



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.7.2004
SEC(2004) 955

COMMISSION STAFF WORKING PAPER

Proposal for a Decision of the European Parliament and the Council

**Concerning the implementation of a programme of support
for the European audiovisual sector**

(MEDIA 2007)

Extended Impact Assessment

integrating ex ante evaluation requirements

{COM(2004)470 final}

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1. INTRODUCTION

Community support measures in favour of the European audiovisual industry, take the form of the MEDIA Plus and the MEDIA-Training Programmes. The current programmes run from 1 January 2001 until the 31 December 2006 and result from proposals made by the European Commission in December 1999 on the basis of Articles 157 and 150(4) of the Treaty respectively.

The initial Community action in this sector was an “Action programme to promote the development of the European audiovisual industry (MEDIA) (1991-1995)”, adopted by Council Decision 90/685/EEC, which was designed to support the development and distribution of European audiovisual works as well as for training activities, to improve the professional skills of persons working in the European audiovisual programme industry. This was followed by the MEDIA II Programme (1996-2000), adopted by Council Decisions 95/563/EC and 95/564/EC, which confirmed the Community strategy for strengthening the competitiveness of European audiovisual industry in the international market and promoting cultural diversity.

In the draft Treaty establishing a Constitution for Europe one of the objectives under Article 3 is that “the Union shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced”. The enhancement of mutual knowledge and common cultural values becomes increasingly important in view of the enlargement of the European Union. The accession of new countries will certainly enrich European culture but represents also a challenge to the political concept of European citizenship. It is the task of Community action to give voice to the new European cultures in the harmonious construction of a common European identity.

It is essentially for this reason that the European Community has implemented a specific policy for the audiovisual sector since 1989. Article 151(2) of the TEC states that action by the Community shall be aimed at supporting and supplementing the action of the Member States in the area of artistic and literary creation, including in the audiovisual sector. This wording is retained in the draft constitutional Treaty. Alongside the single market for television broadcasting through the “Television Without Frontiers” Directive, the EU has taken measures to promote the European audiovisual industry¹ which is a unique tool for the exchange of ideas. If an enlarged, and ever more diverse Union, is to flourish, there must be an interaction between the public opinions of its Member States, and an exchange of knowledge across borders on social and cultural matters needs to emerge.

The European audiovisual production has become an essential instrument of expression of our cultural and political values. The audiovisual sector is a vector for the expression of European citizenship and culture and plays a primary role in

1 Council Directive of 3 October 1989 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities (89/552/EEC) as amended by Directive 97/36/EC of the European Parliament and of the Council of 30 June 1997.

building a European identity. This is particularly important with regard to children and young people. The audiovisual sector has a major influence on what citizens know, believe and feel and plays a crucial role in the development and even construction of cultural identities. An increased circulation of films has also proved to be an important means of strengthening intercultural dialogue and mutual understanding and knowledge among the European cultures, the basis for the construction of a European citizenship. The shared European cultural heritage in the audiovisual sector exists alongside the specificity of each national, regional or local audiovisual production. The synergy between these two factors can have a positive effect on attitudes of European citizens to shared elements of our European cultural identities².

Community support to audiovisual is part of a strategy to give Europeans a choice. Unless Europeans are able to watch stories, dramas, documentaries and other works that reflect the reality of their own lives and histories, as well as those of their neighbours, they will cease to recognise and understand them fully. And in order for such works to be readily available and of sufficient quality, the acquisition and improvement of skills of professionals, the development of audiovisual projects with an European dimension and the circulation and promotion of works must be supported by the European Union, whilst production support schemes should be left to the Member States.

Active support to the audiovisual industry means that its full creative and cultural potential can be exploited as a way of promoting the creation of a European culture, integrating the cultural values that are the foundation of European democracy. Circulation of European audiovisual works can only be achieved by reinforcing the sector and enabling the creative potential of European cultures to be fully realised.

The audiovisual sector has an important cultural impact, but cannot realize its creative potential without reinforcing its competitiveness. The average share of European audiovisual works in European markets ranges between 40%-45% for TV fiction, and is around 30% for the cinema and 20% for video and DVD. This European market share consists mostly of audiovisual works sold in their national home markets: the part of the European market share consisting of works selling outside their national markets (non-national) is considerably smaller (usually less than one-third of the European total market share)³.

