Summary of contributions

Reactions to the Commission's doubts about the proposed Italian digital cinema tax credit (State aid C25/09) presented in order of receipt by the European Commission

	Contributor	Country	Main comments[1]
1	Francoise Noyon	FR	• Disagrees with the Commission opinion; believes that the tax credit would allow cinemas to equip themselves according to the ISO standards; and that it would also allow smaller cinemas to equip themselves to compete with multiplexes.
2	Audire SARL	FR	• €100,000 is a normal price but it could be higher. • Customers are prepared to pay a premium for a better experience. • Taxpayers would benefit from a better quality/price or emotion/price ratio. • 3D and 2D will coexist for the next 5 years. • The running costs of digital projectors are the same as for 35mm, apart from the cost of 3D glasses. • There is only one ISO standard. • Not helping this technology [with State aid] would be a mistake.
3	Mojo	CH	• €100,000 is a fair estimate but smaller cinemas may also have to remodel their projection booths. Smaller cinemas would only invest if the costs were the same as for 35mm projectors (€35,000 amortised over 25 years). • Only 7% of Swiss screens have 2K digital projection, suggesting there is no business model. However, there is a commercial model for HD projection in 490 of the 550 screens in Switzerland. • Greater demand for digital film distribution could lower prices. 35% of smaller Swiss cinemas could leave the market if the costs of digital conversion are not lower. A one-off grant would be more sustainable than a tax credit. • Equipment prices should fall as demand increases since there are several manufacturers. State aid for digital cinema would level the playing field for smaller cinemas.
4	German Federal Film Board	DE	• Without state aid there will be a two class system of cinemas which can afford switchover and others, smaller ones, which cannot. In particular the smaller cinemas often have a high significance for the pursuit of cultural and socio-regional objectives. • Also smaller distributors would not be able to afford double costs by distributing analogue and digital films, likely to sacrifice analogue films. • Universal coverage of adequately equipped cinemas has a high public interest,

[1] This concise overview of the additional comments made in the contributions has been prepared by the Commission to identify the main concerns of the contributors. For the detailed comments made by the contributors, please refer to the complete contributions, which are also published on this website.

			so that all citizens have the same access to a wide spectrum of films with similar technical qualities. • Costs and benefits for such a switchover process are distributed unevenly. It is too costly for many cinemas. • Private public partnership is of high societal value. State aid models will be different in different Member States. That should be respected. • Draw attention to San Sebastian statement of September 2009 and EFAD document of October 2009.
5	Francois LUXEREAU	FR	• The installation cost may vary, and can in the worst case exceed the average estimate of €100 000. • There are alternative commercial business solutions for obtaining digital projection equipment, especially the VPF. • State aid support to the transition to digital cinema is a reasonable solution in order to ensure a high technical standard. • It is important to guarantee that smaller cinemas with alternative content survive the transition to digital cinema. • The one-off investment proposed is a sufficiently sustainable and uniform solution to digital conversion. • Standardisation of the digital format will occur due to compatibility issues. The existing digital cinema equipments have however the capacity to screen alternative digital formats.
6	Centre National du Cinéma	FR	• Between €80 000 - €99 000 is a fair estimate of the installation cost. These costs could decrease in the long run. • There is one commercial business model, namely VPF; the model with third party investors. This model is however not adapted to smaller cinemas, cinemas located in rural areas, or cinemas which do not screen commercial movies released by big distributors. • Digitisation of cinemas will allow a wider choice of films for different audiences. • Without State aid, smaller and less profitable cinemas will face closure. State aid is therefore essential. The time frame of a switch from 35mm to digital is 5-10 years. • Increased running costs of digital projectors will be compensated by new revenue streams. The cost of digital projection equipment will probably decrease, which will facilitate its replacement. • The ISO standard makes it possible to screen different digital formats without decreasing the visual quality.
7	Bruno GAULLIER	FR	• A transition to digital cinema will facilitate the circulation of cultural films.

