

*10th Annual Conference
Proceedings*

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Friday 18 November 2005

INAUGURATION OF THE CONFERENCE

Claude Miller, Film director, President of Europa Cinemas

Dr. András Benedek, Administrative State Secretary, Hungarian Ministry of National Cultural Heritage

Kornél Mundruczó, Director

Claude-Eric Poiroux, General Director, Europa Cinemas

(Due to a technical problem, we were unable to record the welcome speeches of Claude Miller, President of Europa Cinemas, and András Benedek, Hungarian Secretary of State of the Ministry of Cultural Heritage. Their contributions therefore do not appear in this report. Please accept our apologies.)

Kornél Mundruczó:

A new generation of Hungarian filmmakers is emerging. This development has its origins in the reflections prompted by the European films that appeared in the country during the 1990s. As directors, we are responsible for the work that is shown to the public and have to face up to their decision either to accept or reject our films. But we should not let ourselves be deterred by them, as the filmmaker's work also helps to develop a cultural policy that can instil a certain awareness in audiences.

Divisions in the field of cinema are becoming less distinct in Europe. In Hungary, a French or Portuguese film is just as important as a domestic production. And there is no distinction between an art house film and a commercial film. The only criterion is the quality of the work, which should be in keeping with its financing.

However, one point that does concern me is the advent of the DVD, as this may mean that filmmakers no longer feel obliged to make films for a cinema audience, people who have come together to experience a collective event.

Claude-Eric Poiroux:

We have the honour of meeting today in a historic theatre which, in 1896, saw the first public projection in Hungary using the Lumière Brothers' Cinematograph. Hungary has given the world of cinema great masters such as Miklós Jancsó, Márta Mészáros and István Szabó, and a talented new generation is now asserting itself, and not only on Hungarian screens, but also outside the borders of their homeland. This new group of filmmakers includes Kornél Mundruczó, who has done us the honour of opening this Conference.

Europa Cinemas has been present in Budapest for 12 years. Our first Hungarian member was Mr Ferenc Port, who is still a member of our Administrative Council. I would like to welcome him to the theatre today. The Europa Cinemas network in Hungary is extremely dynamic, currently boasting around forty screens, distributed over roughly ten towns and cities.

This 10th Conference will begin this afternoon with a discussion of the reasons for the general decline in cinema attendance rates. It could, of course, be claimed that this is linked to economic factors and has less of an impact on film theatres in the Europa Cinemas network thanks to the personal commitment of the network's exhibitors. However, I understand Kornél Mundruczó's concerns relating to the threat posed to public projections in cinemas, a development which would be catastrophic for European cinema. The problem also affects American filmmakers, and I believe that you will be tackling these burning issues in just a few moments.

If the impressive attendance at this Conference is anything to go by – there are almost 400 of you in this theatre today – we can still be extremely optimistic about the future of European cinema.

SESSION I: WHAT IS THE OUTLOOK FOR EUROPEAN EXHIBITION?

- Study of the development of film attendance in Europe
- How do cinemas respond to the enormous number of films on offer?
- DVD, Home Cinema, Mobile Phones, VOD and the Internet – do these represent new competition for cinemas?
- Economic consequences of piracy on European films
- What conditions must pertain if cinemas are to maintain their role in the first screenings of films?

Conducted by **Pascal Rogard** (General Director, SACD, France)

1st Part – Speakers:

Susan Newman (Analyst, European Audiovisual Observatory)

Bjorn Ringdahl (Distributor/Exhibitor, Triangel Films, Sweden)

Enrique Gonzales Macho (Distributor/Exhibitor, Alta Films, Spain)

Lionello Cerri (Producer, Exhibitor, Lumière/Anteo Cinemas, Italy)

2nd Part – Speakers:

Paul Callaghan (Senior Advisor, Screen Digest, UK)

Chris Marcich (Director of MPAA Europe)

Johannes Klingsporn (Chief Executive of the German Film Distributors' Association)

Frédéric Delacroix (Chief Executive of the Anti-Piracy Association - ALPA, France)

Pascal Rogard:

Today, Budapest is playing host to this Conference. We are genuinely delighted about this, as Hungary is one of the 150 countries which has signed the Unesco convention on cultural diversity.

The problem of declining attendance rates made itself felt in the United States two years ago and is now starting to rear its head in Europe. During this round table we will therefore focus on the methods that can be employed to curb this decline. We will also discuss the consequences of films being made available via DVD, mobile phone, VOD, the Internet, etc., and will consider in particular the question of simultaneously releasing a film on DVD and in cinemas.

Susan Newman:

2005 saw a fall in attendance rates. Compared with 2004, they declined by 22 % in Germany, 13 % in France and Italy, 9 % in the United Kingdom, 8 % in the Nordic countries and 23 % in the Czech Republic. Only Russia enjoyed exceptional growth, increasing the number of viewers in its cinemas by 22 %. Nevertheless, the countries that experienced substantial declines did not experience a drop in their national market share.

In the 1990s there was a marked increase in attendance rates in the United States, whilst figures plummeted in Europe. From 1995 onwards this trend was reversed. Today, the decline in Europe may be linked to the films being offered, but it also signifies that the effect of the multiplexes is running out of steam.

Pascal Rogard:

Can these poor results also be attributed to the consequences of the DVD market and the market for other digital media? Is cinema not currently experiencing what the music industry went through with the disastrous effects of Internet piracy?

Enrique Gonzales Macho:

The distribution and exhibition sectors are currently going through a genuine crisis as a result of the advent of the DVD and the Internet. It is almost as if the cinema industry is in the same position as a printer who has to face up to the emergence of the photocopier. Access to films has become extremely cheap the world over.

The main reason behind the deterioration in this area originated, as is usually the case, in the United States, where studios have lost influence over their productions to the multinationals. The latter do not consider screening films in theatres to be sufficiently profitable and prefer to sell them using other technological means. This is a phenomenon that has spread across the globe. The Americans have therefore decided to reduce the time that films show in theatres by flooding the market, in the short term, with prints and advertising in order to achieve an immediate return. Exhibiting these films has become a massive, globalised undertaking. And the process will not stop there, as, from January 2006, American theatres will be authorised to sell the DVD of the film being shown on the same day.

