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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**European film in the digital era  
Bridging cultural diversity and competitiveness**

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**European film in the digital era  
Bridging cultural diversity and competitiveness**

The audiovisual sector has substantial cultural, social and economic significance. It shapes identities, projects values and can be a driver of European integration by contributing to our shared European identity. The sector contributes to growth and jobs in Europe and is a driver for innovation.

The audiovisual sector is also noteworthy for being more regulated than other creative sectors and heavily reliant on public funding<sup>1</sup>.

Europe's film industry is diverse and creative. Its film heritage draws worldwide praise and has inspired several generations of filmmakers and their works.<sup>2</sup> However, while Europe is good at producing a high number of diverse feature films, most European films do not reach all their potential audience in Europe and even less so in the global market. For the most part, films stay on national markets but, even there, some never reach the cinema screen or fail to secure any other distribution channels.

This is a missed opportunity for spreading the diversity of European cultures worldwide, for improving competitiveness and for addressing the existing trade deficit with third countries, in particular with the United States.

The digital revolution offers more possibilities and flexibility for distribution and is having a fundamental impact on audience behaviour. It is essential therefore to adapt to the digital era and use its potential to keep existing audiences and reach new ones, and to build bridges between cultural diversity and competitiveness. This comes with challenges: for the industry, in testing new business models and audience development strategies; and for public policies at regional, national and European levels.

Transnational policy cooperation and a structured dialogue with the sector at European level are therefore crucial.

This Communication is embedded within the strategic framework presented in the Commission's Communication on promoting cultural and creative sectors for growth and jobs in the EU<sup>3</sup> and is in line with the Digital Agenda for Europe<sup>4</sup>.

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<sup>1</sup> EUR2.1 billion of support is provided annually by European film funds (European Audiovisual Observatory, Public Funding for Film and Audiovisual Works in Europe - 2011).

<sup>2</sup> Recent films like 'The Intouchables' have attracted audiences across the world for their originality and have also become box office successes and returned a profit.

<sup>3</sup> COM(2012) 537 final.

The Communication provides a stocktaking of recent developments in the film sector and identifies current challenges in public policies impacting the film sector. It also highlights existing EU instruments that could contribute to the process of adaptation to these challenges.

In all the areas covered, the Communication aims at improving the complementarity between the Member States and the Union policies. It promotes common directions to better embrace the opportunities and address the challenges related to the digital shift while taking account of cultural and linguistic diversity and the varieties of the national audiovisual landscapes, stressing the need for a joint effort to strengthen the global efficiency of existing funding tools for the competitiveness and diversity of the European film sector.

## **1. State of play of the European film sector**

### **1.1. Film production versus audiences: a growing gap?**

Looking at the European film sector, there is an imbalance between production and distribution & consumption, i.e. between the number of films produced and the number of films that actually reach their targeted audience. There are substantially more European than US and Canadian productions<sup>5</sup> but European films are distributed on a smaller scale and have difficulties to reach a wider audience in non-domestic markets, including within the EU.

Success cannot be measured by market share and box office revenues alone. Films may target niche audiences; this can result in lower market shares at national / EU and worldwide level. Nevertheless these films may succeed in reaching their targeted audience and forming an important part of cultural diversity. From an economic point of view, the relative success of a film must also be looked at in terms of profitability, i.e. the ratio between the investment in development, production and distribution and the revenues generated<sup>6</sup>. For a significant number of films produced in the EU, however, the cinema release remains limited or even non-existent, especially outside of the domestic market. Moreover, they do not seem to achieve a better audience through other forms of distribution.

The situation and related figures may differ across the different forms of distribution (cinema, broadcasting, DVD, VoD<sup>7</sup>, etc.) and there may also be significant differences between Member States.

As regards cinema theatrical exploitation, the main trends are as follows:

- In the EU, European films represent on average 62.52% of releases and account for 32.9% of admissions<sup>8</sup>. Box office receipts and admissions of European films fall far behind those of US productions. In 2012, US

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<sup>4</sup> COM(2010) 245 final/2

<sup>5</sup> The number of feature films produced in the European Union increased from 1159 in 2008 to 1336 in 2011. In the same period, US and Canadian productions rose from 773 to 818 films (EAO Focus 2013).

