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We had difficulty sending this on Friday, came back as delivery failure. So are re-sending.

ODEON

FANATICAL ABOUT FILM

26th October 2009

European Commission
State aid registry
Directorate General for Competition
B-1049 Brussels

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Reference C25/09

State Aid – Italian film tax incentives

We would like to respond to your invitation for consultation on this state aid proposal by the Italian Government. We would like to submit comments solely on the proposed tax credit to support the installation of digital projection equipment in cinemas.

By way of background, Odeon and UCI Cinema Group is a company dedicated to the ownership and management of cinemas in Europe. Our history traces back to 1928 when the first Odeon cinema was opened in Birmingham, UK. Currently we operate in 7 European countries including Italy, as well as the UK, Ireland, Spain, Portugal, Germany and Austria. Currently we operate 202 cinemas with over 1800 screens in total. Within Italy, we operate 24 cinemas, making us one of the larger chains of cinemas in that country.

We have considerable knowledge and expertise in the field of digital projection. We own and operate a large range of different digital projection equipment across our portfolio, including 187 DCI compliant projection systems, which are installed in screens stretching across our portfolio of sites, including many in Italy

We would make the following observations on the proposed tax credit proposal

1. We would agree with the comments made in the consultation document that the typical cost of acquiring, installing and operating a DCI compliant digital projection system is approximately 100,000 euros per screen. This cost includes the hardware cost, the software cost, the installation and delivery cost, site works cost, the warranty cost on the equipment for an extended period of time, and the additional operating cost in terms of support, maintenance and running supplies. Not included in this figure is a financing cost for the investment. The scale of the financing cost is dependent on the funding methodology used, and the period taken to pay down the investment. This funding cost could add an additional expense of up to 40,000 euros per projection system.

The logo for UCI Cinema Group, featuring the lowercase letters 'uci' in a bold, black, sans-serif font.


2. Digital deployment has already taken place in Europe on a limited scale without state aid funding. This is because there are tangible benefits from transferring from analogue to digital projection, which generate streams of income to pay for the systems. The most significant and tangible is the benefit to the film distributors of obviating the need for a 35mm film print for every projection system. The saving created enables the film distributors to pay a VPF (virtual print free) to the exhibitors for every film that they take in digital form. All our DCI compliant digital projection systems receive VPFs for the films they project (apart from the limited number of Digital Screen Network screens in the UK that were funded by the UK government as an initial pilot scheme for digital projection). The other benefits that are derived are an improvement in revenues for both the exhibitor and the distributor from the ability to show 3D films. In addition the exhibitor is able to show 'alternative content' such as opera performances, ballet, theatre, sports and concerts – although this market is as yet small and uncertain.
3. The above benefits pertain on a per screen basis, more or less, irrespective of the size of the cinema complex, and irrespective of the size of the cinema chain. The cost of a 35mm print is the same on a per screen basis and thus the advantage of digitisation to the film distributor is the same. While to date, the majority of 3D films have been from international major studios, the success of this format means that we anticipate seeing more locally produced films in 3D. The success of alternative content has been as much (or even more) in smaller cinemas with an art-house profile, as it has been among major multiplexes.
4. While the initial capital cost may be challenging for a smaller cinema, the middleman service provider market is already well developed, and is well suited to smaller cinema operators. Arts Alliance Media and XDC have both been in business for many years, and have a well established model, based on having secured VPF deals from the film distributors and on providing the majority of the capital required by cinemas in return for receiving the VPF flow. Thus for example, in Holland, a group of smaller exhibitors joined together and agreed a contract with Arts Alliance Media to convert their screens to digital, with Arts Alliance providing the majority of the capital required.
5. If there is state aid for digital projection conversion, then it is important that it is even handed in its application to all sectors of the cinema sector, and does not distort the market in favour of one group of exhibitors versus another. In this regard the proposals for the tax credit most recently put forward by the Italian government will create the following distortions:
 - a. the scheme is proposed to work by way of a tax credit, and therefore discriminates in favour of those with sufficient tax liability for the credit to be off set
 - b. the proposed rules of qualification for the state aid are discriminatory. The state aid is proposed to be provided without condition or constraint for cinemas with between 1 and 4 screens and for multiplex cinemas with between 5 and 10 screens in towns with a population of 50,000 or less. Whereas for other multiplexes up to 24 screens, it is proposed that there would be an obligation to show cultural films for 50% of the screenings, and to convert at least 50% of the screens to digital. The conditions on the larger multiplexes are onerous, especially in relation to the showing of cultural films and thus creates a fundamental distortion that favours smaller cinemas – although the relative

costs and benefits of digital are comparable to both smaller and larger cinemas, on a per screen basis. The definition of a larger multiplex versus a smaller multiplex or cinema is also arbitrary in terms of its dividing line.

6. We believe that if state aid is to be applied to structure the transition to digital cinema, then it should be equally available to all cinemas on a per screen basis, with an identical value of aid per screen, and that an identical criteria of qualification be imposed on all recipients of the benefit of such aid, that is culturally relevant but not be fundamentally distorting as to the normal purpose of the cinema. As such it might be appropriate for screens that are beneficiary of this aid to be required to exhibit a proportion of European film over a period of time, and a minimum number of culturally worthwhile alternative content events such as opera and ballet performance.

I hope that you find the input to this consultation process helpful, and would be willing to provide additional information on this subject if it were to be of assistance.

Yours sincerely,



Rupert Gavin
CEO