However, the next obstacle to be overcome will be VOD, which guarantees the public access to a huge range of films in their own home. The risk is that this will lead to profitability being diverted to a certain type of production only.

The other major problem remains audiovisual piracy, which is an enormous illegal industry, yet one that remains unpunished. In the face of all these issues, the professions of the distributor and exhibitor within a network like that of Europa Cinemas are in danger of becoming purely alternative and being pushed to the sidelines of a massive, concentrated film industry that will utilise digital and satellite networks. If we want to survive, it is imperative that we equip our theatres with digital projectors, just like we did at the time with Dolby sound. We have to keep the possibility to also schedule films that will only reach a specialised audience.

Pascal Rogard:

We can only share this pessimistic outlook when we consider that the European Consumers' Organisation regards stealing a DVD from a shop to be a crime, but not Internet piracy. The latter of these two acts, however, is much more serious, due to the fact that downloading often takes place prior to or during the period when the film is being shown in theatres.

Bjorn Ringdahl:

Concerns are less pronounced in Sweden. Swedish films continue to achieve a substantial market share. However, cinemas are obviously having to face up to competition from home cinema systems and DVDs. To minimise the effects of these developments, we have intensified communication campaigns for new releases and are accompanying this with the refurbishment of our theatres. The best method we can adopt here is to go on the offensive. Digital cinema will certainly make it possible to increase audiences, but we also need to think about diversifying a theatre's activities and making it multifunctional.

Lionello Cerri:

Italy has been suffering from a major crisis in the area of attendance rates since the end of the 1970s. It is something we are having to live with. The number of people going to the cinema is stagnating, whilst the number of screens has increased. We need to focus our efforts on the quality of the distribution of European works, as the Americans have saturated the market. Nevertheless, there is room for domestically produced films. At the moment, the Italian film industry is extremely concerned about the drastic reduction in the state budget earmarked for production. This dramatic cutback proposed by the Berlusconi government comes to a figure in the region of 75 % and implies that it will be necessary to search for other sources of funding, in particular from digital operators, pay-TV channels and new media. However, these potential investors need to fill the legal void that they have fallen into. One mobile phone operator broadcast an American film on mobile handsets, amid a blaze of publicity, while the film was still being shown in cinemas, even though it did not possess the rights to do so. Confirming a release timetable for the various media is essential.

Pascal Rogard:

Nowadays, the process of working out a media release timetable for a film will obviously involve cinema, video and television, but also telecommunications operators. This is why it is in exhibitors' interests to follow the development of the Television Without Frontiers Directive, which in future will also include digital operators.

Johannes Klingsporn:

Germany has seen the greatest drop in attendance rates in Europe. The main reason behind this is the country's fragile economic health. We are also suffering from a genuine American dominance in our theatres and a decline in the quality of popular German films, even though the production situation has improved. The number of viewers will undoubtedly fall still further in 2006 as a result of the football World Cup.

Enrique Gonzales Macho:

It could be said that this battle for a media release timetable has already been lost. Technology is progressing more quickly than the law. For example, the American majors have wasted no time in getting rid of video department directors, due to the fact that, in future, the DVD will be released at the same time as the film is exhibited in theatres. Nowadays we can only expect around fifteen films a year to record an excellent first weekend at the box office.

Pascal Rogard:

It is true that the average of 400 films released every year could prove discouraging for the viewer, who may feel overwhelmed in the face of such a huge offering.

Paul Callaghan:

The appearance of the DVD in 1998 substantially increased demand for films. In 2004, spending reached 24 million dollars in Europe, rising from a level of 11 million dollars seven years previously. We expect the DVD market to progress by 3 % per year up to 2009. Today, in spite of a drop in sales, DVDs still account for 50 % of film-related revenues.

At the moment, VOD has not really captured the studios' imagination. They prefer retail film rental, which generates greater profit margins. To develop VOD in a profitable way, this will have to take place via telephone operators so that the service can be installed on mobiles.

Pascal Rogard:

We should also remember that a new high-definition DVD standard has been developed that risks intensifying competition with film theatres.

Frédéric Delacroix:

Digital technology has revolutionised piracy, as we have now moved from the era of the copy to that of the clone. It is possible to make infinite identical copies of a film on an industrial scale and in the home. There is no physical DVD piracy industry in France, even though pirate copies appear at markets and in the second-hand trade. The main phenomenon, however, continues to be the dematerialisation of the cloned copy, which can then be sent over the Internet, thus circumventing laws and national borders. This international crime is extremely difficult to track, as it takes no more than 8 hours to download a film, thanks to high-speed connections. Certain networks even make it possible to perform downloads in a matter of minutes. France now has 8 million individuals with high-speed Internet connections. Piracy has become a massive issue among this group, 3 million of whom download films on a regular basis. This represents the copying of 1 million films a day. The genre and nationality of these films vary greatly. 33 % of pirated productions are French, 46.5 % American, and 20.5 % from other countries, the majority being European. 34.5 % of films pirated over the Internet are subjected to such piracy before they are released in

theatres, and 92 % before they come out on video. Leaving aside the fact that this means that the media release timetable is being completely torn up, Internet users will also become used to the idea of having free access to films on a massive scale. The notion of the value of a work will be lost entirely.

Repression is not the only solution that will help us stop this scourge. In any case, sentencing 3 million people is unthinkable. Criminal actions need to be brought against the illegal distributors who lie behind piracy and who profit from it. As for the public, they need to be informed of the damaging effects that piracy can have. We need to launch major communication campaigns, and some are already envisaged for 2006. VOD could help to re-establish the legal offering, but it will always lag behind piracy, which prioritises new material. A more original solution has been studied in partnership with cinema-industry professionals. This consists of approaching the pirate in a graduated manner by sending a series of emails after he has been detected using a radar installed on the network. The emails, which will become increasingly insistent, will remind him of the sanctions to which he is exposing himself. The process will end with a registered judicial letter which he will receive through the mail. If the individual continues to offend, a fine will be issued systematically.