<sup>6</sup> It is estimated that "The Intouchables" had a box office of 309.189.989 € worldwide with a production budget of approx. 7 million € while "The Artist" box office is estimated at 96.718.509 € worldwide for a production budget of approx. 11 million €.

<sup>7</sup> Video on demand.

<sup>8</sup> Period: 2008-2012. Data does not include Malta. Source: European Audiovisual Observatory.

productions had 19.84% of releases and 65.11% of admissions in the EU<sup>9</sup>. Admissions to non-national EU films on the EU market are stable at around 12% on average<sup>10</sup>.

- Only a small minority of European films are released in cinemas outside of Europe (8% in 2010) where they reach a non-negligible albeit modest audience in terms of market share at the box office<sup>11</sup>. In fact, over 19% of total admissions (and 16% of box office takings) of European productions were generated outside Europe in 2010<sup>12</sup>.

The situation of European films in cinemas — illustrated above — is mirrored for other viewing platforms.

Television is still the most widely used platform for watching films. In 2011, 41% of the almost 122000 feature films shown on TV in Europe were of European origin (7.7% were national productions, 14.5% were produced in other European countries and 18.7% were European co-productions either in whole or in part)<sup>13</sup>.

While DVD is declining, VoD is a relatively new form of distribution expected to grow significantly in the coming years<sup>14</sup>. In 2012, the VoD market recorded a growth rate of 59% in Germany and 14.7% in France<sup>15</sup>. Many VoD service providers offer their services and use their brand only in one territorial market while only a few providers offer their activities under the same brand globally. While VoD theoretically offers an unlimited capacity for distribution (in contrast to other outlets), there is little data available about the availability and market share of European films on VoD platforms. First studies indicate that most of the revenues generated by VoD platforms may come from non-European films similarly to the DVD market<sup>16</sup>. As regards the presence of European films, available data shows that a global player (present in 26 countries of the EU) proposes, in the main national stores, more EU

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<sup>9</sup> Period: 2008-2012. Source: European Audiovisual Observatory.

<sup>10</sup> Source: European Audiovisual Observatory Yearbook 2012 vol.2 page 234.

<sup>11</sup> For example, in 2012, EU films were hardly present on the US market, achieving barely an 8% share, whereas US films covered over 90%. Source: European Audiovisual Observatory, database Focus, 2013.

<sup>12</sup> Source: European Audiovisual Observatory — study on ‘Theatrical export of European films in 2010’, covering the following countries: Argentina, Australia, Brazil, Chile, Colombia, South Korea, Mexico, New Zealand, United States & Canada, Venezuela. Over the same period, US productions generated 66% of their box office abroad.

<sup>13</sup> Source: European Audiovisual Observatory: Yearbook 2012 pages 150-155

<sup>14</sup> Unlike DVD, VoD is covered by the AVMSD and its provisions aiming to promote European works.

<sup>15</sup> In 2011, consumer spending on audiovisual content through digital and online platforms and services rose by 20.1% to a total of EUR 1.2 billion, while European consumer spending on DVD fell by 10% for the seventh consecutive year to a total of EUR 9.4 billion. For the foreseeable future, a continuing growth is expected in digital and online forms of delivery for the European video sector. For example, total revenue generated by provision of VoD over proprietary networks (so called walled "garden services") prevail over distribution on the internet. In Europe such revenues are expected to grow from EUR 850 million in 2011 to EUR 1.5 billion in 2017. Spending on DVD/BD (Blue Ray Disc) is predicted to decline. Sources: European Audiovisual Observatory, Yearbook 2012; Screen Digest database 2013.

<sup>16</sup> IPTS Study: ‘Statistical, ecosystems and competitiveness analysis of the media and content industries — the film sector’, Sophie de Vinck, Sven Lindmark, 2012, point 3.4.3.

blockbusters and European Film Awards winners than national VoD providers<sup>17</sup>. In light of these considerations, there is scope for a higher level of distribution of European films — both within Europe and beyond — across all distribution channels.

