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Digital Cinema Tango!

Public Funding for Digital Roll-out: Who, What and Where?

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OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
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2.

…public funding for digital roll-out

Focus on schemes supporting **conversion of cinemas** to digital projection

- **Why** provide public funding for digital conversion?
- **What** funding and **where** is it available?
  - 'Pioneer' schemes
  - 'Collective conversion' schemes
  - Targeted national and regional schemes
  - Schemes on the drawing board
- By way of a conclusion**, how** do the schemes work?

This presentation focuses on schemes providing support for the conversion of cinemas to digital projection. The presentation mentions only in passing a number of related schemes, for example those supporting digital distribution, production of digital masters, professional training in digital technologies etc…. All the schemes quoted require the installation of 2K, DCI-compliant equipment, unless specifically mentioned.

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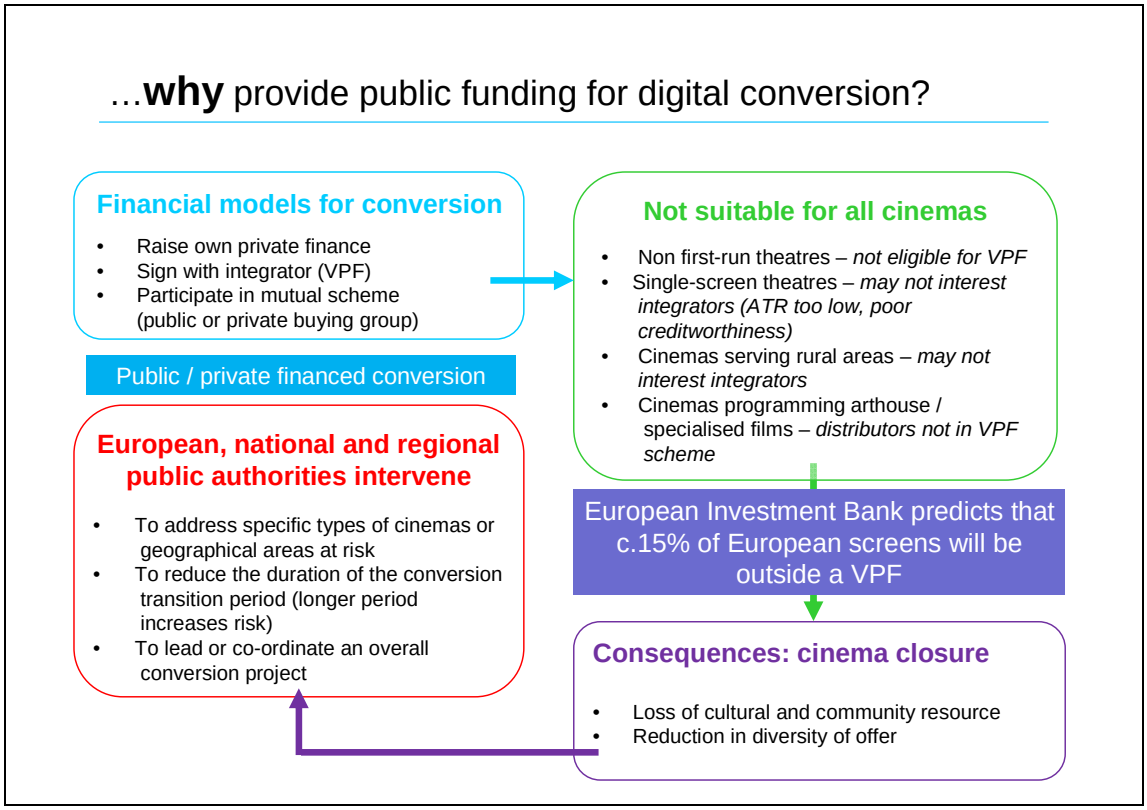

Various commercial models for the conversion of cinemas to digital projection exist. These includes conversion using financial resources available to the exhibitor, conversion using a Virtual Print Fee scheme, usually implemented by a third party, or participation in a private or public buying group.

However there are widespread fears that these conversion models will not be suitable for all cinemas, principally because, for reasons linked to their programming and location, these cinemas may not be eligible for VPF deals.

The European Investment Bank predicts that around 15% of European screens could find themselves without the possibility of participating in a VPF arrangement.

The long-term consequences of non-conversion to digital projection would probably be closure of certain kinds of cinemas, leading to the loss of a cultural and community resources and to a reduction in the diversity of offer available to audiences.

To address this possibility, European, national and regional public authorities intervene in a variety of ways:

- To address specific types of cinemas or geographical areas at risk
- To reduce the duration of the conversion transition period (a long transition period is more costly and thus increases risk)
- To lead or co-ordinate an overall conversion project.