Pascal Rogard:

In France, the implementation of this technology for tracking pirates is coming up against an entire legal and legislative system charged with the task of guaranteeing individual freedoms. The system presented by Frédéric Delacroix functions like a radar at the side of the road which 'snaps' the Internet user committing the crime.

Chris Marcich:

Piracy certainly has an impact on audience figures in theatres. The hunt for new material that piracy represents prompted Disney to consider releasing the DVD at the same time as the film is being exhibited in cinemas. The industry has therefore reached a turning point. Every window of the media release timetable is showing a tendency to contract in the face of the urgency imposed by piracy. However, we could also say that every film has its own unique life, and that it should be up to the producer to decide how the windows are spaced according to the revenues being generated on an ongoing basis, as we must not overlook the fact that every window can fall victim to the pirates. It would therefore be a question of relaxing the media release timetable, or even introducing deregulation.

Pascal Rogard:

However, the narrowing of the windows desired by the Americans will tend to reduce the importance of the theatre and consequently that of the film. At European level, the choice of the media release timetable is a national decision taken by each Member State. It is possible to envisage reinforcing the VOD window in

Europe by concluding interprofessional agreements, like those in the Television Without Frontiers Directive.

Johannes Klingsporn:

It could also be considered regrettable that a film that is withdrawn from theatres after just two weeks has to wait for 6 months to be released on video.

In Germany, piracy is being increasingly suppressed, as the technology for tracking pirates has improved. Memos have been distributed in schools to explain the importance of respecting copyrights to schoolchildren.

Chris Marcich:

The MPAA is very much aware of the preponderant role of the theatre. We have helped the Europeans sufficiently with the modernisation and refurbishment of their establishments to demonstrate a certain commitment to public projection. However, given that films generate most of their box-office revenues over the first two weeks, relaxing the media release timetable would seem to be an obvious step.

Antoine Virenque:

We have spoken about repression and prevention in the face of piracy, but there is also a third point: precaution. It has become essential to ensure that the sources of a production are protected with as much security as possible, along with the exhibition channel, to ensure that the pirate has no contact with the print.

SESSION II - WORKSHOP 1: DIGITAL CINEMA:

WHAT STRUCTURAL DEVELOPMENTS ARE EMERGING FOR DISTRIBUTION AND EXHIBITION?

- Presentation of economic models by the profession and the public sector
- What is the impact of digital technology on the allocation of investments and box office takings at cinemas?
- Distributor/exhibitor convergence in the transition to digital technology
- Could digital projection generate new markets for distributors and exhibitors?

Conducted by **Anders Geertsen** (Danish Film Institute/European Digital Cinema Forum, Denmark)

Peter Buckingham (Head of Distribution and Exhibition, UK Film Council)

Bernard Collard (General Director, XDC, Belgium)

Jens Schneiderheinze (Exhibitor, Münster/Hambourg, Germany)

Patrick van Houdt (Economist, The European Investment Bank, Luxembourg)

Nico Simon (Exhibitor, Utopolis Group, Luxembourg)

Laurent Danielou (Distributor, Rezo Films, France)

San Fu Maltha (Distributor, A-Films, Netherlands)

Rolv Gjestland (Advisor, Cinema Design and Technology, Norway)

VJ Maury (Exhibitor, Palace Cinemas, Hungary/Czech Republic)

Patrick von Sychowski (Director of Business Development, Unique Digital, Norway/UK)

Torsten Frehse (Distributor, Neue Visionen, Germany)

Marcin Piasecki (Distributor, Kino Swiat, Poland)

Christian Guillon (Deputy-President, CST, France)

Anders Geertsen:

This workshop will deal with three major questions linked to the dramatic developments resulting from digital technology in the distribution and exhibition sectors. It has become apparent that there is a financial imbalance between these two domains. The distributor is able to make rapid savings whilst the exhibitor has to invest in highly expensive new equipment. The second issue we will tackle is the question of the transformation of these two activities as a result of the advent of this new technology. Finally, we will study the positive or negative contribution made by digital technology within European film distribution.

Patrick von Sychowski:

Unique Digital has the task of drawing up global digital standards for the advertising films shown in theatres. These standards should evolve still further with the development of 3D digital projections. So far it is the Americans who, at the Show West Conference, have given us a glimpse of the future revolution in the area of digital film exhibition. The reduction in the weight of the equipment has made it possible, in particular, to organise screenings of specific films in 4,400 churches.

At present, the most advanced standard for digital projectors is 4K. Sony is the first company to have developed these devices, and five theatres have now been equipped with them in Japan, with Qubis providing the server. The Hollywood majors are establishing their own standard.

America's main digital equipment programme has been launched by Access IT, which is prepared to supply 4,000 theatres within three years, together with Technicolor Digital Cinema, which will install 15,000

screens in North America. These companies are also working in partnership with the main Hollywood studios. This demonstrates America's willingness to agree on common digital standards, and Europe needs to follow suit.

Peter Buckingham:

Digital equipment is based on 2K and 4K projectors. These are high-quality devices, but only wealthy countries have the necessary means to finance them. However, poorer countries can also gain access to lower-performance digital technology. South Africa, for example, has installed low-cost equipment in its townships. This allows the population to get used to seeing films on cinema screens, which reduces piracy. To return to Hollywood, the individuals responsible at Universal have already taken the decision only to supply products that conform to the DCI standard. The result of this is very strict control of the distribution of films in theatres. This situation is the opposite of traditional television, where no programmes were encoded. Certain films have much to gain from an early release onto DVD, either during or after their scheduled appearance in theatres. The DVD can guarantee them a commercial life in the longer term.

Anders Geertsen:

The economic aspect remains the main question in the area of digital equipment. Where is the money to pay for the devices going to come from? There are three possible responses here: the exhibitor, public funds made available for aid through film institutes, or a bank or financial intermediary that offers to invest in digital equipment for a distributor to enable savings to be made on the cost of producing prints.