## 1.2. Potential audiences and changing behaviours

According to a recent survey conducted among Europeans aged 4-50<sup>18</sup>, 97% of Europeans watch films of all origins, and 54% even watch every day<sup>19</sup>. Some 27% of film viewers are ‘heavy’ film fans who say they watch more than 11 films per month<sup>20</sup>. While cinema attendance has remained stable in recent years<sup>21</sup>, the survey reveals that people go to the cinema less than once a month and that 39% never go to the cinema<sup>22</sup>. Apart from in cinemas, Europeans watch films on free TV (79% of the population), on DVD (67%) and through on demand services (56%)<sup>23</sup>. Home or mobile viewing therefore represents an important market especially as viewers increasingly expect to watch content anytime, anywhere and on every device. The study acknowledges however that illegal content is also being used and that beyond viewing, a fraction of the public increasingly wishes to interact with the content and to participate in its creation or its programming e.g. through apps or social media.

Concerning the time spent on media, TV still remains the most used medium to watch audiovisual content with viewing times still around 4 hours a day across the EU<sup>24</sup>. These figures are overall stable in the EU and at times decreasing as regards the viewing of linear content by younger generations.<sup>25</sup> On the other hand, average video online viewing per viewer, while still relatively low in the main EU markets, increased between 155% and 200% over the period 2008 to 2011<sup>26</sup>.

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<sup>17</sup> Source: European Audiovisual Observatory. In Germany, iTunes offered 36 films out of a sample of 50 films composed of the top 25 European Film Awards winners (1988-2012) and the top 25 European blockbusters (1996-2012) while national VoD services offer a maximum of 29. In France the figures were 30-21 and in Italy 2-8.

<sup>18</sup> The survey covered 4550 European consumers aged between 4 and 50, in 10 countries: A profile of current and future audiovisual consumers, Final Report, EAC/08/2012, p. 10.

<sup>19</sup> A profile of current and future audiovisual consumers, Final Report, EAC/08/2012, p. 55.

<sup>20</sup> A profile of current and future audiovisual consumers, Final Report, EAC/08/2012, p. 77.

<sup>21</sup> See European Audiovisual Observatory Yearbook 2012 — Vol. 2, p.222 (966 million in 2011). Attendance however decreased in some Member States like France, Italy, Spain, Portugal, Bulgaria, Slovenia and Slovakia.

<sup>22</sup> A profile of current and future audiovisual consumers, Final Report, EAC/08/2012, p.60.

<sup>23</sup> This last figure also covers ‘free’ streaming or downloads, a majority of which is probably accessed through illegal platforms.

<sup>24</sup> Green Paper preparing for a fully converged audiovisual world: growth, creation and values referring to the Yearbook of the European Audiovisual Observatory, Volume II, page 171.

<sup>25</sup> In the UK a recent analysis suggest that linear television viewing time for generations 16-24 has decreased from 168 minutes/day in 2010 to 142 minutes/day in 2013 and are foreseen to further decrease to 119 minutes/day in 2020; for the generation 25-34 the viewing time has decreased from 200 minutes/day in 2010 to 183 minutes/day in 2013 and are foreseen to further decrease to 148 minutes/day in 2020. Enders Analysis, Where have all the young viewers gone? January 2014.

<sup>26</sup> In 2011 online viewing in UK amounted to 20.5 minutes per month. Data for France and Germany were 15 min and 22 mn respectively.

### **1.3. Structural weaknesses of the European film sector in reaching potential audiences in the European Union and globally**

The situation of the audiovisual sector varies considerably from Member State to Member State. Not only do the size of the sector, the production volume and the linguistic environment differ, but also the ways in which films are financed, the amount and structure of public film funds, the implication of broadcasters or other stakeholders in the financing system and the strategies of national and regional film policies.

As each film is a unique prototype, any attempt to model success factors runs the risk of oversimplification. It is however clear that some structural weaknesses have a significant impact on the ability of European films to reach their potential audience both at home and abroad.

- ***Fragmentation of production and financing***

The European film sector is composed mostly of small and micro enterprises relying on limited intangible assets. They face growing difficulties to raise significant budgets and rely largely on public financing.

The average production budget varies considerably from Member State to Member State. In the UK it stands at EUR 10.9 million, in Germany and France around EUR 5 million and in Sweden EUR 2.6 million. In contrast, in Hungary or Estonia films are produced with a budget on average of EUR 300 000<sup>27</sup>. According to the Motion Picture Association of America, the average budget for US-produced films is USD 15 million<sup>28</sup>. As regards US films produced by the major film studios the latest figures available indicate that the average budget was USD 106.6 million in 2006.