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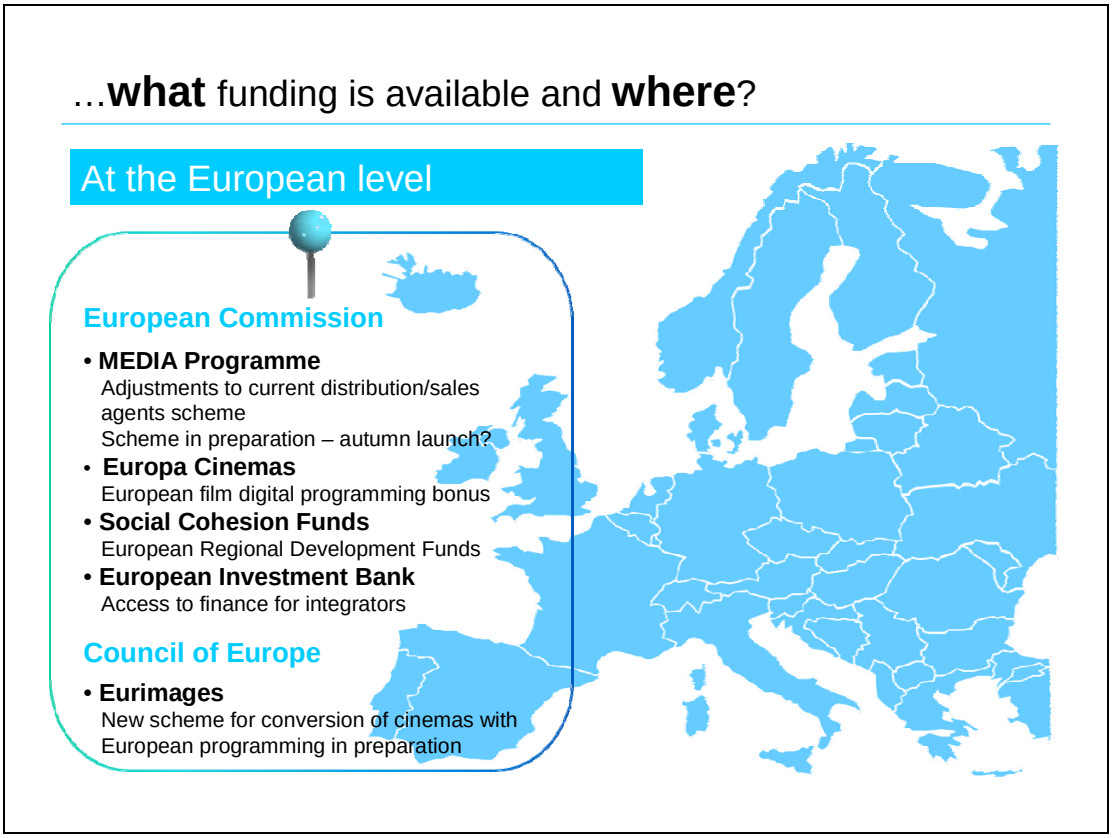

At European level the funding picture is as follows:

European Commission

- The MEDIA Programme 2007 has already made adjustments to its support programmes for distribution and for sales agents, taking into account the costs of digital masters. MEDIA-supported Pilot Projects include projects dealing with digital distribution and the availability of digital material. A support scheme for cinemas with substantial non-national European programming is currently in preparation and will probably be launched in autumn 2010. The scheme will pay particular attention to cinemas in new Member States that cannot benefit from national or regional support schemes for digitisation.
- A Commission Communication on 'Opportunities and Challenges for European Cinema in the Digital Era' is also in preparation.
- The MEDIA-supported Europa Cinemas network already provides a funding bonus for network cinemas screening a minimum number of European films in digital format.
- European Social Cohesion Funds, and specifically the European Regional Development Funds can be used in the designated regions for digital conversion for certain kinds of cinemas. Applications for these kinds of funds must be made through the Regional Managing Authority, and would generally be for specific, co-ordinated networks of cinemas (such as cultural centres, municipal facilities etc).
- The European Investment Bank is currently evaluating its potential role in financing digital roll-out, in collaboration with the MEDIA Programme, but has already provided access to finance for integrators (EIB, together with BNP Paribas Fortis, KBC and CBC granted a loan facility of EUR 65 million to XDC in February 2010)

Council of Europe

- Eurimages, the Council of Europe's support fund for co-production, distribution and exhibition, already provides support to producers for the production of digital masters. However a new scheme aimed at supporting the digitisation of cinemas programming European films in non-MEDIA Eurimages countries is in preparation.