Bernard Collard:

At present, the digital market in theatres is a very limited niche. As far as the financing of the equipment is concerned, the solution could come from a third-party company such as XDC, which offers turnkey solutions. This company presents itself as a service provider that is dedicated to the European market. It offers digital cinema packages, and 185 contracts have already been signed. In 2005, 80 films were distributed on digital media. Of these, 60 were handled by XDC for certain European versions. The question of the selection of a common standard remains a priority, and as soon as this decision has been made, XDC will provide free updates to exhibitors and distributors.

As far as the distribution sector is concerned, XDC offers hard-disk copying for € 7.60 per minute. To acquire the equipment, the distributor can take out a five-year lease. With the DLP solution, for example, the monthly payments total € 1,000. XDC currently serves 200 European screens, and, at the beginning of 2006, will be creating a subsidiary, XDC France. Its aim is to equip 600 screens by 2007.

To develop the market, it is important that the technical information is widely distributed and commented on, as digital cinema will be confronted with specific cases, depending on the country in question, the

programme schedule of the theatres and the film itself. Another problem that has become apparent relates to manufacturers, who have difficulty in producing equipment in large numbers.

Finally, the after-sales service places the emphasis just as much on telephone and IT support as on the availability of a technician.

There are currently 500 digital screens in the world, out of a total of 100,000. We are only at the very beginning of the road. As has already been mentioned, we need to define a common standard. To conclude, the exhibition of films using digital technology will combat piracy by constantly increasing the quality of projections in relation to that offered by home cinema systems.

San Fu Maltha:

The Netherlands has a number of cultural and technical characteristics that facilitate the installation of digital cinema. The Dutch are used to seeing subtitled prints, and digital technology makes it possible to reduce the cost of producing them. The country has a strong demography. Furthermore, most of the Netherlands is equipped with high-speed Internet and broadband. 20 % of digital productions will reach 80 % of the market. Currently, 25 screens are making use of this technology.

The important point now is that the principal investors need to be the ones who derive the most benefit. Distributors are not necessarily in the best position to pay: initially they have to supply a digital print, then, after 3 to 4 weeks of exhibition, a 35 mm print, once the first print has been withdrawn from the corresponding screen. There is immediate additional expenditure.

It has been proposed that 125 digital screens be installed to stabilise this new distribution market. The distributor could also purchase the digital projector, but this could jeopardise the exhibitor's freedom with regard to his schedule programme.

The solution to the financing problem could be provided by advertising sales companies who are prepared to integrate these new distribution technologies. Exhibitors' revenues should therefore increase as a result of the advertising. The most important saving will be made as a result of the disappearance of prints and masters, which will only exist in the form of a database serving the different media, such as hard disks and DVDs. In future, the ideal situation would be to project films simultaneously via satellite. At present this technology is extremely expensive.

One final potential financial partner that has come into the frame is the Ministry of the Economy, through the agency of the Ministry of Culture. We have explained to the Ministry the possibility of obtaining substantial reductions from suppliers. The plan is to bring the 25 projectors already installed into line with the 100 others that will soon be in operation.

Anders Geertsen:

Will the funding that may be offered by the Ministry of the Economy come from the taxpayer and will it target all Dutch cinemas?

San Fu Maltha:

At the moment there are no precise answers to these questions. The 25 digital screens that currently exist would be the first to benefit from aid in the area of distribution. At the same time, they belong to networks held by the American majors, which are rarely in favour of state intervention. They are aware that they would be obliged to schedule European films in return for public aid.

Patrick van Houdt:

The EIB has spent a year considering a method of financing aid that will not skim off the distributors' and exhibitors' profits. The European Investment Bank was founded in 1958 within the framework of the Treaty of Rome. Its shareholders are the 25 European Union governments. The European Union's Member States have subscribed to a considerable amount of the EIB's capital, which enables the bank to borrow at extremely low rates on the capital markets. The profit realised is substantial and is returned to the backers after the deduction of a small margin to cover the bank's operating expenses.

One of the conditions of investment limits participation to 50 % of the cost of the project: this is for reasons of fair competition with the private financial sector. The financing application must be for an amount of no less than 25 million euros. The EIB tends to participate in the development of substantial infrastructures. The project evaluation is drawn up in collaboration with the Minister of Finance of the country concerned, who also gives final approval.

There are currently around 30,000 screens in Europe, which represents an equipment budget of 2.5 billion euros. To make this global financing possible, it is important that exhibitors enter into grouped leasing contracts, as the EIB is unable to respond on a case-by-case basis. However, the bank has several leasing companies as partners who will reduce their margins on account of the competition. Furthermore, the EIB makes inexpensive funds, borrowed at special rates, available to these companies. It is very much in their interest to work on this project.

This method of financing guarantees that the exhibitor has the freedom to select its equipment from three different suppliers. The investment could also be spread over ten years or so.

Jens Schneiderheinze:

Hamburg has a cinema that forms part of a digital projection programme known as CinemaNet Europe, which mostly offers a selection of documentaries. The establishments need to own the projectors, the server and the satellite channel. The exhibitors have shown 26 films and have made a 44 % investment. A charge of 3 euros per hour was payable to the distributor. The rest of the financing was made up from

public aid provided by the Filmförderungsanstalt (FFA) and the German state concerned. With the German states subsidising them to varying degrees, the exhibitors have laid out between 17,000 and 30,000 euros. The programme has been running for a year now and has made a successful start. The projectors being used are of the 1.3K and 1.6K types. However, the project is only a pilot and will not be able to become an economic model. The system is too closed and is based on the exhibitor's agreement to schedule films that he has not selected. Certain films have attracted substantial audiences, in particular those devoted to the operas of Wagner.

Nico Simon:

The Utopolis group is made up of a number of theatres equipped with digital cinema in the Benelux countries and France. Digital projectors have been installed for large and small screens, making it possible to rotate films without having to fall back on a 35 mm print for the third week of exhibition. The quality of 2K is better than that of a second generation 35 mm print. Installing digital technology is an inescapable development. However, we have already reassured traditional projectionists, who will always have their place in the projection room, once they have received training in the IT tools.