Given the high level of costs required in film production, high revenues particularly from the box office remain necessary to achieve economic viability. Despite the high level of market share of US productions, several recent US blockbuster films had difficulties to pay back the high investments. While some European films — with their lower budgets — could reach the break-even point even with a relatively small number of admissions, the limited data available shows that a large majority of European films are not profitable and do not recoup their investments<sup>29</sup>. This makes it difficult for European companies to become more stable, to move away from a single project approach and to grow.

The complex film production financing system is being challenged by changes in distribution and consumption, triggered by digital technologies. TV revenues might be affected by the multiplication of channels and fragmentation of the audience; while online revenues are in

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<sup>27</sup> See EAO Yearbook 2012 — Vol. 2, p.206.

<sup>28</sup> Motion Pictures Association of America: <http://www.mpa.org/Resources/3037b7a4-58a2-4109-8012-58fca3abdf1b.pdf>, page 21.

<sup>29</sup> See the study 'Rentabilité des investissements dans les films français' O. Bomsel and C. Chamaret, 2008. This study reveals that of 162 films produced in France in 2005, only 15 recouped their production and distribution spending. [http://crg.polytechnique.fr/fichiers/crg/perso/fichiers/chamaret\\_728\\_RentabContango2.pdf](http://crg.polytechnique.fr/fichiers/crg/perso/fichiers/chamaret_728_RentabContango2.pdf).

dynamic growth, they do not yet compensate for the loss of DVD revenues<sup>30</sup>. Also, it appears that on both TV and VoD, TV series including European productions are especially popular for the audience, achieving high viewing figures<sup>31</sup>. Cinema distribution faces the costs of digitisation of cinemas and changes in audience behaviour. New players (e.g. VoD platforms, telecommunication operators) have an increasing role in distribution but are not significantly involved in film production or financing.

- ***Limited opportunities and incentives to internationalise projects and to target several markets***

Only a limited number of European film producers operate in more than one market. More generally, the film sector does not mobilise appropriate finance for projects with an international focus or appeal whether from public subsidies, from investors in the traditional value chain, or from new investors. A significant part of financing often comes from national or regional public subsidies and supports the production of projects with a national or regional focus. Only a very small share of public funding comes from supranational funds (e.g. in 2009, EUR 1 919 million came from national and sub-national funds in Europe, compared to EUR 144 million from supranational funds)<sup>32</sup> Projects therefore tend to target domestic audiences. This is apparently reinforced by an insufficient attention to the development phase when the potential audience of a production can be effectively identified and optimised. Furthermore, while co-productions circulate better than purely national productions<sup>33</sup>, it appears that they tend to be used essentially to ensure financing, notably in countries with a low production capacity. The potential of co-production to increase the outreach of a given film can be better exploited; too many co-productions still lack a clear strategy for distribution in the countries concerned and beyond.

- ***Focus on production and limited attention to distribution and promotion***

The focus of film policies on support to production is not matched with efforts related to delivery to the audience. The current state aid system is predominantly supporting film production without sufficient emphasis on distribution. In 2009, European public film funding bodies spent on average 69% of their budget on creation of works, while only 8.4% was spent on their distribution and 3.6% on their promotion. Funds operating at a supranational level tend to give distribution a higher priority (33.6% in contrast to 35.7% spent on creation) than

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<sup>30</sup> Consumer level video market contracted by 1.1% overall in the main 17 European countries in 2012 compared with 2011 while digital video and walled garden VoD (TV VoD) increased sales by 71% and 26%, respectively. Source International Video Federation, Yearbook 2013, pages 17 and 18.

<sup>31</sup> Statistics covering the 100 programmes with the most audience in the ensemble of 6 MS (UK, DE, FR, IT, ES and PT) indicate that the TV series were the most popular genre in December 2012 with a cumulative audience of 62%. Source: lesaudiencetv.com; <http://www.lesaudiencetv.com/categorie-12499478.html>. European productions of series are gaining ground in national and international programming, e.g. Real Humans (Sweden/Denmark/Finland) will soon be adapted in the UK, and has already been exported to 53 territories. Source: Médiamétrie, Scripted Series Report 02. October 2013"

<sup>32</sup> Source: European Audiovisual Observatory, Public Funding for Film and Audiovisual Works in Europe, 2011.

