by combining, in particular, the elements of the marketing campaigns. The first film distributed by Indie Circle was *Osama* (2003) by Siddiq Barmak. It then acquired the rights for *Take My Eyes* (Spain, 2003) by Icíar Bollaín, a European production. This enabled Indie Circle to enter into contact with the MEDIA programme with a view to obtaining selective and automatic support. There was no doubt that this grouping of European distributors would be in line with the MEDIA programme, and the European Union awarded 2 additional points to *Take My Eyes* under the “selective support” section.

Indie Circle faces extremely fierce competition, especially in France where there are numerous independent distributors and the majors are very active. On average, the organisation purchases two films a year, as it is very difficult to find a work that is likely to appeal simultaneously to these five different countries, each with very different cultures. Indie Circle does not intend to become a mini-major. It serves as an additional tool for independent national distributors.

Indie Circle purchases the rights for the five countries; however, the costs of the release and the promotional costs in each of these five territories are borne by the national distributor.

Isabelle Dubar:

ID Distribution purchased *A Cock and Bull Story* (United Kingdom, 2005) by Michael Winterbottom for France. Michael Winterbottom is a rather verbose filmmaker who has unfortunately experienced several commercial failures in France. It is for this reason that ID Distribution was able to acquire the rights to this

film without difficulty, during the Toronto festival. As it was a comedy, we decided to release it in July 2006. As the basis for the promotion, we made use of the American poster, which presented the work as a costume film. To this we added a few small details to underline the fact that it was a film within a film. The French title chosen (*Tournage dans un jardin anglais*) was based on the film's British character and also made reference to *The Draughtsman's Contract* by Peter Greenaway (known in French as *Meurtre dans un jardin anglais*). This helped to present Michael Winterbottom's feature film as a veritable film d'auteur.
The French press gave *A Cock and Bull Story* a very good reception, describing it as an intelligent comedy, and created a good level of awareness among the public. The AFCAE (Association française des cinémas art et essai) supported the production. UGC decided to give the film wide exhibition, which prompted ID Distribution to produce 60 prints. The film remained on the bill throughout the summer, achieving a total of 130,000 admissions. Michael Winterbottom is a director who changes his style from one film to the next, and may therefore often find himself working with new distributors.

Stefan de Potter:

We must compliment the work undertaken by ID Distribution in relation to this film, as it was a production that seemed impossible to release. It has still not been purchased by the Benelux countries, for example.

Antonio Medici:

Italian distributors are getting involved in an increasing number of European coproductions in order to secure a visible position on the market. *Hidden* by Michael Haneke achieved great success in Italy, thanks to its two actors, Daniel Auteuil and Juliette Binoche, who are genuine European stars, and thanks also to the award it won at Cannes. We should, incidentally, develop the idea of a European star system.
Most of the film's box-office takings were achieved during the first four weeks of its exhibition.
The situation with regard to the media release timetable in Italy is rather alarming. Only two periods have been laid down by law: 12 months for pay television and 24 months for free-to-air television. Europe needs to legislate in this area once and for all. Due to the waiting period of 24 months, Italian distributors can no longer sell the rights to free-to-air channels, which are increasingly refusing films that have already been shown in cinemas, on video and on pay television channels.
To reinforce their position in the face of the multiplexes, certain independent Italian distributors have joined forces within an exhibition network known by the name of Circuito Cinema. Distributors and exhibitors need to think jointly about ways in which they can develop audience loyalty, for example by means of a system of points, earned depending on how often a person visits the cinema.

Marcin Piasecki:

Kino Swiat is an independent Polish distribution company with a share of 4 % of the national market. It developed an original distribution concept for a major German hit, *Seven Dwarfs* (2004) by Sven Unterwaldt Jr. The film had, incidentally, only been released in Germany, where it had achieved 700,000 admissions. We acquired it as part of a package. The strengths of this production, which has mass appeal, were based on the familiarity of the original fairy tale, its humour and its resemblance to successful animated films. Its weaknesses were that it was not actually an animated film, it was German with a very German sense of humour and the actors were unknown. The gamble was to try and sell it to the public as an animated film similar to *Shrek*. What we had to do first was to hide all the weak points. The dialogues were modified to include Polish references and to ensure that the dubbing became the film's strong point. Polish television stars lent their voices to the roles, and were chosen according to the type of programme they presented on television and how well known they were. The advertising campaign on television, radio and the Internet was extremely important, and was accompanied by a highly visible poster campaign. *Seven Dwarfs* enjoyed great success in Poland thanks to its media campaign, which was punctuated with invented and fortuitous scandals.