Anders Geertsen:

We need to understand, however, that, if we take the example of Utopolis, these companies are major exhibitors who will be able to benefit from the financial manna being offered by the EIB.

Patrick van Houdt:

It is true that the independents will have to group together in order to benefit from the services of the EIB. However, it is guaranteed that the major European groups would not allow the Americans to obtain the EIB financing, if they were to be bought by Hollywood.

Rolv Gjestland:

Does the transition to digital technology threaten the continuity of small cinemas? In principle, no, as they will have access to the big films and will share directly in the box-office takings. In Norway, there are 220 exhibitors, of whom 140 own their establishments. This latter group accounts for 80 % of the national box-office revenues. Various round tables have been organised between exhibitors and distributors, and also with representatives of Hollywood. It seems that the majors are speaking with different voices depending on who they are talking to on a European and national level. The financing of the transition to digital in Norway should be borne by the distributors. To avoid technological delays and cinema closures, Norway has developed a plan that will bring all of its cinemas up to standard so that the transition to digital can be carried out in one fell swoop. However, the financial arrangements for the project still need to be worked out.

VJ Maury:

So far, the experiments with digital technology carried out in Prague and Budapest have demonstrated the seductive aspect of high-definition cinema. It appeals to the public. This was confirmed in particular through the broadcasting of sporting events.

Anders Geertsen:

To reassure the Danes, the Danish Film Institute is working along similar lines to Norway, and is holding negotiations with the Ministry of Culture to facilitate the transition to digital. Financial negotiations have begun and the subsidies should be granted from January 2007.

Bernard Collard:

Compared to photographs, the quality of digital images is not just a question of resolution. Colours and contrasts matter more. As far as the database of films is concerned, a digital film market has just been set up in Cannes, to be held in February 2006. This will feature all European productions that are likely to benefit from digital distribution. Today, more than 50 % of French feature films take advantage of digital post-production, making them available for high-definition projection.

Patrick von Sychowski:

Sweden is the country that has taken the biggest steps towards digital technology. It can boast 61 of the 189 screens that already exist in Europe. The light equipment has also made it possible to organise digital screenings in remote rural areas.

Marcin Piasecki:

The distributor's profession will not change radically as a result of the advent of digital technology. It will still be necessary to create acquisition areas in order to obtain a foreign and European work in Poland. The reduction in the price of the print associated with the development towards digital technology would be in the region of 12 %. It would be sufficient to break even at the box office, as the profit margins would be made on the DVD edition. The cost of the transition to digital would represent 80 % of box-office takings, meaning that here again state aid would be essential.

Laurent Danielou:

The advent of digital technology will not change the idea that we need to respond to, and at the same time inspire, the expectations of the public. Even more efficient marketing work will be required in order to correctly target potential audiences. Digital technology could lead to a lack of diversity in scheduling that would make it more difficult to place less commercial works.

Thorsten Frehse:

The question of content is a matter that needs to be given urgent consideration in relation to the transition to digital cinema, as there is a risk that the choice of films will be reduced. Germany has three digital programme models: CinemaNet Europe, Alias and XDC, the last of these being a technical service provider that is not involved in the selection of films. This means that distributors are able to retain the specific nature of their profession.

The savings achieved through digital technology will be in the region of 6 %, as we need to take into account the cost of installation, which represents a significant market. Digital technology must not work against cinema as a cultural institution. We need to ensure the diversity of films and markets is retained.

Christian Guillon:

It is the responsibility of the CST (*Commission supérieure technique*) to monitor the technical quality of productions and their projections. It groups together 600 French technicians. With the arrival of digital technology came the issue of training for projectionists. The qualification, awarded in the form of a CAP [vocational training certificate], involves a test devoted to digital technology, the preparation for which is supervised by the CST.

The 2K standard defined by the DCI is not simply concerned with the resolution of the projection, which is itself not only dependent on the type of projector but also on the theatre infrastructure, which determines the levels of contrast and luminance. The 2K standard defines the projection format at source-file level. As it has already been adopted by the Americans, it is important that we are on the same level, or possibly even higher. If we were to accept working with a comparatively inferior quality, it would almost be the equivalent of rejecting Cinemascope. It is crucial to respect the original format quality of the film.

Digital technology appeared about twenty years ago for the production of special effects at post-production level. It is not manufacturers who are pushing for digital to be used but, in fact, directors, directors of photography and editors. These days, multiple transfers from 35 mm to digital at the post-production stage reduce the quality of the image. Digital technology must feature in the entire film production process.

Returning to the question of financing, digital production has been paid for by those in the weakest position, in other words, producers, laboratories and equipment manufacturers. This mistake must not be repeated with the exhibitors. It is up to them to come together to avoid a situation where the less well-off end up footing the bill.

Anders Geertsen:

All these contributions have shown that the move towards digital technology in Europe is a European initiative that was already under way. It is not merely a reaction to Hollywood. Evidence of this today is the spontaneous presence of distributors, who have appeared in larger numbers than ever before to discuss their experiences.

SESSION II - WORKSHOP 2:

HOW CAN YOU INCREASE VISIBILITY OF EUROPEAN FILMS AT CINEMAS?

- Positioning and promotion of European films by distributors
- Identity of cinemas and exhibitors' schemes to raise audience awareness
- Impact of pricing initiatives and customer loyalty on film attendance
- How do you improve the image of European films among young audiences?

Conducted by **Michael Gubbins** (Chief Editor - Screen International - UK)

Claudia Bedogni (Head of Acquisitions, Istituto Luce, Italy)

Ferenc Port (Distributor, Exhibitor, Budapest Film, Hungary)

Monika Weibel (Distributor, Frenetic Films, Switzerland)

Renaud Davy (Distributor, Pan-Europeenne - Wild Bunch, France)

Kim Ludolf Koch (Consultant, RMC Medien Consult, Germany)

Michel Malacarnet (Exhibitor, Utopia Cinemas, France)

Jean-Jacques Varret (Distributor, Films du Paradoxe/FIAD, France)

Laurent Coulon (Young Audience Project Manager, French Embassy, Spain)

Michael Gubbins:

The situation regarding the visibility of European films is rather worrying. Results are declining and cinemas are experiencing competition from DVDs. Nonetheless, the love of films is still very much alive. It must be accompanied by a return of audiences to the cinema.