<sup>33</sup> European Audiovisual Observatory: "The circulation of European co-productions and entirely national films in Europe 2001 to 2007" [http://www.coe.int/t/dg4/cultureheritage/culture/film/paperEAO\\_en.pdf](http://www.coe.int/t/dg4/cultureheritage/culture/film/paperEAO_en.pdf)



national (7.4% for distribution, 70.4% for creation) and sub-national funds (3.5% for distribution, 75.5% for creation). However, as already indicated above, only a very small share of public funding comes from supranational funds. In the US, considerable budgets are devoted to the marketing of films<sup>34</sup>, but this is generally not the case in Europe.

The focus on cinema release and broadcasting, fundamental for recouping investment, overshadows the potential of distribution across all possible platforms. The current system of release windows<sup>35</sup> is under increasing pressure from changes of audience behaviour<sup>36</sup>. Rigid rules in this area and the tendency of incumbent market players to preserve the status quo may prevent the development and use of new, innovative release strategies and business models. This may also prevent the small, niche productions — which struggle to get access to cinema screens and are shown there only for short periods of time if at all — from reaching their audience through other distribution platforms, e.g. VoD<sup>37</sup>.

VoD offers great potential but requires an adapted investment and the development of new skills. In making films available on VoD platforms, operators face new technical and transactional costs. Costs associated with encoding digital masters and preparing different language versions (dubbed or subtitled) represent an investment for each film. Transactional costs are especially high in Europe in view of the fragmentation of rights and the low development of activities of aggregation<sup>38</sup> in the film sector. This limits the attractiveness of European catalogues for new actors. Besides, once the films are accessible on VoD, they require additional investment in editorial activities and well-designed tools of promotion and discoverability. Altogether, all these costs can only be recouped through a significant number of viewings and therefore a possibly long period of time. Financing tools should ensure efficient spending by taking these costs into account.

As regards European film heritage, Europe is lagging behind in terms of digitisation, which is a precondition for digital access. Only 1.5% of film heritage has been digitised<sup>39</sup>. This is explained by a lack of funding and high costs — both in money and time — for clearing rights. The simplification of rights clearance could facilitate the process including through a reduction of costs.

- ***Shortcomings in entrepreneurial skills and cross-sectoral partnerships***

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<sup>34</sup> In the US, the average budget was USD 106.6 million in 2006, comprising USD 70.8 million in production costs and USD 35.9 million in marketing costs. Sources: Motion Picture Association of America, Theatrical Market Statistics 2007.

<sup>35</sup> System whereby films are released in different exploitation platforms successively. Such windows or schedules differ across Member States, but the standard sequence for a feature film, for example, would be cinema release, video/DVD/Blu Ray, VoD, pay-TV and finally free-to-air TV.

<sup>36</sup> See point I.2 above.

<sup>37</sup> It should be noted that many of the European films that are a success in their domestic markets tend also to become niche in some other countries.

<sup>38</sup> Services of intermediaries whose purpose is to negotiate with rights holders of different films in order to create a catalogue that is attractive for VoD platforms ; this activity may be supplemented by an active editorial component (curatorial activities)

<sup>39</sup> According to an estimate of the European Association of Film Archives (ACE).

Initial training for cinema professionals often fails to deliver the necessary entrepreneurial and business skills. Relations between film schools and business are weak and training is still not offering sufficient opportunities to gain an international perspective and contacts.

The European film sector does not substantially involve or cooperate with potential partners, such as advertisers and the ICT sector, who could provide a vital contribution to maximise the audience for their productions on VoD.

## **2. Current challenges**

A concerted effort at all levels would be needed in order to overcome these structural weaknesses. The following areas would need to be tackled to make the rich diversity of European films accessible and appealing for a wider audience and to make European films and film companies more profitable.

### **2.1. Reviewing the financing environment**

A successful European film industry needs a rebalancing of spending between production, distribution and promotion of films, including progress in the following three areas:

- ***Public funding schemes***

Domestic support mechanisms for the production, development, and distribution of films have — directly or indirectly — an impact on the structures and practices of the industry and on the type of films produced and distributed. European support can only complement such mechanisms at national level but not set the fundamentals. In the light of changes brought about by the digital environment and changes in audience expectations, public support schemes, in compliance with state aid rules<sup>40</sup>, need some rethinking. Overall, the challenge is not to increase the level of public support in this sector but rather to optimise its overall added value as well as to maximise complementarity between instruments and policies at different levels.