			• The one-off investment provides a good opportunity for a sustainable and uniform conversion to digital cinema. • Digital cinema only meets the digital standards DCI and ISO. • It is necessary to have one digital standard in order to maintain a high projection quality and to guarantee the possibility for cinemas to exchange digital copies which are compatible with the supported equipment.
8	Europa Distribution	FR	• Between €80 000 and €100 000 is a fair estimation of installation costs, including all related costs. • There are alternative commercial business models. These models are however only adapted to the more profitable cinemas and the big distributors who release commercial movies. • The advantages of digitisation are (i) wider releases for smaller films, (ii) flexibility of the programming, and (iii) improvement of screening conditions for the oldest theatres. Distributors will not drastically change the way they distribute films. • When American cinemas are 100% digitised, there will be a risk of closure for cinemas not yet equipped with digital projectors. All cinemas should therefore switch to digital format at the same rhythm. • State aid is a sustainable solution for digital cinema, although only for art house cinemas. • It is important to only have one digital standard, and it should be the 2K standard. Different standards would prevent the flexibility of programming and impede the circulation of European works within the EU. • The 2K digital cinema prints can be released from any digital source. 2K/4K projectors can furthermore screen any digital source. • State aid for digital equipment would not inflate its price. • State aid is the only solution for preventing the least profitable cinemas from closing down.
9	Mario LORINI – Federazione Italiana Cinema D'Essai (F.I.C.E)	IT	• The measure is a tax credit so any minor variations in actual cost would not make a substantial difference. • Estimated cost of a digital projector is €80,000, less for multiple purchases. • If the maximum cost of a digital system is now €80,000, the tax credit would amount to €24,000. The remaining € 56.000 must come from other sources, primarily from distributors who save on print costs. In Italy, negotiations between distributors and exhibitors are at an advanced stage so that distributors predominantly contribute to the missing amount. Regional support, primarily aimed at micro and small enterprises, could help. • Even if any possible formula proposed by a commercial operator were to come into effect in Italy to cover the full cost, the action proposed by the Italian

			authorities is still essential. • programming flexibility is a major virtue of digital. It already happens in some networks but not in a structured way. When enough screens are digitally equipped and can hold several films in the library, it will be mutually beneficial to be able to programme various films at various times, increasing the offer to the public especially in smaller locations, where there are no multiplexes. In any case, without the introduction of digital this flexibility would be more difficult, especially in arthouse cinemas. • smaller cinemas risk closure irrespective of digital. In Italy, smaller cinemas are still a high percentage of the total active screens. The transition to digital is a great opportunity for this type of cinema. Since these structures may indeed offer more films without unsustainable costs, and allow major films, both commercial and quality, to be released more widely, distributors cannot exclude them from their release plans because they need the ticket sales. • Major films are released in Italy on 700-800 copies and need to arrive early in municipalities with about 20-30,000 people. It will be much more difficult for distributors to deny digital copies, given their low cost, and even more difficult to continue with the minimum guarantees required to justify the return on the cost of 35mm prints. • Smaller cinemas will have better scope to show alternative content and live events. The cinemas that programme quality films with this system will eventually increase in concrete terms the distribution of short films, documentaries and other content for educational use, an unthinkable development, and have a better chance to specialise in arthouse films. • the proposed measure should be renewed after the expiry of 31 December 2010: digital conversion will not be complete by then. Support should be maintained until full roll out, at least 3 or 4 years. It is a historic step and all need support, but support may vary depending on type of cinema. • The proposed measure requires different programming for certain types of cinema. This may be analysed to offer even stronger measures for smaller cinemas or those which already have such programming. Total digital conversion should be encouraged and the support extended for a period of years to stimulate a faster transition. The presence of both digital and 35 mm will not be easy, so the transition must be accelerated as much as possible • In principle, the market will adapt to a fair digital cinema standard. At this stage, it is necessary not to be prescriptive and let cinemas take up the system they prefer. However, we believe that even the smaller rooms should not remain paradoxically penalised with smaller systems. They must be in step and be able to offer the public the highest quality equipment that have in fact the components for the highest flexibility of use. • Cinemas install equipment that can show the highest number of formats and products. Equipment suppliers have an interest in ensuring maximum flexibility. • It is not possible that the equipment cost increases because the hypothesis of public funding was known and expected by all. The large supply on the market and the good competition we see will not allow that the cost increases. There has been a trend to lower costs, as is normal when demand increases.