Kim Ludolf Koch:

One of the solutions implemented to attract audiences into the cinemas is the organisation of test projections. The purpose of such events is to identify the European life of a film by inviting along audiences from a number of different countries. In this way it is possible to gauge their reactions to dubbing, subtitles and the title chosen etc. This marketing needs to be followed up through television and radio advertising.

This process currently exists in Germany. A questionnaire is handed out to audiences, allowing them to air their opinions on the length of the film, the interpretation by the actors, the type of audience who should go to see this film etc.

These audiences are picked to form a panel, according to age, profession, social background etc. They receive invitations via the Internet and must not be involved in the film industry. At the end of the screening, around twenty of them remain to fill in the questionnaire, which will serve as the basis for a report.

This method of marketing has already been in use for some time in the USA. Europe also needs to develop its market research and must be ready to innovate. It is also important to commence marketing from the pre-production stage in order to gain an insight into the public's affinity with the future work. This applies to both commercial and arthouse productions. In Germany, these test screenings are subsidised and enable communication surrounding the film to be improved over time. The cost of organising this may be up to 10,000 euros. The current fall in cinema attendances is the result of a poor choice of content in cinemas.

Michael Gubbins:

There are examples which highlight reluctance on the part of many distributors and viewers in relation to market research on films.

Renaud Davy:

Two concrete examples can be used to illustrate the successful distribution of European films. The first is the release of *Respiro* by Emanuele Crialese in French theatres. This Italian feature length film was discovered at the 2002 Cannes Festival where it was presented with the Critics' Award of the Week, Young Critics' Award and Public Award. Pan-Européenne purchased it on the spot. The time frame set to bring out the film was 6 months, the time that was available to effectively position this sunny family piece for 1 January 2003, the Christmas holidays. Between the Cannes Festival and its screening in cinemas, *Respiro* benefited from a wave of popularity which was boosted further at the Festivals of Annecy and Montpellier, before securing the support of the AFCAE. Its popularity grew thanks to partnerships with a radio station, TV channel and daily newspaper chosen by Pan-Européenne. 80 prints of the film were released in France and it continued to increase its audience during the first four weeks. It was shown in cinemas for 12 weeks.

The second example concerns the distribution of *Nine Songs* by Michael Winterbottom. Its world of sex and rock and roll, with an 18 certificate, was capable of attracting the under 25s. The marketing campaign was thus developed with this group in mind, to encourage them to come in their droves during the first week, in the knowledge that this momentum would not last, as the film also turns out to be rather experimental. It was a question of swelling the film's natural audience, which would not be particularly large in the long run. The first week accounted for half the takings made at the cinemas. It is only reflection about and knowledge of the precise potential of a film which enable a work to be distributed effectively. This method allows 10 to 15 film releases a year for a well-balanced organisation like Pan-Européenne. It is the film which determines the marketing strategy to be employed and not the reverse.

Monika Weibel:

From a cultural perspective, distribution in Switzerland is a special case since the film has to target audiences who speak German, French and Italian. This is why we study different film communication campaigns undertaken in Germany, Belgium, France and Italy. Translations of film titles and the choice of posters, for example, take on a critical importance. The problem is therefore finding a common denominator in Switzerland. A prize won at a festival and success experienced in the filmmaker's country of origin always have an influence on the public. The visit of a star to a major international festival remains an excellent vector of communication. However, European casts and crews are not particularly motivated

about exhibiting at these events. In order to win over young audiences with European films, it is in our interest to educate them via the Internet and new technologies such as the mobile phone.

The distribution sector also performs upstream work with the producer and director to decide whether to cut out any sections if the film seems too long.

Jean-Jacques Varret:

Listening to all the different contributions, we must not confuse the profession of distributor with that of director of marketing. Distribution is first and foremost about discovering films. All these systems of research and test projections take away the surprise factor surrounding a film and thus the pleasure that it can convey.

Films du Paradoxe released two works that were genuine gambles. One of these was *Chang* by M. C. Cooper and E. B. Schoedsack, a film dating from 1927, the final era of silent cinema. 80,000 people came to see this film. The scale of the production and the aesthetic quality of the era easily surpassed today's equivalents. The marvellous watercolour technique and poetry of the Chinese animated film *Feelings of Mountains and Waters* drew 60,000 people to the cinema. This involved highly skilled work with specially selected cinemas.

Ferenc Port:

Today, 920,000 people visit Hungary's arthouse cinemas. Foreign European films make up 50 % of the films scheduled there. Budapest has 15 arthouse cinemas, and also has its own exhibition and distribution company called Budapest Film. This company has 3 cinemas and an annual distribution of 35 films, 75 % of which are European. Budapest Film also owns 7 other cinemas which are rented out to independents.

The distribution sector does not deal with films according to their genre. Each production is regarded as a prototype that has to be defined anew in each case. All the same, it is possible to identify two categories of feature length films: those targeting the masses and those destined for a more limited audience. For this second category, the distribution strategy will be selective, as it is necessary to determine which social levels the film is aimed at.

For the exhibitor, the principal objective is to retain audience loyalty. They use the technology and comfort of the theatres and meeting areas (the cafeteria, DVD shops and bookshops) to distinguish themselves from the multiplexes, which, thanks to their well-off customers, implement higher charges. The cost of a seat is 1 euro less than in the large theatre networks. There are no confectionery sales and the lights only come up once the closing credits have ended. Preferential prices are offered for students and themed evenings are organised. But the most important thing is the scheduling of the films, which must respond meticulously to what the audiences want. Consequently, there should be no hesitation when it comes to keeping a film on for a longer period.

These days, the regular customers of the multiplexes tend to look down on arthouse cinema. However, the same cannot be said the other way round.

