



**PUBLIC CONSULTATION
STATE AID: ITALIAN DIGITAL CINEMA TAX CREDIT**

**Europa Distribution Contribution to the questions raised by the
European Commission**

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1. Is €100,000 per screen a fair estimate of the cost of installing digital projection equipment? If so, is it affordable even with State aid?

If you include **all related costs** (material – projector, server, etc – work, warranty extension, financial costs, maintenance costs that can be really expensive for the exhibitor), the cost of installing digital projection equipment oscillate today **between 80 000€ and 100 000€**.

2. Are there no commercial business models which could install digital projection equipment at least in the more profitable cinemas?

- There are currently **commercial business models** for the digital transition :
 - o **third parts business models** (based on a VPF paid by distributors)
 - o **direct equipment by exhibitor** (usually based on an access fee paid by distributors directly to exhibitors)
- These models only work for the more profitable cinemas, i.e.
 - o Cinemas with a **certain kind of programming** (mainly focused on commercial movies)
 - o Cinemas that have a **minimum number of national releases each year** (usually a minimum of 15 national releases per year)
- These models are also **more adapted to big distributors** who release commercial movies that make most of their admissions during the first 3 or 4 weeks and that don't circulate a lot.
- These models **are not really adapted** to :
 - o **Cinemas** :
 - with **arthouse** programming
 - with **second run movies and very few national releases**
 - o **Independent distributors** :
 - The movies released by independent distributors are most of the time arthouse, independent movies, that don't make most of their admissions during the 2 first weeks (like commercial movies) and that circulate a lot in smaller theatres.
 - With the business models based on a decreasing VPF (the distributor pays a VPF for each print-moveover, the cost of the VPF decreases

between week 1 and week 6 and after week 7, the distributor does not pay a VPF anymore), digital distribution turns out to be in many cases more expensive than traditional 35mm distribution.

This is why it's important to have **alternative, public or para-public business models** in order to ensure that the needs **of independent exhibitors and distributors are met**.

3. Would audiences find a wider choice of films at those cinemas receiving State aid for digital projection equipment? If not, what is the advantage to the taxpayer?

Digital can have 3 main advantages that can lead to a wider choice of films for audiences and to better screening conditions:

- **Wider releases for smaller films** : Given significantly cheaper print costs, a smaller film could be released more widely than now, *assuming it can find the screen space to do so and afford the additional VPF costs* (in case of a decreasing VPF business model)
- **Flexibility of the programming**: if films prove successful after a small initial commitment, cinema could bring the film back to play again and again building through word of mouth. Smaller films will hence have the ability to stay in a cinema for much longer, as that print will not need to be moved onto another cinema.
- **Improvement of the screening conditions for the oldest theatres** that had not had the chance to renew their equipment in a long time.

But it is important to underline the fact that **distributors won't drastically change the way they distribute films right now**. **Independent distributors** (as well as bigger distributors) will go on with some of the **traditional practices like week-long bookings**, except for some very specific movies or cases, in order to **remain in the market** and to have their films reach audiences.

4. It has been argued that, if they cannot afford the equipment, many cinemas could close when film distributors switch from 35mm to digital. How real is this threat and what is the timeframe?

- It's hard to precisely predict the timeframe because it's difficult to say now what's going to happen in the long term (in 10-15 years).
- But when **American majors will decide to switch 100% to digital distribution**, there will be a **real danger for the cinemas which are not equipped by then**. The reasons are twofold:
 - o **American movies are an important source of incomes for those cinemas. They enable them to reach a sufficient annual turnover** which gives them the possibility to screen European movies or movies from the rest of the world.

- **Independent distributors will also have to switch to digital** because labs will inflate the prices of 35mm prints if the demand for 35mm prints by American majors decrease and stop.
 - This is why **it's important that all cinemas, whatever their size and programming are, equip themselves at the same rhythm.**
5. *Would one-off State aid provide a sustainable and uniform solution for digital cinema? In particular, would the cinemas which could not afford the equipment without State aid be able to meet the apparently higher running costs of digital projection equipment and replace it at the end of its useful life?*
- **State aid is a sustainable solution for digital cinema:**
 - It enables a **better cooperation of all actors** of the digital transition (exhibitors, distributors, producers)
 - It enables **mutualisation in order to make sure that no cinemas are left behind** during the transition.
 - **State aid is the only sustainable solution for arthouse cinemas** that don't screen movies with high commercial potential.
6. *Would cinemas be induced by the State aid to invest in one digital standard in preference to another?*

It is very important to only have one digital standard and this standard should be the 2K standard for the following reasons:

- **It is today (financially and logistically) impossible for producers, distributors and exhibitors to deal with different digital standards :**
 - It would be way too expensive to provide masters in different digital standards.
 - Distributors cannot technically and logistically deal with different formats : this would affect their programming, impede the circulation of prints within a country and thus affect the movies' life in theatres (this already happened in the past : movies that had a Mpeg2 master could not be screened in theatres that were equipped for 2K-jpeg 2000 encodings – and reciprocally). It is already a challenge today for distributors to deal with the coexistence of DCP and 35mm prints, adding new standards would not help the flexibility of programming, it would prevent it.
- **The multiplicity of standards could impede the circulation of European works within the EU**, which is the number 1 goal of the MEDIA Program, and which is also the real added value of digital: the cross-border physical distribution of content.
- **1,3K projectors (resolution: 1280 x 1024) are not manufactured anymore** (Texas Instrument stopped manufacturing 1280x1024 chips in 2004). There is a new generation of 1,3K projectors but their resolution gives a quality that is lower than a SD TV Screen.
- At a time when people can watch movies at home (via Home Cinema), on their mobiles, on their computers, on their i-pods..., it's very important that **theatres**



propose at least the same quality in digital as the one in 35mm. Only 2K can ensure that. Otherwise, without this added value, theatres might not be as attractive for usual cinemagoers. Besides, only 2K standard enables a full quality respect of the film shot in 35mm and insures the security of films screenings in theatres

- In addition, **the 2K standard is a pre-condition of all agreements signed by US Majors in Europe, whether it's with third parts, with public business models or with private exhibitors.** This means that US majors have made a choice for Europe, and 2K will be their standard (they have made other choices for other continents). Smaller, non specialized exhibitors might have to give up their main sources of incomes (US movies), which usually allow them to also screen European, arthouse movies, if they don't have the correct standard. This would lead to the closure of many small cinemas which are very important for local audiences and land-use management.

7. As a condition of the State aid, would cinemas have to ensure that films released in any open digital format could be screened on the supported equipment?

Again, in order to ensure the high quality of the screenings, films should be released with 2K DCP (digital cinema prints). These DCP can be made from any digital source (DV, HD Cam, HD Cam SR, 2K or 4K Master) – the better the digital source, the better the end quality of the product.

Nevertheless, **2K/4K projectors can screen any digital source** (via an adapter).

8. In view of the limited number of cinema screens worldwide and the limited production capacity of projection equipment designed specifically for cinemas, would State aid for such equipment artificially inflate its price?

State aid for digital equipment would not inflate its price. Everybody predicts that prices are going to go down. So **the worst case situation would be that prices remain the same as today.**

9. In connection with questions 4, 5 & 8, could State aid for digital cinema accelerate the closure of the least profitable cinemas?

If it was the case, it would be counterproductive. **State aid is today the only sustainable solution in order to avoid the closure of the least profitable cinemas.**

About Europa Distribution : Europa Distribution, with a membership of 75 leading independent distributors representing 19 countries, serves as the voice of the European independent film distributor. It acts as a **lobby**, a **think tank** as well as a **network** and aims to develop a **strong European film industry.**

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