Linda Pariser:

Manchester has the opportunity to welcome a festival of Spanish films. Between 8 and 16 films are presented at the festival every year. This programme then becomes mobile, moving around the United Kingdom, and has met with genuine public success. We have also opened up the selection to films originating from Latin America. Thanks to the festival, the public now thinks of Cornerhouse as the place to go to see Spanish cinema. We have published school and university guides on the films included in the programme and made these available on the Internet. Cornerhouse has created a database to make it possible to communicate by e-mail with viewers and inform them of all the events that are being organised. This method of exhibition helps distributors to raise the profile of other films and to get them shown in cinemas.

Cornerhouse is part of the British digital programme and would like to reach agreement with a Spanish distributor to obtain a digital print of a Hispanic film.

Enrique Gonzáles Macho:

Today, Spain has around fifteen autonomous communities, each with its own parliament and own laws. Powers relating to audiovisual and cinematographic issues are therefore distributed to all of these autonomous communities. The country has 7 national television channels, of which 2 are publicly owned. There are also 15 publicly owned regional channels. In spite of this large number of channels, Spanish distributors are experiencing genuine difficulties. There is now only one remaining national channel that purchases European productions, and even then in very small quantities, and the conduct of decision-makers on broadcasting issues is disconcerting to say the least. *The Chorus*, in spite of attracting 5 million television viewers after having pulled in 3 million viewers at Spanish cinemas, did not prompt the television channels to look any more favourably towards the purchase of European films. However, the publicly owned television channels are substantially in deficit. Spain has a need for a genuine audiovisual and cinematographic policy, and European producers and distributors require a return on their investment – which inevitably has to come through the television channels – in order to continue to carry out their profession.

We are currently asking the privately owned Spanish channels, some of which are among the most profitable in the world, to invest 5 % of their turnover in European fiction films (3 % for Spanish productions, 2 % for non-domestic productions), distributed in Spanish theatres.

However, there is an important fact concerning the public that has to be taken into account. The public has become generalised to such an extent that the idea of targeting particular audience groups is now no longer clear-cut. We cannot base our judgement on successes, which are always the exceptions. The situation has to be assessed on the basis of the majority of films, which do not enjoy the career that they deserve.

There remains one great unanswerable question: why are European films, financed by public funds, not purchased by publicly owned television stations, even though these stations are the ideal candidates to do this?

Jean-Jacques Varret:

The distribution company Les Films du paradoxe has been in existence for around twenty years and pursues an editorial policy of discovering directors. It believes that, rather than being one public, there are a number of different ones. All works should therefore be released according to their economic potential. The dialogue with European bodies on cinema-related issues should not be based on industrial reasons but on the artistic multiplicity that exists within the European Union. The consumer society has been replaced by a society of individual consumers – each one being addressed individually on the basis of a common product. The viewer will increasingly present a kind of schizophrenic behaviour: “I want everything right now/I need to take a step back”.

Today, the channel ARTE is no longer fulfilling its editorial role for the secondary distribution market for European films d’auteur. It wants to attract a large audience and is therefore obliging distributors, the discoverers of new talent, to change their editorial policy. However, you cannot expect a director's first original film to attract a wide audience.

For European cinema lobbying to be effective, the independent professionals in each country need to put pressure on their commissioner in Brussels. In addition, genuine campaigns need to be undertaken with MEPs.

Johannes Klingsporn:

Since 1990, the attendance figures in German cinemas have increased by 40 %. There have been no negative links between the development of the cinema and video markets. The multiplexes currently represent 27 % of Germany’s total screenage and account for 47 % of attendances.

The art house sector is only one part of the European film market. Independent distribution focuses as much on art house cinema as on films with mass appeal. In the 1990s, German distribution budgets increased by 100 % due to the rise in the number of privately owned television channels and the possibility of showing film trailers on them. The number of prints for each release has also risen considerably.

Privately owned German television channels are not involved at all in the broadcasting and production of European films. German distributors and producers are therefore faced with the same problem. The distribution sector could get its hands on other sources of financing by means of free television over the Internet. Private operators are currently in the process of developing this concept. It would be beneficial to independent distributors if these cable operators accepted the renewal of their film catalogue, including that for VOD.

Nicole La Bouverie:

The media release timetable is necessary in order to maximise revenues during the various windows for exhibiting a film. This implies the territory-specific exploitation of the rights, window by window. We should be aware that the European Union views this territory-based media release timetable as an obstacle to the single market. However, American and European professionals are in agreement on the application of these systems setting out periods when films can be shown.

Currently, the film theatre remains in first position in the timetable of exhibition windows and has legally retained its right of exclusivity. However, Disney has decided to offer its new productions on the iTunes site during their week of release in cinemas. It costs € 12.99 to download a film.