The following questions deserve particular interest in this context:

- Putting more emphasis on the development phase to increase quality and profitability of funded projects. Ensure that the project is developed in such a way as to reach its targeted audience, taking into account the specificities of the particular project, domestically but also at EU and global level.
- Finding an appropriate balance and developing more efficient links between support to production and support to distribution and promotion. For example,

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<sup>40</sup> It should be noted in particular that the Communication from the Commission on state aid for films and other audiovisual works adopted on 15 November updated the state aid criteria used to assess Member States' support schemes; it covers state aid for a wider scope of activities, highlights the principle of subsidiarity in the area of cultural policy and the respect for internal market principles, introduces a higher maximum aid intensity for cross border productions and caters for the protection of and access to film heritage.

ensure that publicly funded projects are accompanied by a well-designed distribution and marketing strategy or provide incentives for producers and production companies to put more emphasis on the delivery to wider audiences.

- Ensuring that films that benefit from public funding are effectively exploited and made accessible to the public.
- Increasing transparency regarding the results of films that benefit from public funding. For example, it could be a requirement to provide data about the viewing figures for such films across the different distribution channels. This would enable the publication of viewing data across all distribution platforms for each film that is publicly supported.
- Reinforcing overall complementarity and coherence of public support to increase its overall efficiency. This would encompass regional, national and supranational levels of funding and involve funding across the different activities (development, production, distribution, promotion & marketing).
- Empowering producers and other operators to move from project-based approaches to enterprise growth strategies.
- Ensuring contractual deposit of funded films and developing mechanisms to facilitate their educational use after their commercial life, in compliance with intellectual property rights<sup>41</sup>.

Within the new Creative Europe programme, the MEDIA sub-programme will build on the experience of the MEDIA 2007 and MEDIA Mundus programmes. It will support development, distribution and theatrical exploitation but also support the sector in exploring opportunities in the digital environment, in particular reaching out to the audience. It will also focus on areas of clear EU added value and complementarity with Member States instruments. It will in particular support on demand services committed to particular efforts in terms of availability and prominence of European films, operators engaged in the constitution of editorialised packages of European Films ready for on-line exploitation as well as new forms of synergies across exploitation platforms.

• ***The involvement of newcomers in the value chain***

With the emergence of new distribution forms, in particular VoD, one of the key questions regarding the changing media landscape is how the current financing model will evolve and which role new players will play in financing new content. There is a trend for global VoD platforms like Netflix to invest in original content — primarily in series but also increasingly in other genres like documentaries and stand-up comedies. It remains to be seen whether such players will in general develop a commercial interest to be more involved in the production of other types of audiovisual content, including cinematographic works. The dynamic rise of VoD services and the current contribution of broadcasters to the production of European

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<sup>41</sup> As happens, for example, in Denmark, Spain, Sweden and Latvia. See the Third Implementation Report on the Film Heritage Recommendation, [https://ec.europa.eu/digital-agenda/sites/digital-agenda/files/swd\\_2012\\_431\\_en.pdf](https://ec.europa.eu/digital-agenda/sites/digital-agenda/files/swd_2012_431_en.pdf).

works in certain countries — including legislation imposing such obligations — have given rise to discussions in those Member States concerned. In some instances this raises issues of application of domestic legislation regarding players established in other Member States or outside the European Union.

- ***Access to private financing through EU financial instruments***

The special risks and uncertainties linked to film production often make it difficult for enterprises from the sector to access bank loans<sup>42</sup>. Financial engineering instruments (in particular guarantee funds) have demonstrated their ability to open up access to private funding. The raising of capital for infrastructure projects (e.g. cinemas, heritage, and new technological platforms) could also benefit from such a guarantee instrument. At the same time, raising the general competitiveness of the European film industry is essential to unlock access to loans in that area.

As from 2016, the Creative Europe guarantee facility for cultural and creative sectors will contribute to this process. It should facilitate access to private financing in the form of loans. The film sector will also have recourse to more horizontal instruments for business development (SME policy instruments within the COSME Programme<sup>43</sup>), investments (Cohesion Fund, financing instruments in COSME and Horizon 2020 Programmes), content creation and delivery using new technologies, social media and convergence (LEIT in Horizon 2020)<sup>44</sup> and fostering the innovative reuse of film archive material<sup>45</sup>.