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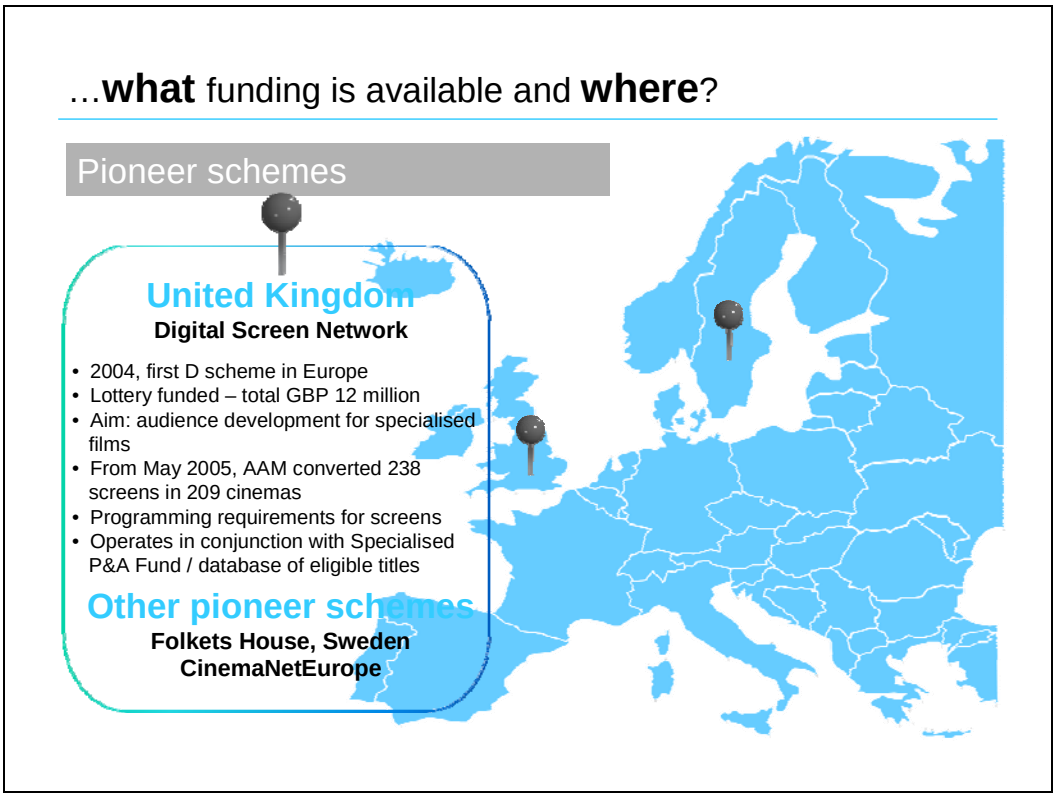

No overview of funding for digital conversion in Europe would be complete without mentioning three pioneering schemes.

United Kingdom – Digital Screen Network
Launched by the UK Film Council in 2004, the first public digital cinema conversion funding scheme in Europe.

- Positioned as an audience development scheme for specialised films – applicants had to show how they would increase the number and range of specialised films shown if they had access to digital projection equipment.
- A total of GBP 12 million from Lottery Funds was available.
- Applicants were chosen on the basis of geographical location, existing local provision in screens, programming commitments (over the 2003 baseline), marketing commitments and other proposed uses of the equipment (educational, cultural, social).
- From May 2005, a consortium headed by Arts Alliance Media (Digital) Ltd implemented the conversion in 238 screens spread over 209 cinemas.
- Over half the screens selected were in multiplexes (Cineworld, Odeon and Vue). Smaller circuits, independent commercial cinemas and specialised cinemas such as the National Film Theatre in London were also given projectors.
- Participating cinemas must provide monthly screening reports detailing the specialised films screened. Qualifying films are listed in a database on the UK Film Council website. Cinemas must also participate in a special week-long festival of classic films and allocate seven screening slots to these films.
- The project is intended to run 4 years from the point at which the entire network is operational with an option to purchase the equipment at the end of the period.
- There is no VPF. Smaller, independent distributors access the network on the same basis as the major distributors.

Two earlier pioneering schemes should also be mentioned. These schemes installed digital projection facilties of less than 2K standard. The **Folkets Hus** network in Sweden installed a 70-screen E-cinema chain in 2002 and **CinemaNetEurop**e is a pioneering E-cinema network dedicated to the programming of documentaries.