			• The aid will not accelerate the closure of less profitable cinemas. Coordination between the public authorities and producers/distributors will be very important to ensure that all cinemas convert to digital as a whole, including those based in the medium and small situations. In Italy, this has been recognised. Producers and distributors are very keen for the city centre and smaller cinemas to remain active because their films need the revenues from these cinemas. In fact, they serve the people living around these cinemas in neighbourhoods and historical centres that do not have multiplexes. Even the US majors need a large portion of this revenue. • Aid targeted on Italy's cinemas cannot harm cinemas in other countries: very few cinema-goers travel more than a few tens of kilometres. It seems all countries are adopting similar measures to support digitisation, which would also limit the distortion. The main advantage will be that our culture and social life can be maintained precisely in areas which are more at risk today.
10	Prof. Giandomenico (Gianni) Celata	IT	• €100 000 is a fairly estimated medium cost, but could be lower if the Member States decided a date for a total switch-off to digital cinema. • There are no alternative business models which could install projection equipment. • The advantages for the audience are a wider choice of films and alternative contents. • To avoid the risk of cinemas closing down due to a transition to digital cinema, it is absolutely necessary to have a common switch-off. The overlapping of analogical and digital standards increases the costs. • One-off State aid will not provide a sustainable and uniform solution. Cinemas which could not afford the equipment without State aid will not be able to meet the higher running costs and replacement costs of the equipment. • State aid would not induce cinemas to invest in one digital standard in preference to another. • State aid could help avoiding the closure of the least profitable cinemas.
11	Direttore federale per il cinema MiBAC – Italian Culture Ministry	IT	Third-party contributions made during the Rome digital cinema workshop, 21 October 2009 – see www.digital-cinema.it for video presentations. Some extracts are summarised below: Claude-Eric Poiroux, Europa Cinemas: • Support to distribute cultural products needed. European distributors are small and VPF deals are not possible for cinemas showing their films. • Mutualisation can be very helpful. For larger contries with more than 1,000 screens, this is the solution. • VPF agreements are not going to work in the smaller countries. There will be two speeds: the independent cinemas which cannot depend on European mutualisation. Public intervention will be fundamental.

Richard Borg, Universal Paramount Italy:

- It is a major opportunity for the sector. Need to digitise all cinemas, not only the large cinemas. The distributors should help small cinemas
- 2K quality is comparable to 35mm without losing quality in the course of projection.
- Digitisation is a fact for the majors, but it is a problem for small businesses as it is still too costly.
- In terms of timing, there is opposition from filmmakers: major directors do not want to film in digital.

Lamberto Mancini, ANICA (Italian film producers' association):

- There is an explosion of digital screens (8% vs us. 20% USA) but the European way is interesting. UK slowed down after digitisation scheme. FR explosion of 300 screens with the conversion of CGR. IT has been slow to introduce digital 3D but there are now signs of entrepreneurial ambitions.
- What will happen to the European and Italian cinema if 3D is the future? There is an agreement of distributors and exhibitors to get to a system because the Italian distributors contribute to investment by integrators.
- The advantage of the digital chain is indisputable. Technical industries are also converting. Production costs are low in IT, but more than in other countries. Some companies will disappear but it depends on the market dynamics. It is not true that there are industry-ready engineering DCP which are DCI-compliant.

Giorgio Assumma, Professor at LUMSA University

- State aid assessment looks at the nature of the goods and services being supported and the impact on competition. Regarding intellectual property, incentives should be encouraged for public policy and should be considered before concluding on incompatibility. Looking at the market and location, there is no impact on other countries so such aid compatible under Art 107(3)(c) or (d) Lisbon Treaty.
- The concept of culture is complicated but section 4 of the Cinema Communication clearly covers digitisation.

Dave Monk, European Digital Cinema Forum

- You can't see much more than 2k unless u r in the first row, from a visual perception perspective. Users don't want a worse experience at cinema than at home. Presentation quality not only depends on the number of pixels but also contrast, sharpness, accurate colours. There are too many standards, things can go wrong. Cinemas can't afford this.
- DCI is not American technology: the hardware producers are from all over the world. Servers too.

			• DCI resolution requirements are not too expensive: image quality depends on other elements (see above) • HD projectors are not good enough for small cinemas. Small cinemas and citizens from small towns deserve the same quality as in big cities. • DCI projectors do not have a short life span. Part of the Specifications are about reliability • DCI is suitable for European use: all European needs have been taken on board (eg, subtitling) • DCI projectors can be supplied by broad market: any manufacturer can apply the specifications • Less demanding EU standards would not be better for small cinemas: Cinemas want a single global standard – like 35mm • There is an urgent need for DCI spec equipment. The cost is not justified in some markets but DCI will also increase revenues. Let's help small operators to go digital. Angelo D'Alessio, SMPTE • There are no standards for film production. Everyone does as they please, low or high resolution etc.. This can create problems for distributors. A 2k projector is useless if the product is on DVD. • There are no standards for distribution (satellite, media etc..) but, whatever the means of distribution, the quality must be the same. • 4K requires 12 times as much wiring as 35mm and several other adjustments to cinemas. • DCI specifications are best for the visually impaired. • Standards are important because you can choose equipment freely. • Currently there are no devices which are fully DCI-compliant. • Advertising should also have standards. • Training will be necessary.
12	European Digital Cinema Forum Part 1 Part 2 Presentation	UK	• The total costs of equipment are closer to €75 000, although it may vary. The cost is affordable for some operators, but might be hard to cover for others even with contributions from third parties. • There are commercial business models for the installation of the equipment. The concern of the industry is the transition period; State aid can help achieving a smooth transition. • Digital projection would make it possible to offer a wider choice of films and