VOD has found a place between video exhibition and pay per view. Free-to-air television always comes into the equation 24 months after a film's initial cinema exhibition. Today, digital television is bringing about explosive growth in the offer of films, with the result that the boundaries between pay per view channels and subscription channels, and soon also VOD, are becoming blurred. From now on, the real competitive battle will be played out in the television viewer's living room. At European level, VOD is perceived as a threat by the independents and by free-to-air channels. However, the DVD is causing considerably more problems in terms of competition with the various windows and nobody is complaining about that. European distributors do not need to fear VOD. It offers an excellent opportunity to show European works.

Enrique Gonzáles Macho:

We need to understand that rightsholders are speaking in the name of legality, whereas the public is acting on the basis of illegality. For the latter, windows do not exist, since all films can be downloaded from the Internet before they are released in theatres. The discussion among professionals on the media release timetable is already outdated.

André Lange:

The mission of the European Audiovisual Observatory is to improve transparency in the audiovisual sector. At present, the major European countries do not need to be concerned about a potential decline in film theatres. Attendances have risen from 7 % to 8 % for the European Union in 2006.

Germany and Spain are the biggest broadcasters of films on unencrypted channels, with more French films being programmed on German television than on French channels.

The DVD market, on the other hand, is in decline. At present, VOD has 68 operational providers in Europe, of which 25 are in France. Paradoxically, this is the country in which cinema attendances have shown the best recovery this year.

DVD, pay per view and VOD operators need to publish – with complete transparency – the results for the sales of their titles, and it is the rightsholders who must encourage them to do this.

CONCLUSIONS OF THE WORKSHOPS

Michael Gubbins:

We are living through a period of major change, and this is compelling us to identify the problems before we can attempt to provide any solutions. We have analysed the global nature of the distribution sector and tried to see how viewers' behaviour patterns have developed and become individualised.

The visibility of European films is not satisfactory. It would be true to say that national television channels are buying fewer European feature films than they used to do. Lobbying would be a more effective way to encourage them to fulfil their role in the secondary distribution market, and this ought to be carried out on a Europe-wide level. VOD will reinforce the presence of European productions, but its profitability remains unknown for distributors.

We have also considered the appropriateness of a European star system to increase media coverage of European works. Attending delegates have tackled the problem of piracy, which can, in certain instances, satisfy a demand for European films that are not available in DVD format. It is therefore essential that publishers increase their offer.

Anders Geertsen:

There is a general consensus today that digital cinema and digital distribution must be based on a single standard on a global level. This is very important to enable small independent exhibitors to project films originating from all countries. The transition to digital must be taken in hand by the Europeans themselves, in order to meet the specific conditions of their markets. The worst solution would be to opt for a wait-and-see policy.

On the basis of the report by Daniel Goudineau, we have also analysed the possibility of an extra fee for digital keys, rather than an extra fee for the virtual print (VPF) in accordance with the American system. A European economic model has also been studied which proposes a flexible fee, calculated according to the number of hours of digital projection (FPF).

2006 is a year that has marked a definite development in the areas of distribution and digital theatres. At the moment, the implementation of this constitutes a major jigsaw to be assembled, perhaps indicating several economic models for Europe. Five key questions remain: Who will be the trusted third party who will redistribute to exhibitors the savings realised at the level of distribution? Is it the digital print or the digital projection time that will trigger redistribution of the savings realised to exhibitors? Who will have to generate and manage the encoding keys, since the party holding them will have the power? How can the public intervention that is necessary to support small and medium-sized theatres be organised to ensure they are properly equipped? How can manufacturers be encouraged to offer equipment compatible with the DCI standard at a cost that is reasonable for small independents?

Some European film libraries have insisted that their stocks of films be digitised. This initiative is underway and will be of use for VOD. It also raises the idea of a centralised European digital film library for the whole of Europe.

Claude-Éric Poiroux:

In order to keep the transition to digital moving forwards, Europa Cinemas is prepared to visit different countries to discuss implementation and share the technical experiences of those network exhibitors who are already equipped. We must therefore be very attentive and look out for situations where the same questions are being asked by various countries. In any case, this debate on digital has been the longest and most important ever conducted at a European level.

SESSION III
EUROPA CINEMAS: PROJECTS AND PERSPECTIVES 2007

• MEDIA Plus: Evolution of the 2007 Guidelines.
• Euromed Audiovisuel II: First results of the support programme in the Mediterranean and in Europe.
• Presentation of the regulations on on-line services.
• Miscellaneous questions.