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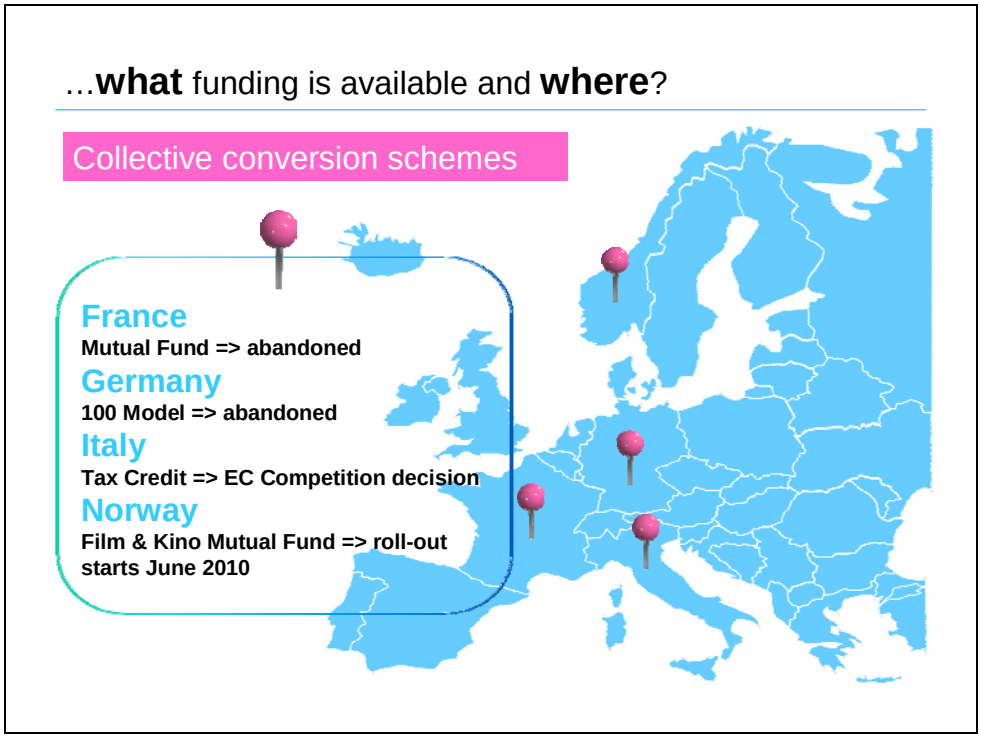

Turning now to collective schemes where the ambition is to develop a nationwide plan for conversion, so that all or almost all cinemas can convert over a specific period.

France

After consultation with the industry, the CNC proposed a range of measures designed to ensure transition for all cinemas. One of these measures was a 'fonds de mutualisation' (mutual fund), open to membership by all exhibitors and distributors. The Fund would finance 75% of exhibitors' investment in digital equipment and was to be financed by a VPF model, with member distributors paying a fixed sum to the Fund whenever a member cinema screened digitally in the first week of exploitation a member distributors' film. The scheme was notified to the national and European competition authorities and in February 2010 the national competition authority issued a negative opinion. This scheme was therefore abandoned. For further information see the presentation on 'Public Funding: Legal Issues'.

Germany

A nationwide scheme to support digital conversion, called the '100 Model', was also under discussion in German. The scheme included a EUR 40 million funding injection by the Filmförderungsanstalt (FFA – The German Federal Film Board). However this scheme fell foul of a long-running legal dispute over the nature of contributions to the FFA's funding resources. The level of exhibitors and video distributors contributions to the fund are fixed by law, whereas TV broadcasters can negotiate theirs. A condition of the FFA's funding offer was the withdrawal by exhibitors of their lawsuit regarding these contributions – this was not forthcoming so the FFA withdrew its offer and the scheme as initially conceived was thus to all intents and purposes abandoned.

Italy

As part of a series of tax measures for film investment and distribution, the Italian government proposed a 30% tax credit to exhibitors installing digital equipment, up to a limit of EUR 50,000 per screen annually. Access to the credit was unconditional for cinemas with 1 to 4 screens or for multiplexes in towns with less than 50,000 inhabitants. For other larger cinemas there were programming requirements concerning the number of cultural films shown and the number of screens converted to digital. When the overall scheme was approved by European competition authorities in 2009, the digital conversion tax credit was not included in the approval and the DG Competition launched an investigation into the proposed digital conversion tax credit - no decision has yet been taken on its admissibilty.

Norway

A nationwide scheme coordinated by exhibitor representative body Film & Kino is currently underway in Norway, with installation starting in April 2010. The scheme uses a pre-existing mutual fund and Film & Kino have negotiated VPF arrangements with US major and local distributors.

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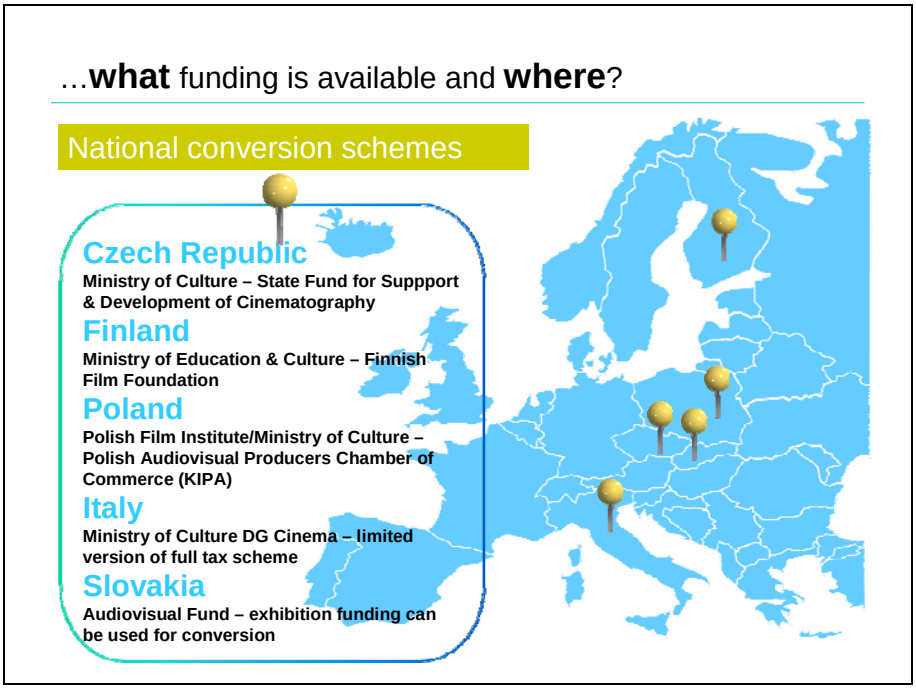