## **2.2. Designing an innovative business environment**

The regulatory framework plays an important role in shaping the business environment for the film sector. The copyright framework and media and content regulation are particularly important in this respect.

Copyright is both the main stimulus for investment in films and the basis for the revenue of all the contributors in the value chain, starting from the authors. Films are often financed through the selling of exclusive rights for limited territories, a business practice which then makes more difficult and more costly licensing for multi-territory on-line services within the digital single market. In this respect, alongside the now closed “Licences for Europe” dialogue with stakeholders<sup>46</sup>, the Commission is carrying out a review of the EU copyright framework as announced in its Communication on content in the digital single market<sup>47</sup>. This debate will be of particular relevance for the film sector.

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<sup>42</sup> See "Study on the Role of Banks in the European Film Industry", Peacefulfish May 2009, <http://ec.europa.eu/culture/media/media-content/documents/about/filmbanking.pdf>

<sup>43</sup> COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) running from 2014 to 2020

<sup>44</sup> Horizon 2020 is the European Union Research programme running from 2014 to 2020. LEIT forms part of the Horizon 2020: Leadership in Enabling and Industrial Technologies.

<sup>45</sup> Societal Challenge 6 in Horizon 2020

<sup>46</sup> <http://ec.europa.eu/licences-for-europe-dialogue/en/content/about-site>.

<sup>47</sup> COM(12)789 18/12/2012

Rapid developments in the sector call for sufficient flexibility to allow operators to experiment and to test new approaches and business models. Flexibility is particularly needed on release windows<sup>48</sup> to enable the testing, developing and use of alternative release strategies adapted to different types of films and maximising complementarities of different platforms to reach out to audiences. The testing and developing of exploitation paths in response to changed audience expectations will help viewers to have rapid access to films once they become aware of them. This could secure additional audience share for those European films that are more suited for new distribution methods, e.g. via VoD. This could also maximise the effect of marketing efforts and be an effective tool in fighting piracy by increasing the legal supply. Simultaneous or more coordinated release in cinemas across borders or more rapid access for online services could be explored.

The question of setting down specific timescales for each type of window for showing a cinematographic work is primarily a matter to be settled through agreements between the interested parties or professionals concerned. In this respect, rules on release windows could be reviewed in the light of market and technological developments. This would enable rights holders to develop and use new and innovative strategies for promoting and distributing their films, including the possibility of simultaneous or near-simultaneous release in cinemas and on VoD.

Concerning this issue, the results of the ongoing preparatory action on circulation of European films — concerning the combination of different release windows — will be shared with the sector in spring 2014<sup>49</sup>. The experiences and data of the funded projects can contribute to develop more innovative release strategies and business models.

The Audiovisual Media Services Directive (AVMSD)<sup>50</sup> which governs EU-wide coordination of national legislation on all audiovisual media, both traditional TV broadcasts and on-demand services, sets down a minimum set of common rules. It allows audiovisual media services to circulate freely within the EU, while protecting important policy objectives. The Green Paper preparing for a fully converged audiovisual world: growth creation and values<sup>51</sup> launched a public consultation on a broad range of questions related to the ongoing transformation of the audiovisual media landscape. It seeks feedback on whether the current AVMSD requirements provide the best way to promote the creation, distribution, availability and market appeal of European works in the digital single market.

### **2.3. Strengthening the creative environment**

Europe needs to nurture talents and develop professional skills in the European film industry. This is imperative for the quality, diversity and originality of European films and are crucial assets for attracting audiences and strengthening competitiveness.

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<sup>48</sup> In particular on the sequence of releasing films via cinemas, pay-TV, home video sale, home video rental, free TV, and video on demand.

<sup>49</sup> C(2012)1890 27/3/2012

<sup>50</sup> Directive 2010/13/EU, OJ L 95, 15.4.2010, p. 1–24

<sup>51</sup> COM(2013) 231 final

Cooperation among European film schools (on curricula or mobility) and creative partnerships between schools and businesses are to be encouraged. The objective should be to promote a better match of training and skills with the needs of industry (including entrepreneurial, ICT, advertising and marketing skills). It should also aim to bring a more international and global audience perspective to the creative part of the industry.