Claude-Eric Poiroux (General Director, Europa Cinemas)
Claude Miller (Director, President of Europa Cinemas)
Nour-Eddine Saïl (General Director, Moroccan Cinema Center)
Nicole La Bouverie (General Delegate, Procibel, Belgium)
Sophie Rakoto (Un Cinéma pour Madagascar)

(Due to a technical problem, we were unable to record the speeches of Nicole La Bouverie and Sophie Rakoto. Their contributions therefore do not appear in this report. Please accept our apologies.)

Claude Miller:

Europa Cinemas is paying homage to the memory of Francis Girod, who, as a filmmaker, was strongly committed to the artistic and cultural aspects of cinema, mainly thanks to his work for the SRF (Société des réalisateurs de film) and the SACD (Société des auteurs et compositeurs dramatiques), societies of which he was the president.

With regard to the European star system, which it would be interesting to develop, we must remember that the filmmakers are the real stars in Europe. The European film industry is based on its writers rather than on the actors and actresses who take the leading roles.

Nour-Eddine Sail:

The Euromed Cinemas project is financed by the European Union, which has allocated the project a budget of around € 3.5 million for 3 years (2006 – 2007 – 2008). The aim of the project is to help films made in the MEDA countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Syria, Tunisia and Turkey) to be distributed in the countries of the European Union and in the MEDA countries themselves, and also to support the distribution of European films in the MEDA countries.

More than 100 film titles will benefit from this programme over the next three years.

Euromed Cinemas is implemented by a Euro-Mediterranean consortium headed by the CCM (Centre Cinématographique Marocain) and Europa Cinemas. It features an Expert Committee comprising 6 members – Eliane Raheb (Lebanon), Iréna Strzalkowska (Poland), Willmar Andersson (Sweden), Claude-Éric Poiroux (France), José Maria Riba (Spain) and Nour-Eddine Sail (Morocco) – which considers requests and allocates the funds. The Committee meets once every quarter.

The budget for supporting distribution and exhibition is divided up as follows: 50% for the distribution of MEDA-region films within the European Union; 30% for the distribution of European films within the MEDA region; 20% for the distribution of MEDA films within the MEDA region itself.

Funding for MEDA films shown in the European Union can be as high as € 40,000, of which € 30,000 would go to the distributor and € 10,000 to the exhibitors. This initiative therefore relies on the collaboration between European distributors and exhibitors, amongst others. Exhibitors play a vital role in encouraging

distributors to choose films originating from the MEDA region, from the moment they discover them and ask distributors to programme the films in their cinemas.
In 2006, Euromed Cinemas supported 51 releases: 36 films (*Volver*, *Romanzo Criminale*, *Azur et Asmar*…) in 8 MEDA countries and 15 films (*Climates*, *L'Enfant endormi*, *Dunia*…) in 7 European countries.
The development of exhibition in Morocco has certainly been hampered by the huge market for pirate DVDs, although the authorities have started to take draconian measures by, very recently, destroying 500,000 of these DVDs.

Claude-Éric Poiroux:

In the new MEDIA programme some actions will be receiving less support. However, the budget allocated to Europa Cinemas for the period 2007-2008, which amounts to € 14 million, will stay the same as in the previous two years. It will nevertheless remain below the expectations of the network, which now includes two new countries, in the form of Romania and Switzerland, and is keen to continue expanding.
The geographical growth of the network has therefore led to a number of adjustments, in order to maintain equity between all cinemas and to avoid any exclusion, which could result from the assimilation of these countries.
The amount of support has not changed. The quota of European non-national screenings has increased from 33% to 35%. This measure follows the general development of programming in the network. According to our simulations, the new quota for European non-national screenings will not result in cinemas being excluded, and support will only be reduced for the worst-performing cinemas. The diversity bonus is replacing the admissions bonus, but the amounts will remain the same. This bonus allows the network to become more representative of the various countries without penalising the business of its cinemas. The principles of the matching fund and of limiting support to € 1 per admission continue to apply. Continued support will also be given to the screening of digital European films in cinemas in the countries of the MEDIA programme.
The forum of the Europa Cinemas site, an idea that has already existed for some time, will soon be implemented. The languages of communication will be French and English. The forum has come along at just the right time to deal with the questions and answers that the transition to digital will raise. It will therefore be a place for debate and for sharing information on the experiences of each member of the network.
Finally, the trailer being shown in cinemas, which still seems to be well received, will be kept as it is, although we will be updating it shortly. We will also be launching a new pass card at the beginning of next year.

Thank you for your participation. We will be meeting again in Cannes in May 2007, and in another European capital in November.

End of the 11th Europa Cinemas Annual Conference.