The European audiovisual sector has not only a high political and cultural value but also an important social and economic potential. In the Lisbon European Council's conclusions, it was stated that the "content industries create added value by exploiting and networking European cultural diversity". The Lisbon objective is confirmed, in respect of communication and information, in the new "Growth initiative" adopted by the Brussels European Council on 17 October 2003. The European Council in particular called on "the Community and the Member States, with the support of the EIB, to make available in all European countries low-cost,

2 Eurobarometer Study N° cat. NC-31-00-910-EN- "How Europeans See Themselves".

3 Commission estimates based on European Audiovisual Observatory statistics. (See <http://www.obs.coe.int/> and in particular <http://www.obs.coe.int/about/oea/pr/mif2003.html>). The estimates cover: broadcasting time for TV fiction; theatre admissions for cinema; sales and renting for video cassette and DVD.

high-speed interconnected networks for Internet access and to foster the development of state-of-the-art information technology and other telecom networks as well as the content for those networks". An important step for the implementation of such a strategy will be the participation of the Union in the European Audiovisual Observatory. This will be a means to disseminate information and enhance transparency within the audiovisual sector. These are preconditions for establishing an environment favourable to private and public investment in the sector.

1.1. Purpose of the Report

The present document combines requirements of an impact assessment⁴ with those for an ex ante evaluation⁵ and reflects the conclusions of the analysis carried out. It is an integral part of the process leading to the design of the programme, and follows the Commission's guidelines on preparing ex-ante evaluations and extended impact assessments⁶.

1.2. Sources of Evidence and Information

This report will be based upon several sources of information and will summarise a number of different exercises. In particular, the document relies upon information provided by the European Audiovisual Observatory (EAO) as well as the conclusions of an economic analysis of the film industry carried out for the Commission by an external consultant⁷. In terms of future developments in the sector, the conclusions of a further study carried out for the Commission have been used⁸. The report draws on the findings of the ex post evaluation of the MEDIA II Programme⁹, and the mid term evaluation of the MEDIA Plus and MEDIA-Training Programmes, as well as the evaluation of the Preparatory Action "i2i Audiovisual: Growth and Audiovisual". An independent consultant, appointed following an open call for tender launched by the Commission, carried out the last two evaluations¹⁰. Finally, information provided by the MEDIA Programme Technical Assistance Office (TAO) has been used.

The document also draws on the results of the far-reaching public consultation exercise. The public consultation on MEDIA 2007 for the European audiovisual sector was launched on May 12 and ended on August 12 2003. It consisted of three different exercises: a public hearing held in Brussels on July 1/2, an on-line consultation on the MEDIA web-site and focus group meetings that took place in a number of Member States, attended by industry professionals to discuss specific aspects of Community policy (including the pilot projects and i2i Audiovisual). The consultation was carried out on the basis of a public consultation document published on the web-site.

4 Communication on Impact Assessment, COM(2002)276

5 As specified in the Implementing Rules of the Financial Regulation (Commission Regulation 2342/2002, article 21)

6 Published by DG Budget in December 2001.

7 Study on the economic and financial aspects of the film industry (Contractor : IMCA)

8 Outlook of development of the Market for European audiovisual content and of the regulatory framework concerning production and distribution of this content (Contractor: Arthur Andersen) available at: http://europa.eu.int/comm/avpolicy/stat/studi_en.htm

9 BIPE report for the European Commission. (22/4/2002)

10 Invitation to tender No S230-182-679 awarded to APRIL

All interested parties, notably private and public bodies active in the audiovisual industry, were invited to participate in the consultation, by means either of a written contribution or by attending the public hearing. The consultation of all industry stakeholders was deemed necessary to understand and properly take into account the needs of the sector. The public hearing was well attended and the Commission received more than 40 contributions from the sector and from the Member States.

The information contained in the various studies, the findings of the evaluation exercise carried out on MEDIA Plus, MEDIA Training, i2i Audiovisual and MEDIA II together with the results of the far-reaching public consultation have provided the basis to elaborate the content of MEDIA 2007 as laid out in this document.