A number of other national schemes are also in operation, though these do not usually have a comprehensive ambition.

Czech Republic

The national scheme is part of a national plan for digitisation drawn up by the Czech Ministry of Culture. The scheme was prepared by creating a database of all screens, in order to evaluate those which would be at risk, and the preparation of information material for cinema owners, frequently municipalities, including translation of the DCI specifications into Czech. It was initially hoped that there would be a specific fund earmarked by government but at present this has not materialised. As an alternative, funds have been set aside for cinema modernisation through the State Fund for the Support and Development of Czech Cinematography and applications are invited for digital conversion. 33 cinemas, mostly single screens, frequently municipally-owned, have been supported to date in two funding rounds in 2009, with awards averaging 1.25 M CZK (around EUR 48 K). There will be further awards in 2010.

Finland

In Finland, the Ministry of Education & Culture has set aside 1 M EUR in Lottery Funds, part of a larger economic stimulus package, both for supporting digitisation and for the training of professionals in the new technology. The scheme is administered by the Finnish Film Foundation and targets arthouse and smaller cinemas. 26 awards were made in 2009 and 19 in March 2010.

Poland

In Poland, an initial plan for digitisation was developed by KIPA, the Polish Audiovisual Producers Chamber of Commerce and the final version of the scheme is jointly run by the Polish Film Institute and the Polish Ministry of Culture. The scheme will digitise approximately 80 cinemas in Poland starting in 2010 and has been approved by national competition authorities. The first awards were made in early 2010. The Polish Film Institute also provides some funding to a regional scheme which will be described later.

Italy

As has already been mentioned, a comprehensive scheme for digitisation via tax credits in Italy is currently on hold awaiting the outcome of a European Commission investigation. The scheme was due to start in 2009. However a limited version of the scheme will run in 2010 with the tax benefits available for costs incurred in 2008 and 2009 limited in their amount to totals qualifying as *de minimas* aid, therefore acceptable while awaiting the decision of the Commission.

Slovakia

In Slovakia, where a high proportion of cinemas are municipally owned, the Audiovisual Fund, established in 2009, will run in its first year of operation (2010), a cinema modernisation scheme which will be used to support digital conversion. Reflection is underway on a larger and more comprehensive scheme.

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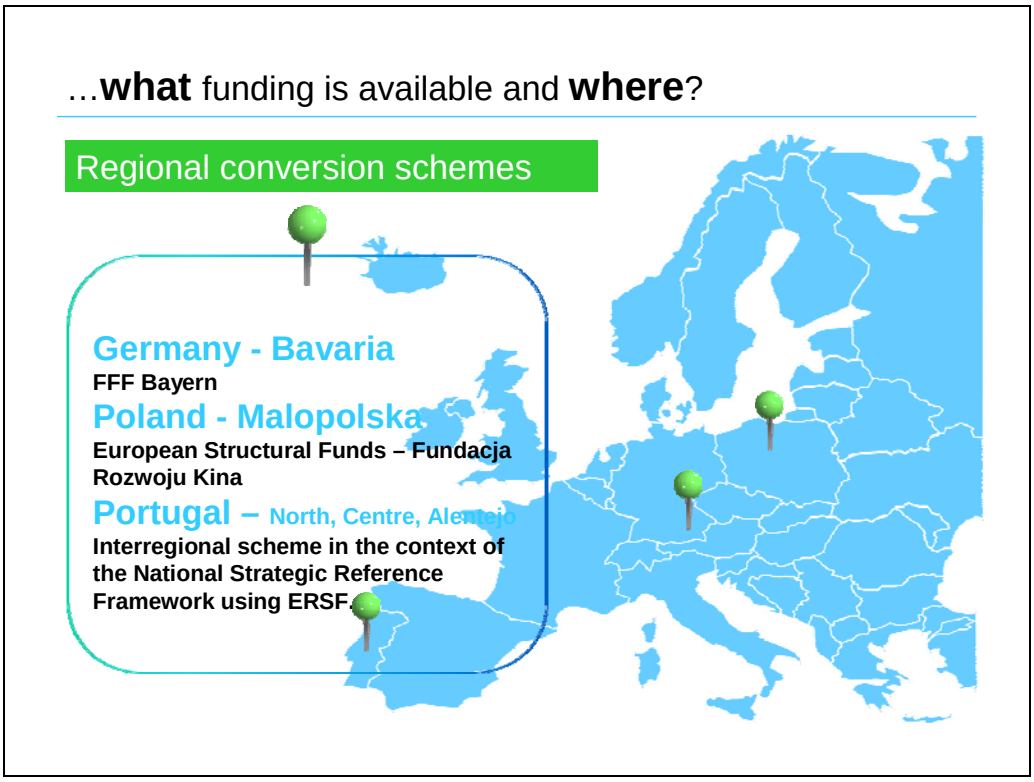