			more screenings. • 35mm will become more expensive as the volume provided to the industry goes down. • It is not sure that the running costs will be higher due to the switch; although some costs may increase, the cinema might have new revenue streams. • Cinemas should be induced to invest in a standard allowing the projection of all kinds of content. The ISO standard would achieve this. • Having to ensure that films released in any open digital format can be screened on the supported equipment, would add cost to the project, as there are so many formats. • Although State aid has the potential to inhibit free market price decline, the benefits for cinemagoers, in enabling more choice and the preservation of local culture movies, are paramount. Arguably, the increased purchase opportunities might even stimulate more competitive attention and bidding. • The absence of State aid will accelerate the closure of cinemas. • Support for digital projection is necessary, especially for smaller operators, during the transition period.
13	FIAD	FR	• €100 000 is assumed to be a correctly estimated cost, but it may have to cover the cost of a full renovation of cabling, of the air conditioning of the projection booth, and of an improvement of the sound system. • Cinemas with a small numbers of screens, or with special ways of organising their programs, may not generate enough VPF to cover the cost of a switch to digital projection. State aid is necessary in order to make the transition period as short as possible, and to avoid double costs for the distributors during this period. • The transition period is considered as shorter than ten years from the start of the roll out. The situation of some cinemas may be problematic at the end of this period. • The advantages with digital equipment are that it is more manageable and will provide a wider choice of films and a more flexible time frame. It will also make it possible to show alternative content and 3D. • Digital projection leads to transfer of costs in the management of a cinema. • At the end of the period of the life of the first generation of digital projectors, which is around ten years, their cost will have decreased, and it will thus be more affordable for cinemas. • There is currently only one digital standard, namely the 2K. • The risk of price inflation is avoided, as the State aid is limited in its amount. • Without State aid or equivalent support, some cinemas may face closure.

14	Associazione Nazionale Esercenti Cinema (ANEC) EN version IT version	IT	• Estimated cost of €100 000 will likely decrease; it is more correct to speak of €80 000, or less, in case of collective purchases. • Printing and distribution of 35mm copies will become more expensive; State intervention is therefore essential for the switch from 35mm to digital cinema. • In Italy there is no experience in the business model VPF. • Taxpayers will benefit from an easier access to the product and an effective multi-screening, as it can ensure (i) a wider choice of films, and (ii) the preservation of present cinemas. • A one-off State aid will favour the starting of digitisation, which is the delicate and costly moment of the switching period. The equipment replacement will not be too expensive. • Cinemas would not be induced to invest in one digital standard in preference to another. They are free to invest in the standard they feel is suitable. • State aid would not inflate equipment prices, as the critical mass of recipients are cinema screens with less economic resources and which withstand the remaining cost net of State aid. • The absence of State aid would accelerate the closure of the least profitable cinemas.
15	European national film agencies' statement (Annexed to the submissions from the UK Film Council, French CNC and German FFA)	EU	• It is in the public interest that the digitisation of cinemas across Europe takes place quickly and effectively. A digitisation of cinemas will create a broader access to a wider range of films in as good or better quality as with 35mm copies. • EU and national support cannot be restricted to only certain kinds of cinemas in certain localities and only certain approaches to programming. • Schemes should not impose a particular technical solution. Whatever the technological solution, it should offer tangible public benefits. • The level and form of support required should be appropriate to national and local conditions. • Public intervention should include both EU and national measures. • Public support must also be addressed to the process of making available digital copies of films and the provision of films online.
16	UK Film Council	UK	• Public financial support for digitisation is desirable, as it serves the public interest of a better access to a wider range of films. It also makes more cinemas viable and permits greater flexibility. • The high cost of introducing digital projection to cinemas is not the problem *per se*. The problem is that the economic benefits of such measure are tending to be enjoyed by distributors, while the costs are born by the exhibitors. Distributors, however, face incremental costs, so long as there is a demand for