PART 1 DESCRIPTION OF THE EUROPEAN AUDIOVISUAL SECTOR

2. PROBLEM ANALYSIS

2.1. Introduction

The aim of this section of the report is to identify the main actors of the European audiovisual sector, describe the European audiovisual sector economy and structure, and to provide an overview of the current developments, trends, and problems experienced by the actors in the sector. The section also identifies the groups targeted by Community action, and explains the necessity for Community intervention in the form of a new MEDIA Programme. It explains the logic of Community intervention in relation to the specific structure of the production and value chain of the European audiovisual sector.

The audiovisual sector is made up of small and medium sized enterprises (SMEs), including many micro-enterprises whose economic life and fate is linked to individual audiovisual projects. This market structure is unusual and singular in that audiovisual productions are each a “one-off” creation of an intangible product. The audiovisual industry is still highly labour intensive. This makes the Lisbon strategy highly relevant for the audiovisual sector and underlies the European added value of an audiovisual programme. A knowledge based economy as defined in the Lisbon strategy depends on the adaptation of the audiovisual sector to new technologies and the digitisation of production, distribution and archives. The necessary qualifications for success are linked to the specificity of the sector itself. The improvement of professional skills is an essential tool to achieve long-term objectives of employment within this specialised and diverse sector.

These two factors – the typically small size of audiovisual enterprises and the labour intensity of the production process - explain why the sector is not able to profit fully from the positive effects of economies of scale that are effective for other industries. In addition, the high risks associated with production stem from the fact that the success and therefore the economic viability of individual projects is based on a number of unpredictable factors, notably public taste, cultural trends, the experience and talents of those associated with the projects, the “story” in question.

On this basis, the role of public policy for this sector should be to increase positive externalities¹¹ to maximise the development potential of the industry, which translates directly into positive growth and employment effects for the European Union. In this respect the exploitation of the potential of the internal market is a positive externality for the industry and can only be encouraged at European level. Due to the industry structure, full exploitation does not imply that public policy should try solely to create large market players¹² but rather to create an environment adapted in particular to SMEs that will facilitate circulation of non-national audiovisual works throughout the European Union.

In the remainder of this Section, Section 2.2 describes the main actors of the European audiovisual industry value chain: 1) scriptwriters, 2) producers, 3) sales agents, 4) distributors, 5) cinemas, 6) TV broadcasters, 7) collection agents, and 8) private investors. It also lists other related players: film schools and training agencies, public funds and other public funding bodies.

Section 2.3 describes the economic structure of the European audiovisual sector and the challenges the sector is facing in the current economic context. In particular it describes the competitive position of the audiovisual sector.

Section 2.4 focuses on the characteristics of audiovisual production in Europe and the challenges faced by the sector in the current economic conjuncture. It identifies the following issues as the main challenges for the sector: 1) film production, 2) film financing 3) SMEs and 4) fragmentation.

Section 2.5 describes the critical issues of the various phases of the production chain, namely the challenges for: 1) improvement of professional skills and competencies, 2) development, 3) distribution, 4) funding, 5) the accession countries, and 6) development of new technologies.

Section 2.6 describes the target groups of the Commission action, by sector: 1) improvement of professional skills and competencies, 2) development, 3) distribution, 4) promotion, 5) pilot projects and new technologies.

Section 2.7 examines the need for Community action and explores a ‘no programme’ scenario.

2.2. Description of the main actors

The European audiovisual sector is characterised by a dual structure. Major groups of producers and distributors exist alongside a myriad of small entrepreneurial structures with a low number of permanent employees.

The cinema and television sectors generate around 1 million jobs in Europe¹³. In 2000 there were 11 500 TV and radio services enterprises in the European Union,

11 All circumstances created by a direct or indirect effect of a policy, excluding market transactions, which can positively affect the production factors of an economy. Ref. A. Marshall, C.A. Pigou.

12 Certain actions do have a structuring effect such as Slate funding in pre-production and the groupings of distributors in post-production.

13 EIB sector paper: European Audiovisual Industry, 2001.

employing 290 thousand people¹⁴. The audiovisual sector is atypical in respect of “equal opportunities”. Women are employed throughout the sector (with a slightly lower participation in relation to use of technology). There are no reported gender equality problems. For example, in the UK the representation of women stands at about 40% of the total workforce, ranging from 23% in facilities to 50% in distribution and exhibition¹⁵.

The most important actors of the industry are listed below.