Three support schemes for the conversion of cinemas to digital projection are currently running at a regional level in Europe.

Germany – Bavaria
Since August 2009 the Southern German Land of Bavaria has had a support scheme for the digitisation of rural and arthouse cinemas. Run by the Filmfernsehfonds Bayern, the scheme has around 1M EUR per year and has been in high demand with local exhibitors – a first round of funding in October 2009 made 38 awards and 56 applications were received for the second March 2010 deadline. Arthouse cinemas plus cinemas with up to six screens are eligible. Cinemas with more than six screens operating in localities with less than 50,000 inhabitants may also apply. A maximum of 25% of equipment costs with a ceiling of EUR 18,000 per screen and per cinema will be awarded. Arthouse cinemas may obtain a higher award of EUR 21,600.

Two other regional funding initiatives take advantage of the fact that their respective regions are defined as 'convergence' regions for the European Regional Structural Funds (ERSF).
Poland – Malopolska Region
In the Polish Malopolska region (the area around Krakow) the Fundacja Rozwoju Kina (Cinema Development Foundation) has spearheaded an application for the digitisation of a network of screens to the authorities administering the ERSF funds allocated to the region. The project involves the creation of a network of modern cultural institutions offering quality films, broadcasts of cultural events, entertainment and sports together with educational initiatives. The network will initially be comprised of 10 cinemas, with a list of other cinemas waiting to join. The total value of the project is over PLZ 6.2 million, with PLZ 3.8 million coming from the local ERSF Operational Programme. The Polish Film Institute has also provided funding for the Cinema Development Foundation.

Portugal – North, Centre and Alentejo regions
In Portugal an interregional scheme for digitisation of screens in the North, Centre and Alentejo regions is close to launch, having obtained funding from the ERSF in the context of the National Strategic Reference Framework. The funding has been obtained under the general heading of 'Cultural Facilities' but under different sub-headings in each of the three regions. Beneficiaries will be obliged to respect programming obligations for European, Latin American and Portuguese-language films.

Finally, a limited scheme is understood to be running in the region of **Lombardy** in **Italy**.

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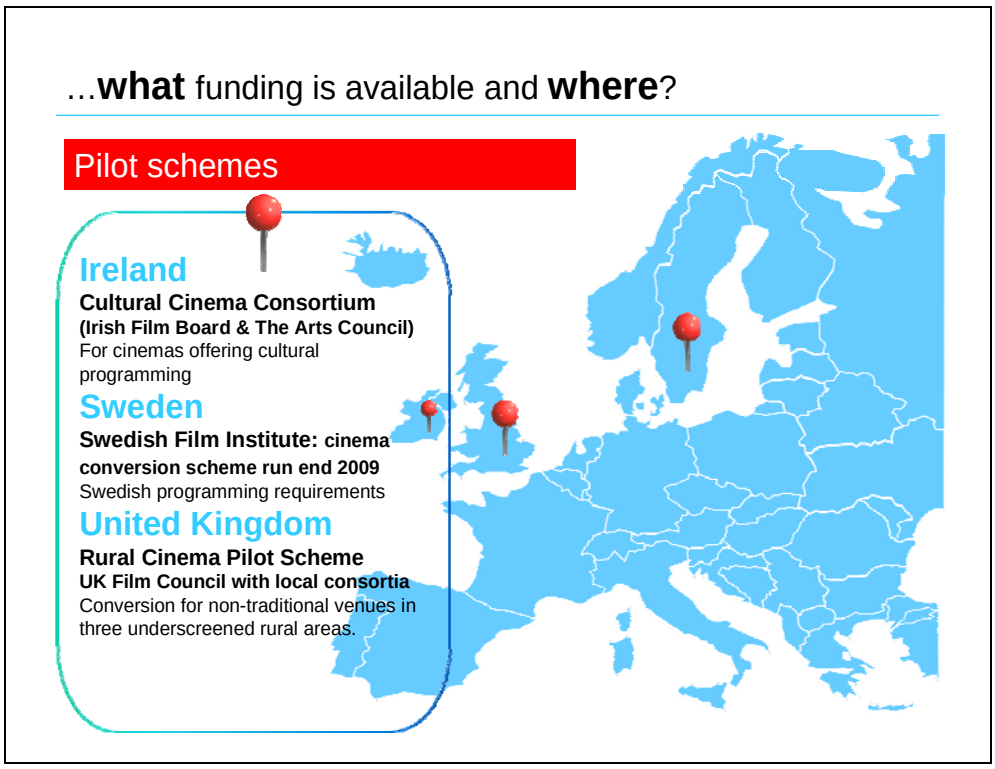