Creative cooperation should also be encouraged between the film sector and other sectors. This should be not only with neighbouring sectors (e.g. TV fiction, video games and cross media) or players in the digital environment (e.g. telecommunication operators or consumer electronics manufacturer), but also with other creative sectors or with education.

Beyond the Creative Europe programme, notably its cross-sectoral strand, that will contribute to this objective, the ERASMUS+ Programme will support cooperation and mobility in initial training, and knowledge partnerships and skills alliances between the film education sector and businesses.

#### **2.4. Accessibility and audience development**

Together with the creative input, the audience — whether mass or niche — must be at the heart of film policies at all stages, from development to exploitation. This requires — as in other cultural sectors — the development of strategies and tools that increase both the possibilities of access and the demand for European films, especially non-national films. Engaging with audiences in all phases of creation and distribution is crucial. Information on audience preferences and consumer behaviour could help to better identify and target factors that can contribute to the success of a film. The development phase could profit from such information.

There is also a need to promote the visibility and discoverability of European films, and to engage with audiences. Approaches have to be adapted to each project, but clearly the exchange of experience and the development of common tools (e.g. apps or web service, branding events and activities) can strengthen the efficiency of efforts to better identify and target European cinema's audience.

Existence of audiovisual media services offering legal access to a diversity of European films at an acceptable price depends on a number of factors. Aggregation of rights and a more coordinated approach to mastering and management of linguistic versions could significantly cut the transaction and technical costs which may otherwise constitute entry barriers to VoD services. For example, for each film, a unique reference digital master of a sufficient quality to then derive all specific versions appropriate for different VoD services could be made available. This would avoid the need to fund as many acts of mastering as countries covered or VoD platforms concerned.

Film education also constitutes a major investment for tomorrow's audiences. European films tend to use a complex visual and narrative grammar, the richness of which can only be fully

appreciated with some analytical skills. The audience is interested in film education<sup>52</sup> and the film sector should invest in this process.

Activities of audience development are also central within the Creative Europe programme.

The "Licences for Europe" stakeholder dialogue<sup>53</sup> has also led to important results that are relevant for the film sector and that will need to be followed up<sup>54</sup>. In particular, representatives of the audiovisual industry have issued a joint statement affirming their willingness to continue working towards the further development of cross-border portability of subscription based online services and, in the area of film heritage, film producers and authors and heritage institutions have agreed on a set of principles and procedures for facilitating the digitisation of, access to and increased interest of European citizens in European cinematographic heritage works. Discussions also touched upon the question of how to improve the availability of more or all language versions of films in a given country.

### **3. Conclusion**

The European film industry needs a stimulating environment to reach its full cultural and economic potential. Creating this environment requires the mobilisation of those involved at all levels: in the sector itself and in the Member States, from the local to the national level. In full respect of the principle of subsidiarity, the European Union can also contribute to this process.

Beyond existing networks of public funds and regional partnerships e.g. among Nordic countries, the outline above illustrates the breadth of contributions that the EU can bring to the joint objective of meeting the challenges of cultural diversity and economic development in the film sector. However, it is clear that the main responsibilities and the most powerful tools lie with public authorities in the Member States and with the operators and stakeholders in the sector themselves.

In the face of rapid evolution in the sector, there is a need to promote a European debate and open a dialogue with all stakeholders — public authorities and private sector — about film policy in Europe. It should focus on the shared objectives of making the rich diversity of European films more accessible to the audience and making the film sector more competitive and more profitable.

To this end, the Commission intends to launch a European Film Forum, a process building on existing instruments, aiming at promoting the exchange of experience and practices, and the studying and sharing of knowledge on issues of common interest. The main focus of the Forum should be to debate public policies for the film sector. This process will seek to

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<sup>52</sup> A profile of current and future audiovisual consumers, Final Report, EAC/08/2012, p. 72 f.

<sup>53</sup> <http://ec.europa.eu/licences-for-europe-dialogue/en/content/about-site>.

<sup>54</sup> See document « Ten pledges to bring more content online », [http://ec.europa.eu/internal\\_market/copyright/docs/licences-for-europe/131113\\_ten-pledges\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/licences-for-europe/131113_ten-pledges_en.pdf)

involve — on a voluntary basis — interested parties at the European level and will be conducted in full transparency to the benefit of the whole sector.