2.2.1. *Scriptwriters*

Scriptwriters play a key role in the development phase of audiovisual production. Without good scripts, Europe is unable to produce high quality films, TV dramas and documentaries that its public wants to see. Offering scriptwriters who often work as freelancers the chance to improve script development and screenwriting skills remains an important element in building up the competence of European professionals and hence the profitability of EU films in the global market.

The Federation of Scriptwriters in Europe (FSE) was launched in 2001 to represent film and television scriptwriters throughout Europe. The priorities of the FSE are to establish the writer as a co-author of the audiovisual work; to end buy-outs of rights and replace them with separate fees for each use of the work; and to campaign for the introduction of non-waivable moral rights.

2.2.2. *Producers*

Producers are at the core of the European audiovisual sector. The producers acting within the European Union Member States are mostly independent producers or independent small or medium sized production companies. For example, 91% of the UK’s film and video businesses employed only 1-9 people in 2000¹⁶. The European Co-ordination of Independent Producers (CEPI) represents 4,000 cinema and television producers in 15 national associations, which according to CEPI is equivalent to 95% of the producers of the entire production industry in Europe.

2.2.3. *Sales agents*

Sales agents are involved in commercial activity designed to bring to the attention of a wide audience a film for the purpose of cinema exhibition, or an audiovisual work for television. Such activity may include aspects of the technical publishing of an audiovisual work (dubbing and subtitling, striking of prints, circulation of prints, etc.) as well as marketing and promotional activities (production of trailers and publicity material, the purchase of advertising space, the organisation of promotional events etc.). Sales agents can act as intermediary agents for producers, since they specialise in the commercial exploitation of a film or audiovisual work by marketing and licensing a film to distributors or to other purchasers for foreign territories. Sales agents also promote and sell the exploitation rights to a cinematographic film (or

14 Eurostat

15 UK Film Council and Skillset: A Bigger Future, 2003.

16 DCMS, The Creative Industries Mapping Document, 2001.

audiovisual work) in the marketplace, in particular to cinema distributors or television channels.

2.2.4. *Distributors*

Cinema/theatrical distributors buy theatrical distribution rights for films, carry out theatrical distribution of films (determine release dates, plan, control and execute distribution and promotion campaigns, not necessarily as exhibitors) and pay any associated distribution costs. Furthermore, distributors arrange film prints, and release or licence videos/DVDs. On TV platforms, distributors are involved in output deals with Pay TV, as well as licences for Free-to-air TV. Numerically, distributors make up one of the smallest groups (apart from sales agents), in terms of total employment in the film industry (production/development, facilities, exhibition and distribution sectors). They are however essential for the circulation of films.

2.2.5. *Cinemas*

In 2001 there were 24 862 cinema screens in the EU, and 6 271 multiplex screens. In the European Union there are roughly three types of cinema exhibitors: independently owned-cinemas, cinema multiplexes, subsidised and art cinemas.

The exhibition sector is key to the process of trying to achieve better circulation of European films. The greatest challenge for exhibitors in the near future will be the introduction of digital technology.

2.2.6. *TV Broadcasters*

Television channels are still dominant economically in the European audiovisual sector (60% of the turnover in the EU)¹⁷. Across the 15 current EU Member States, 40 public service broadcasters and 47 commercial national TV channels are available. In addition, there are 35 channel packages, 69 public service and 584 commercial national channels using non-analogue terrestrial transmission. A further 96 local channels add to the offer available¹⁸. TV Broadcasters are the predominant partners of the film production and distribution industry in Europe.

2.2.7. *Collecting Agents*

Collecting agents are companies specialised in the redistribution of revenues after marketing of the audiovisual works has been finalised. They ensure that, after the financing contract has been complied with, all the investment partners are repaid in the correct temporal sequence. They accompany the entire financing and marketing phases of the project.

2.2.8. *Private Investors*

This group includes all investors participating with private funds in the financing of the production process. Private investors are either participating directly, using their own equity in production companies, or indirectly, through the mediation of

17 Source: Eurostat

18 European Audiovisual Observatory

financing companies. In the latter case, the investments are triggered by revenue expectations - therefore not linked with the specific content of the portfolio they are investing in - often in relation to fiscal benefits established by national governments.