Three further schemes can be classified as pilot schemes, used to evaluate the interest and logistics of rolling-out a larger and more comprehensive scheme at a future date.

Ireland – the Cultural Cinema Consortium
This scheme is the result of a strategic cooperation between the Irish Film Board, the national support body for film, and the Arts Council, which is the government agency for funding and developing the arts in Ireland. Support for digitisation through the Consortium is intended to improve audience access to a diverse range of cinema programming and was reserved for cinemas able to prove that they already offer diverse programming. The Consortium initially provided a first round of funding for the conversion of two arthouse cinemas to digital projection in 2008 and commissioned a report on 'Digital Cinema in Ireland'. A further round of funding was awarded at end 2008 to 7 arthouse cinemas for a total value of EUR 750,000. Grants were offered to cover 85% of installation costs for up to ten cinema screens, subject to a maximum contribution of EUR 75,000 per screen. The scheme is now closed but will be continued if further funding becomes available.

Sweden – the Swedish Film Institute
As part of its preparation of a national strategy, the Swedish Film Institute ran a two-part pilot project for cinema conversion and digital distribution at the end of 2009. All Swedish cinemas could apply for support for digitisation, but the criteria for selection included cinemas intending to use the digital equipment to broaden their programming and to undertake audience development initiatives as well as considerations of location and screen size. Cinemas which received support must commit to screening at least 10 of the Swedish films premiered in digital using the digital distribution support part of the scheme and to screening Swedish films for at least 25% of total programming during the evaluation period of one year from the date of installation. The first round had a total of 90 applicants. 28 cinemas were supported for a total value of SEK 11 million.

United Kingdom – the Rural Cinema Pilot Scheme
This pilot scheme aims to improve access for rural audiences to new films in high quality presentations as well as alternative content. The scheme is aimed at screenings in non-traditional venues, such as village halls, arts centres and community spaces. GBP 1.2 million of Lottery funding is allocated to the scheme which has started for three pilot rural areas considered as being under-screened. Applications were open to organisations representing consortiums of parties involved in rural cinema – successful applicants will run the pilot scheme on the spot over a period of three years.

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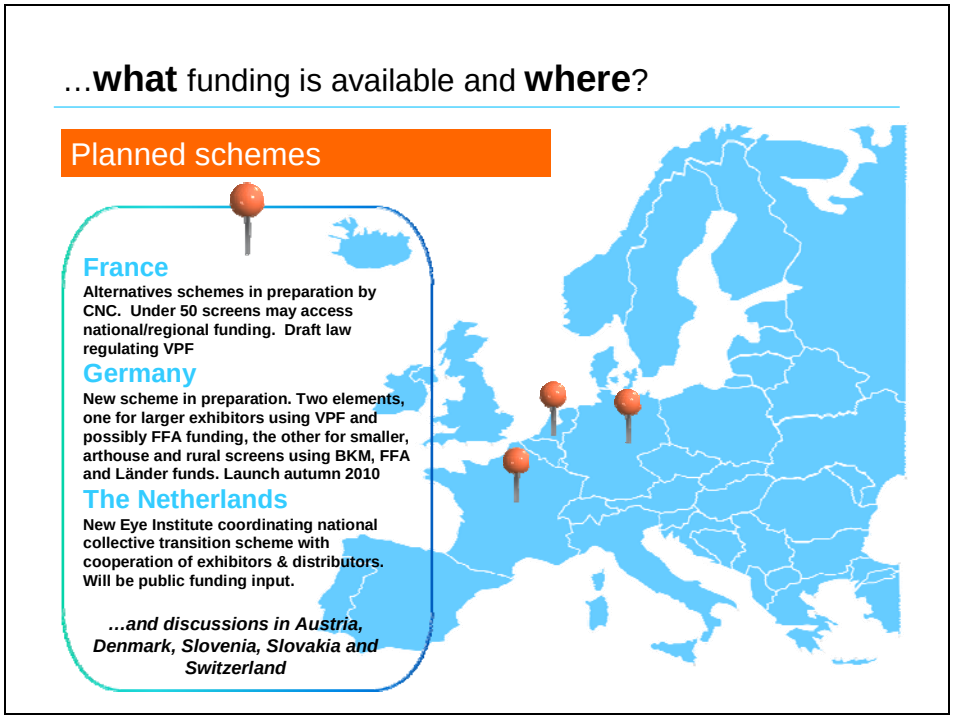

Finally, three schemes in advanced stages of preparation should be mentioned. Two of these, in France and in Germany, are new schemes designed to replace an earlier abandoned collective conversion scheme. The third scheme, in the Netherlands, is a scheme, initially based on the German '100 Model', intended to ensure a collective conversion of Dutch cinemas.