The city of Budapest owns Budapest Film. This company therefore has different cultural obligations from a private enterprise whose purpose is to make a profit. The European offer must be consistent with this and a partnership with schools has been put in place. Much is expected of Europa Cinemas. There is also a need to train specialists, versatile individuals from the industry, who are capable of producing and talking about films.

Michel Malacarnet:

The Utopia network was born in 1976 from the desire to be able to see films in the provinces that were being talked about in the cinema reviews. The first theatre was opened in Avignon with a very modest budget of 200,000 francs! The cost of the projector at the time was 1,500 francs. It dated from the silent era and was modified to show sound films. In the beginning, other exhibitors gave a somewhat cool reception to this cinema. It took a long time for it to break even. There were ten or so years of cumulative deficits during a time of real conflict with the other exhibitors and distributors. It has to be said that Avignon was possibly the last place to set up a cinema. The public authorities and competitors were in collusion with one another and the city was the location for France's second multiplex. We managed to get ourselves established by installing 3 other screens. It was said at the start that the multiplexes were set to boost all attendance figures. For Avignon, there was only an increase of 180,000 viewers a year across all the cinemas, including the multiplex. In relation to the initial investment, this is a very modest increase. The same process has been repeated in Toulouse and in Tournefeuille, a suburb of Toulouse, where Utopia owns cinemas. The aim is to support a truly alternative circuit with establishments featuring three or four screens. We have also developed sites in Bordeaux and Saint-Ouen-L'Aumône near Paris. Utopia has now shown that it is just as viable economically as a network of multiplexes.

The main threat today relates to the support fund, which could fall into the hands of the Americans if the multiplexes help them to increase their market shares in the cinemas. It is essential that this support fund be protected. This is a French system which could possibly be expanded across Europe. A 12 % tax is paid on each ticket, which is subsequently returned to the exhibitor to allow investment in other cinemas. This regulation allows a guaranteed minimum to be created, making it easier to borrow from a bank. The support fund recovered within the Utopia network to build Tournefeuille was in the region of 6 million euros. The loan could therefore be kept down to a minority portion of the investment.

Our current budgets are quite tight. Seat prices are 5 euros, which does not allow us to project short films and make the due payments to the entitled parties. They are only included in our programme in the form of retrospectives to make up full-length screenings.

Claudia Bedogni:

Istituto Luce is a very old company that is still involved in film archiving today. It has diversified to invest in the production and distribution sectors. It helps to develop a real demand for quality in the production of Italian films and endeavours to get them on the bill at the major international festivals.

The example of the distribution of *Sophie Scholl* by Marc Rothemund serves to illustrate the method of the Istituto Luce. This German film was awarded the prizes for best director and best actress at the 2005 Berlin Festival. It tells the story of the White Rose, a group of young German resistance workers in 1943 in Munich, and serves as a vehicle for weighty democratic values. To promote *Sophie Scholl*, we turned to an association of students who were the same age as the characters in the film. This production was first shown to universities, accompanied by debates and questionnaires. Reports of these discussions were published on an Internet website. The film's ethical values also made it possible to work with the clergy. This preliminary work allowed us to establish large-scale communication before the actual commercial exhibition of the film. We benefited from public aid to implement this project.

Laurent Coulon:

The cultural departments at the French embassies have a joint communication programme for both French and European films. They have built up relations with the distributors and exhibitors in different host countries to encourage the francophile communities into the cinemas. At the moment, a lot of work is being carried out with schools in particular. This experiment is about to bear fruit in Spain, where the American market share is 75 %. The idea is to approach the audiences with European films. Schools are an excellent place to instil a sense of loyalty amongst young audiences. This initiative was first launched in Madrid, where aid was gathered for financing. It is integrated freely into the school programme. Teachers can benefit from seniority points if they accept participation in this project. Five European films were chosen to be shown to the schoolchildren. Meetings with members of the film teams or with other contributors linked to the theme of the film were then organised during classes. Educational brochures were published and distributed to the teaching staff and schoolchildren, similar to the initiative undertaken by the CNC in France. Today, 200 Madrid teachers have joined up to the project, which is reaching 2,000 schoolchildren. Other sources of financing are anticipated to develop this programme elsewhere. It will already be possible to benefit from the existing documents and collection of films. This initiative should be developed at a European level with the help of Brussels. Assistance from other European embassies is to be encouraged.

SESSION III. EUROPA CINEMAS: 2006 / 2007 AGENDA

- MEDIA Plus: 2006/2007 plans
- Development of the 'Countries outside MEDIA' programme
- Euromed Audiovisual II Programme: Presentation of the new support programme in the Mediterranean and Europe
- Development of Africa Cinemas

Conducted by **Claude-Eric Poiroux**, Director General, Europa Cinemas

Claude Miller, Film director, President of Europa Cinemas

Arnaud Pasquali, MEDIA Programme, European Commission

Ruth Hieronymi, President of the Intergroup "Cinema", European Parliament

Anders Geertsen:

With regard to the financing of digital technology in theatres, three possibilities have emerged: investment by the exhibitor, the securing of public funds and the intervention of a financial intermediary.

As far as the digital standard is concerned, the majority are in agreement that we should use DCI specifications and 2K quality projectors. As for distribution, the arrival of digital technology threatens to favour the blockbuster and squeeze out film productions with a more limited audience. As the circulation of prints would be made easier, the market would be able to respond rapidly and decide on Friday evening on the hit films that would be shown over the weekend.

Michael Gubbins:

The relationship between distributor and exhibitor turned out to be fundamental in improving the visibility of European films. The statement on market research has shed light on the reluctance in relation to certain methods of marketing which would take away the surprise element, but also reminded us of the need to produce films which audiences like.

Ruth Hieronymi:

With regard to the MEDIA programme, the European Commission has put forward a proposal for 2007-2013. The Parliament has considered it and approved it at first reading. The new MEDIA plan would benefit from a budget of 1 billion euros due to the recent expansion of Europe. It will work to support the development of European cinema, distribution, training, digital technology and cooperation with the EIB. This transition to digital necessitates new legal frameworks.