2.2.9. *Other Players*

– **Film Schools and Training Institutions**

The Member States of the European Union have a large number of training schemes for cinema and the audiovisual sector, which cover initial training. These are:

- higher-level vocational training establishments providing technical training (production, film directing, sound recording);
- universities and other institutions of higher education providing general training in the field of communication and the media (essentially theoretical).

In the field of continuous vocational training there are also, particularly since the establishment of the MEDIA Programme in 1991, a number of centres for specific training in the content industry.

– **Public Funds**

The EAO estimates that the overall value of public film funding in Europe is 1.3 € billion a year. Hence the national and regional support schemes for the development, production and distribution of films and audiovisual works are an important source of funding for the European audiovisual industry. The EAO database (Korda) includes some 528 schemes in Europe. There are 161 organisations responsible, either at regional or local level (105) or at National level (56). Complementarity exists between national aid schemes and Community support.

– **Other Funding Bodies**

- Eurimages
- European Investment Bank (EIB)
- European Social Fund (ESF)
- The European Regional Development Fund (ERDF)
- European Development Fund (EDF)

For further details, see Annex 5.

2.3. **The Audiovisual Sector: Structure**¹⁹

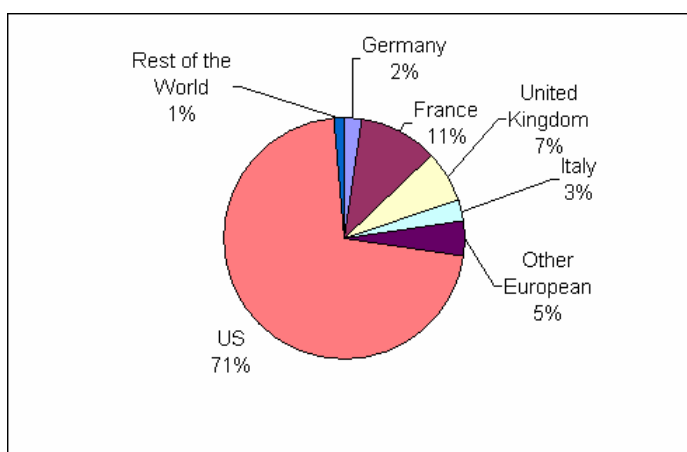
The actors described above operate in a European audiovisual sector that has enormous economic potential. The size of the audiovisual market in the European Union amounted to a total of 95 billion € in 2001, a 5.2% increase from 2000, when

19 Source for this section: European Audiovisual Observatory (unless otherwise stated).

the revenues for the first time reached the watermark of 90 billion €. Between 1997 and 2001 the market has grown over 35%. There are two main activities: TV and cinema. In 2001, the first represented about two thirds of the market, while cinema, including video, accounted for about 15% of the market. The remaining share was held by music and leisure software. In 2002, DVD sales and rental was the most dynamic sector of the market, ahead of cinema theatrical release.

According to provisional estimates from the European Audiovisual Observatory, overall market share for films produced in Europe reached an estimated 27% in 2002, a drop in relation to 2001. The market share of national films on their own market remained relatively stable, at 19.5% (a 3% drop in relation to 2001). The market share of European films outside national markets was 7.9% (falling back in relation to the excellent results in 2001 but still an improvement on the score achieved in 2000). Consequently, American films recovered ground lost in the European Union in 2001, obtaining in 2002 a market share of 71% (65% in 2001).

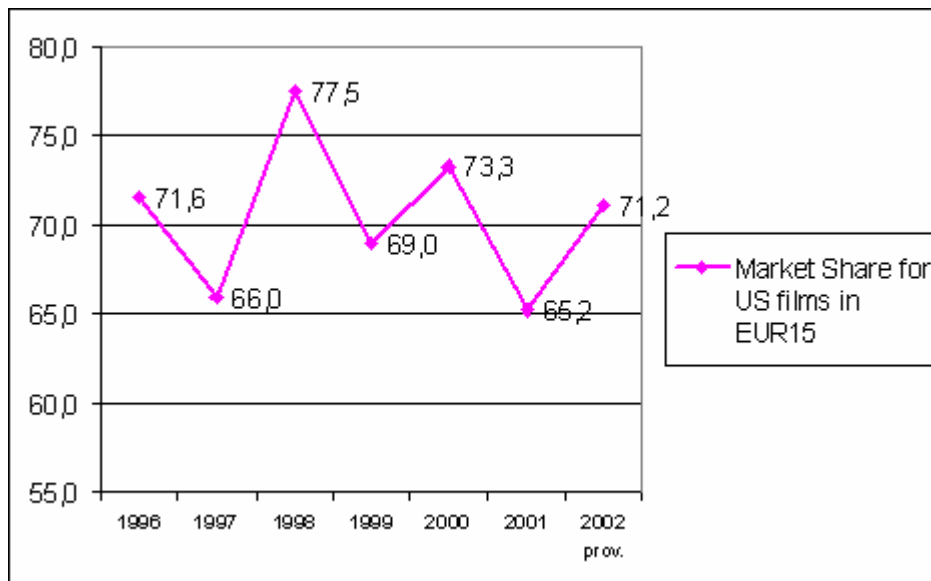
Graph 1: Breakdown of admissions in the European Union according to the origin of films (2002) in %:



Source: European Audiovisual Observatory - LUMIERE database

It has to be remembered that 2001 was an exceptionally good year for the audiovisual industry in Europe, and due to the natural market fluctuation, a decrease in market share was expected to happen in 2002. Over the past 7 years, the market share obtained by American films on the European Union market has varied in bi-annual cycles, as can be observed in the graph below.

Graph 2: Market Share for US Films on the European Union Market (1996-2001) in %:



Source: European Audiovisual Observatory - LUMIERE database

Years of lower market share in Europe for Hollywood productions are generally accounted for by the scores obtained by a relatively limited number of European produced 'blockbusters'. Such successful films would therefore appear to reach the market in two-year cycles.

Development of the TV market slowed in 2001 (+4% compared to 2000, +40% compared to 1997), mainly due to unsatisfactory results (-2.1% in 2001 compared to 2000) from traditional commercial free-to-air broadcasters suffering from a global crisis in the advertising market. The overall pay-TV sector (packagers, thematic channels, TV premium and home shopping companies) confirmed its dynamism with a yearly increase of about 13% (+100% compared to 1997). Public service broadcasters (including radio) recorded a total turnover of about 27 billion € (28% of the total market, +4% compared to 2000; +20% compared to 1997).

Preliminary indications of the overall trends for 2002 in the EU confirm negative growth for free-to-air broadcasters (an estimated -3.5 % compared to 2001) and point to a reduced pace of development for the pay-TV sector (+6% compared to 2001).