France

Following the abandon of the proposed 'fonds de mutualisation', the CNC announced a number of new initiatives designed to ensure a rapid transition to digital projection for all cinemas and to ensure programming freedom for both exhibitors and distributors. For circuits of more than 50 screens, market solutions appear satisfactory. For circuits under 50 screens, cinemas not capable of generating sufficient VPF will need to avail of national and regional public funding. Some operators could form their own 'mutual fund' along the same lines as the earlier model, but without the intervention of the CNC. The public funding component would come from the CNC 'fonds de soutien' and possible other state sources and would leave exhibitors free to use a VPF system in parallel. In order to safeguard programming freedom, a draft law regulating VPF arrangements has been proposed, enshrining the principle of VPF payments to finance the transition to digital projection as well as ensuring the transparency of VPF arrangements and their neutrality in relation to programming. The draft law proposes that VPF becomes mandatory for the first two weeks of national release of a film, but could not be required past this period (corresponding to redeployment of the prints used in the initial release).

Germany

In early May 2010 the German Minister of State for Culture announced a new scheme to replace the abandoned '100 model'. The scheme will be jointly funded by the BKM (Federal Ministry for Culture), the FFA and the *Länder* funds. The scheme will include two parts. For cinemas with more than 7 screens and an annual turnover in excess of EUR 180,000 over the past 3 years current commercial models should be used, with a possible element of FFA funding. For smaller cinemas (less than 6 screens, turnover not in excess of EUR 180,000 over the last 3 years) funding from the BKM will be available, up to a maximum of EUR 23,000 for cinemas programming at least 50% of German and European programming. This will be complemented by FFA and *Länder* funds.

The Netherlands

Dutch exhibitors association NVB has initiated a plan to collectively convert all Dutch screens. The plan is being co-ordinated by the newly created Eye Institute (formed out of the merger of Holland Film, Filmmuseum, FilmBank and the Netherlands Institute for Film Education) and will certainly involve an as yet undisclosed amount of public funding.

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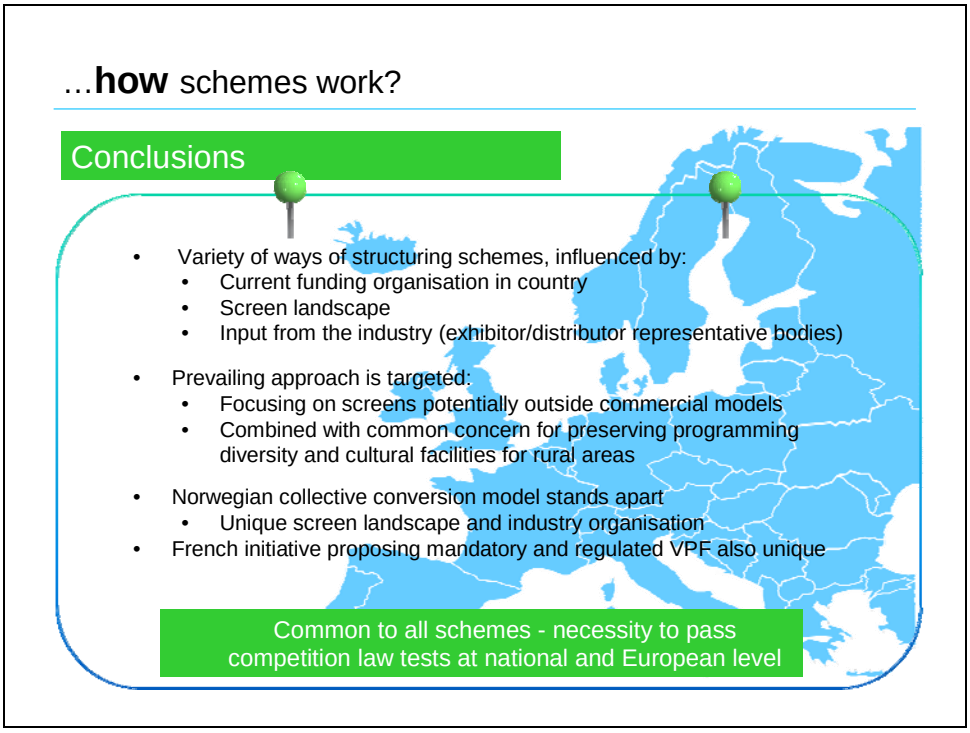

By way of a conclusion, some reflections on the common characteristics of schemes.