We have currently just entered the negotiation stage with the Council of Europe. A broad consensus has already appeared, but the questions relating to financing and the budget are set to provoke much discussion. In 2006, it will be necessary to reach a budgetary agreement to allow the new MEDIA programme to be launched in 2007. The Parliament has stood firm and does not want a budget under 1 billion euros.

The audiovisual sector is also the subject of major discussions in the Parliament, within the context of the Services Directive. The question of specific aid for this still undefined area has been raised. However, the Parliament first wants Member States to demonstrate commitment in the area of cultural diversity.

The arrival of digital technology is also going to radically affect the Television Without Frontiers Directive. With the digitisation of programmes there is a risk that the European character of content will not be guaranteed. This directive must therefore be extended to cover editorial choices of digital media, whether this concerns television channels, VOD or mobile phones.

Claude-Eric Poiroux:

Because of digital cinema, we are going to see over the coming period a double round of spending in the cinema industry. We will have to continue to finance 35 mm whilst also investing in digital. Exhibitors in the Europa Cinemas network risk being weakened, as the majority of them are independents and their funds will not be sufficient for this twin investment. Not to mention the independent distributors, whose current situation is even more precarious!

The Television Without Frontiers Directive might also weaken film theatres if there is no guarantee of a genuine media release timetable in the face of the arrival of VOD and mobile phone operators.

This all indicates a current trend in which culture is being threatened by a deregulated market. As Jeanne Moreau rightly said yesterday, "we should reject competitiveness when it comes to culture".

Arnaud Pasquali:

For the next seven years, the budget required for the MEDIA plan is 1,054 billion euros. Institutional changes are scheduled to take place, from 2006, such as the creation of an executive agency charged with management of the MEDIA programme. This has proved necessary in order to track public funds in the 30 Member States. It is the expansion of Europe that is making these new modes of management necessary. The agency is there to assist the European Commission in all its administrative and contractual duties relating to the MEDIA plan. This will make it possible to speed up the subsidising of the different projects adopted. It is the Commission who will maintain control over the agency and who will determine the programme's political orientations. The agency is made up of officials seconded from the Commission, as well as professionals.

Europa Cinemas will continue to hold a dominant position and receive unfailing support from the MEDIA programme, as has been the situation for 12 years now, by representing its network of exhibitors to the Commission.

Claude-Eric Poiroux:

Before Claude Miller concludes, I would like to reiterate some points which have emerged from your discussions.

First of all, the need for an effective Television Without Frontiers Directive, which could become a Content Without Frontiers Directive. This is something we are applying ourselves to in our cinemas, which is why it is important to protect this work with the support of the Directive.

As far as digital cinema is concerned, we need the next MEDIA programme to be able to reduce the discrepancies between cinemas in the face of the new investments. Europa Cinemas will be investigating all the potential sources of support that can help improve your access to this equipment. We are not ruling out the possibility of involving the EIB, in particular. Digital technology must be used as an opportunity to strengthen the diversity of European cinema in our theatres. We are anxious not to let this opportunity slip by.

A few words on developments in the Europa Cinemas guidelines.

First, something new: we have created a diversity bonus to encourage exhibitors to screen films from a maximum of European countries, especially from countries which entered the EU in 2004. This bonus can reach 20% if you include 10 to 20 different nationalities in your scheduled films.

We keep the admissions bonus. And the distribution of support between programme scheduling and young audiences will remain at 80/20.

Finally, we have set up support for the digital projection of European films in theatres. Three conditions apply: high-tech equipment, a minimum of 2 European titles and 30 screenings a year. The upper limit of this support is 7,500 euros per year, depending on the number of films screened under these conditions.

The Europa Cinemas Label is now awarded at the three major festivals: Berlin, Cannes and Venice. Each jury comprises 4 to 5 exhibitors from the network and I would like to invite you to express your interest if you wish to take part in this. As for the award-winning films, they will benefit in your cinemas from incentives to keep it on the programming schedule for as long as possible.

To conclude, I would like to underline what Antoine Trotet announced to you regarding the new website of Europa Cinemas. We have recorded 180,000 visitors in one year, which corresponds to over 1 million pages being read. The database has an inventory of 30,000 films. It includes all the information relating to theatres and the different Europa Cinemas campaigns. We are also in the process of enhancing our IT tool to enable you to use the member zone more efficiently for the next report on your admissions in January 2006.

I would like to thank all the panellists at this Conference and I congratulate you on your active participation in the debates. Our president Claude Miller will now conclude proceedings.

Claude Miller:

Thank you, I intend to keep things brief as Claude-Eric has more or less expressed my sentiments. Fatima did not get the chance to speak, but my congratulations go to her and all her team for organising these three days. I would also like to pay tribute to the speakers and thank them for the information and thoughts they have provided.

As a director and producer, I believe there are two fundamental issues, which may also constitute two dangers for us.

The first danger lies in the eventual reduction in assistance for exhibition and distribution.

We have to keep in mind that the European market is far from being built and this market will determine our future. MEDIA has to concentrate on the circulation of the films.

My second concern relates to this wave of digital technology, which I personally would compare to a high-powered racing car. However, "racing car" implies the presence of a driver, and I do not feel that we are at the controls. It is time to climb in and take the wheel. I think it is time to make arrangements on a European scale.

Listening to the excellent speech by Ruth Hieronymi, I was struck by the difference in speed between the American racing car and what I would call the European HGV [the European heavy goods vehicle], where talk is too often about political, financial and legal frameworks. I agree with her: Europe has to encourage the dynamism of its professionals.

Moreover, I am concerned that a European firm, Thomson, is currently equipping the theatres of a chain in the United States, whilst we, in Europe, are still hesitating to commit ourselves.

The time for action has come for the professionals and for the institutions that we represent.

For our part, we're going to launch a research on the conditions of the launching of the Digital cinema in Europe, to better prepare the exhibitors and distributors of the network to succeed in this transition. We will present the results of this research during the next Conference.

I hope to see you there next November in Paris for the 11th edition.

Thank you for your participation and congratulations for your dynamism.

End of the 10th Annual Conference of Europa Cinemas