			both 35mm and digital copies. • If public money is to be used to support cinema digitisation, the benefit for the public needs to be explicit. It is therefore a good approach to link programming conditions to the public support. Improved programme diversity, however, is not the only objective: in return for the support, cinemas might also improve their educational and audience development work, as well as improve access to the cinema. • In many cases, especially for cinemas in smaller municipalities and devoted to specialised film, there will be other sources of support available in addition to the tax credit. The extrapolations in the scheme for these cinemas are therefore not necessary. • The availability of a tax credit will not discourage the emergence of commercial models. On the contrary, it will accelerate the development and take-up of commercial models by reducing the risks for the financiers and the costs of exhibitors.
17	Commission Supérieure Technique	FR	• Having one standardised digital format is the only way to facilitate the free circulation of digital films and to have an undistorted competition on the market. • €100 000 is a correctly estimated average price. • Alternative commercial business models such as VPF should make it possible for most cinemas to obtain digital projection equipment, notwithstanding their economic situation. • State aid is necessary in order to make it possible for all cinemas to switch to digital format. • By putting conditions on the programming, one can easily ensure that exhibitors introduce a flexible programming with a wider choice of films. • One-off investment can provide a sustainable and uniform solution to the digital conversion, as the viable life of digital equipments is more than 10 years. The running costs of digital equipment are not comparable to the installation costs of such. • State aid would not induce exhibitors to invest in one digital standard in preference to another. • The 2K projector is perfectly capable of projecting other digital formats. • State aid in form of a tax credit will not inflate the cost of projection equipment.
18	Cine-Regio Report: Digital revolution - the active audience	EU	• Welcomes initiatives securing a fair and sustainable transition to digital cinema which will ensure digital exploitation channels for content where Europe's regional and national culture and creative potential are expressed. • Measures needed to assist in the transition to digital cinema will differ from Member State to Member State. However, all stakeholders involved in the transition from analogue to digital screens should share information and experiences across borders.

			• Happy to share updated study "Distribution Revolution – opportunities and challenges in the new digital landscape" with stakeholders in the European audiovisual sector once available (March 2010)
19	Odeon and UCI Cinema Group	UK	• €100 000 is a correctly estimated price. The financing cost for the investment is not included in the price and could add an additional expense of up to €40 000 per projection system. • Digital deployment has already taken place in Europe on a limited scale without aid funding, due to (i) tangible benefits from transferring from analogue to digital projection, and (ii) improvement in revenues for the exhibitor and the distributor from the ability to show 3D films and alternative contents. • Benefits from switching to digital cinema pertain on a per screen basis, irrespective of the size of the cinema. Digital projection will lead to more locally produced films in 3D as well as alternative content. • The cost of a 35mm projector is the same as for digital projectors. • Although the initial capital cost may be challenging for smaller cinemas, the middle man service provider market is already well developed and well suited to smaller cinema operators. • If State aid is provided, it is important that it is applicable to all sectors of the cinema sector. • The Italian proposal for aid scheme, by way of a tax credit, will create distortions in the market as it discriminates in favour of those with sufficient tax liability for the credit. The qualification rules are furthermore discriminatory in favour of smaller cinemas. • The State aid should be equally available to all cinemas on a per screen basis, with an identical value of aid per screen, and identical qualification criteria for all recipients.
20	A digital cinema expert	EU	• €100 000 is a fair estimate for the installation cost of a digital projection equipment, but it should be considered as an average cost. • Although there might be commercial business models as well, the Italian State aid can be considered as an encouragement measure to mobilise additional resources. • The audience is not ready to pay a more expensive ticket for digital projection, as it does not easily perceive the added value of it. Therefore, also more profitable cinemas have to find alternative sources to recoup their investment, such as 3D. • The advantages for the taxpayer are a wider choice of films, due to the programming conditions, and a reduction in waste deriving from the replacement of films to hard disks. Furthermore, the support may prevent smaller cinemas from closing down, especially when distributors stop releasing 35mm prints. • Closing down because of a digital transition is a real risk for less commercially

			profitable cinemas. An available forecast indicates that more than 50% of screens will be digitised in year 2014. • To reduce the risk of less profitable cinemas closing down, it is essential that the tax credits may be used on all types of taxes and social charges. • The concern that the one-off investment may be insufficient seems motivated. • State aid is not likely to affect the choices for a certain type of digital standard. • DCI compliant projectors have today costs comparable to those that are not DCI compliant.