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The transition to digital cinema
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Consumers and digital cinema

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Introduction

Altroconsumo, with more than 330.000 members, is the most representative Italian Consumers Association and the unique Italian member of BEUC (*Bureau Européen des Unions de Consommateurs*) of which, from November 2008, holds the Presidency.

The issue at stake in the meeting today “digital cinema” and, in particular, the transition from traditional 35mm towards digital projection of films in cinemas is of particular interest for consumers as well as for tax payers. We have to acknowledge nevertheless that Altroconsumo has not yet produced a specific survey on this subject, so our comments will be based on the data put at public disposal by the European Commission within the consultation on the proposed Italian tax credit measure for cinemas installing digital projection equipment. We will hence focus on the Italian scenario but, *mutatis mutandis*, our views can be also referred to the broader Commission consultation regarding digital cinema distribution and digital equipment of European cinemas.

We are in general convinced supporters of the implementation of new technologies and innovation, on the other hand, having had the opportunity to analyze for example the content online sector we have found out (in particular in our surveys within the domain of online music) that digitalization had a disruptive effect on market structures and business models and companies in dominant position reacted in an obsolete protectionist way abusing of their market power. As a result, consumer’s right to reap all the benefits from technological development has been until now partially frustrated.

Some of our doubts and worries expressed hereafter with regard to the public measures accompanying the transition to the digital cinema spring out

from the same reasoning and touches well known issues by our organization like cultural diversity and technological neutrality.

Altroconsumo comments on the proposed Italian tax credit for cinemas installing digital projection equipment

First and foremost we wonder if, given the scarce public resources at government disposal, the choice to devote a large amount of them to digitalization of cinemas is appropriate since, within the same domain of innovation and technological development, there are other basic needs to be addressed with priority as, for example, broadband connection of large part of the Italian territory still in a situation of digital divide.

For the rest, Altroconsumo does share most of the doubts expressed by the European Commission about the necessity, proportionality and adequacy of the proposed Italian 30% tax credit measure.

On the one hand the estimated standard installation cost per screen of Euro 100,000 may be excessive, on the other, the estimated budget for this measure (Euro16.8 million), which corresponds to installation costs of Euro 56 million is considerably less than the overall investment of Euro 395.7 million required to convert all screens in Italy implied by the estimated cost of Euro100,000 per screen (the number of screens in Italy being 3,957). So, if the estimate of Euro100,000 per screen is reasonable, this would imply that the budget would only cover the costs of converting 14% of Italian cinema screens.

We are particularly concerned about the potential negative impact of the proposed measure which rather than help small cinemas to afford the conversion costs of installing such equipment may lead, on the contrary, to widespread small cinema closures in the short run.

The Italian scheme, by its nature of a tax credit, would appear indeed to support large multiplexes instead of smaller cinemas; the latter indeed may not have sufficient tax liabilities or capital to benefit from the aid. On the other hand, the larger multiplexes, which will benefit for sure from the aid, probably do not need it at all being able to have access to commercial financing for digital projection implementation.

Altroconsumo retain, therefore, that the structure of the proposed measure should be substantially revised in order to make possible that only or, at least preferably, small cinemas result to be supported by public findings.

As already mentioned above we have not yet produced a survey on this subject matter but a survey published in 2007 by our UK colleagues of Which? suggests that consumers prefer smaller cinemas to multiplexes in terms of pleasant environment, personal touch, and most of all range of films on offer,

which can be disappointingly limited especially in the big chains where most of the film are blockbusters.

Moreover, given the existing widespread public support for national “quality” film production, not only in Italy but also in other Member States, and that this kind of films are often not distributed at all in multiplexes but they are in smaller cinemas, introducing a measure like the proposed Italian one that risk to accelerating abandoning them could have an indeed puzzling consequence.

Leaving aside the issue of the effectiveness of quality, in terms of consumers’ appreciation, of the financially supported national film production – an issue that we consider anyway need to be urgently tackled – it remains that spending public money to produce such kind of “cultural” films and contribute conversely with the proposed measure to eliminate the possibility for them to be distributed in cinemas, seem to be not economically sustainable and acceptable.

Furthermore, although the Italian proposal prescribe that the financial support would be conditioned for large multiplexes to an obligation to show cultural films for 50% of the screenings we doubt that the Italian authorities would be thereafter able to ensure that such measure is effectively respected and, even in that case, embedding cultural diversity in large multiplexes, by imposing them a share of cultural programming, would only solve one part of the problem, the access to a wider range of choice among different movies, not the survival of small cinemas which is also a value for consumers in terms of pleasant environment and personal touch.

Finally, the issue of technological neutrality, would be cinemas induced by the state aid to invest in one digital standard, in preference to another? The Commission should carefully ascertain that, because if this is the case we risk that the measure not only favor directly multiplexes but also indirectly a proprietary technology in their hands.

Conclusions

It should be avoided that financial supports go to large multiplexes that can afford without state aids the cost of digital conversion.

In order to be not in clear contradiction with the existing widespread public support for national “quality” film production, the Italian proposed measure of 30% tax credit has to be substantially modified for reaching the declared purpose of helping small cinema to afford the costs of installing digital projection equipment.