Cinema Attendance

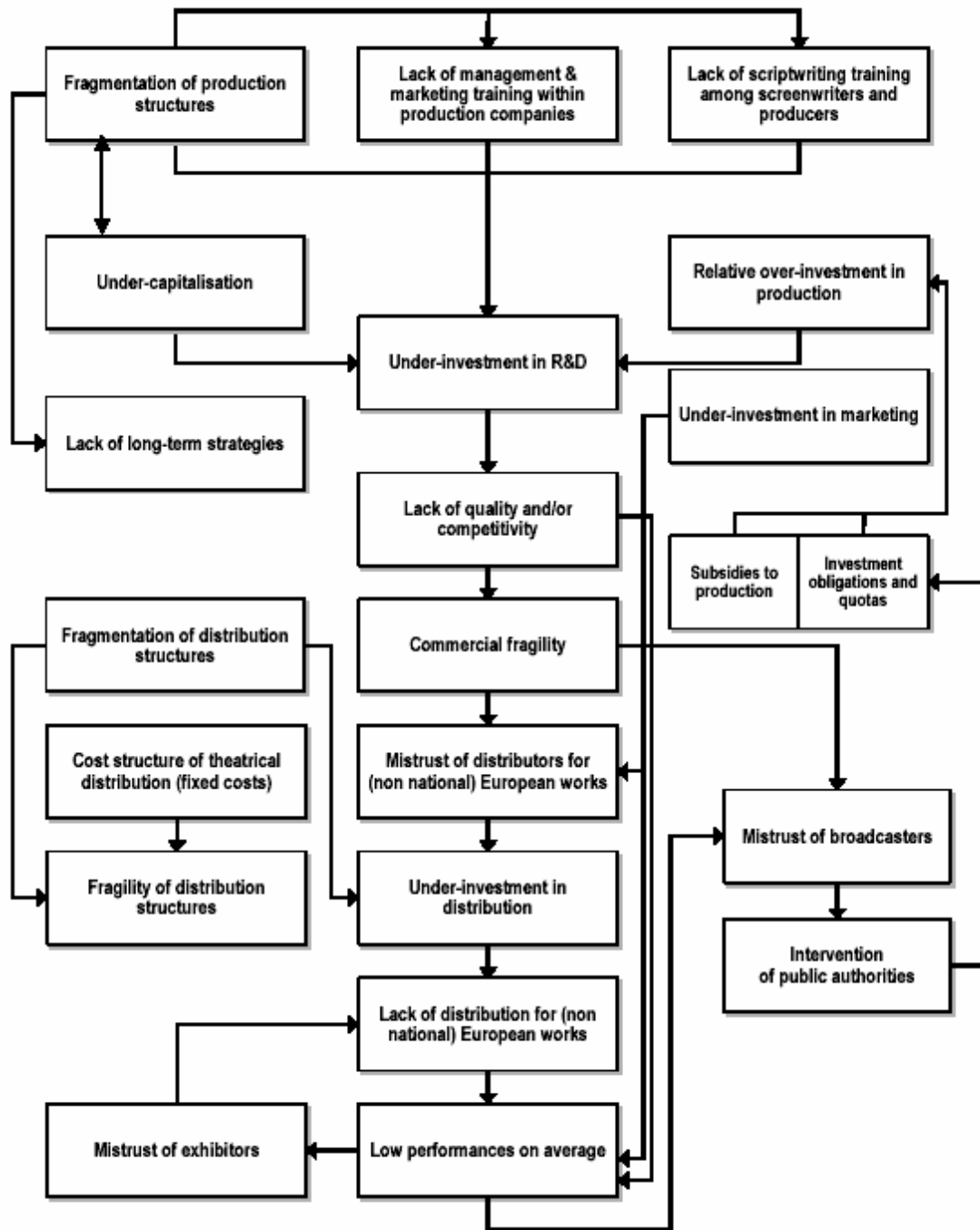
Growth in cinema attendance in the European Union in 2002 slowed to just 1%, with the United Kingdom being among the most dynamic markets. The average annual rate of growth of cinema box-office revenues between 1997 and 2001 was 8.8%. In 2002 results were stable or positive in the majority of countries with Finland showing the strongest growth (18.5%) chiefly due to recovery from the very disappointing result obtained in 2001. The UK market registered the strongest performance, reaching a total of 176 million tickets sold (a 13% increase on 2001), thus becoming the second largest market in terms of admissions in the European Union after France. The most important declines were registered in Germany (-7.9%) and in Spain (-4%) and estimated figures for Belgium indicate an expected 3% drop.

Among non-European Union countries Estonia, the Russian Federation, Slovenia and Switzerland all registered positive results, with Estonia (19.5%) and Slovenia (12.9%) in particular showing strong growth. Attendance fell back slightly in Norway (-3.5%) and in Poland (-1.1%) and more significantly in Romania (-7.2%), Latvia (-7%) and Lithuania (-19%). A sharp drop was also registered in Turkey, where estimations for 2002 indicate a fall of around 16% in cinema admissions, a decline that would appear to be principally due to the lack of strong local films released during the year.

The European film to obtain most admissions in 2002 was a Franco-German co-production, *Astérix & Obélix: Mission Cléopâtre*, and only two other European films (both British – US co-productions) appeared in the overall Top 20 list for the year. *Astérix & Obélix* circulated relatively successfully in Europe in 2002, yet just 26% of the total of 19.7 million admissions to the film was registered outside its home market.

2.4. Structural and economic challenges

The graph portrays the structural and economic problems of the European audiovisual sector and explains the vicious circle of under-investment. Fragmentation of production and distribution structures, under-capitalisation and lack of long-term strategies form the unstable base of the European audiovisual sector. The characteristics of European film and audiovisual production, the nature of the core players (producers and distributors), and the lack of private investment contribute to the problems faced in comparison with non-European competitors and the low competitiveness in absolute terms. These issues are explained in the sub-sections below.



2.4.1. *Film Production*

According to estimates from the European Audiovisual Observatory, 625 films were produced in the European Union in 2002 (628 in 2001)²⁰. Countries with increased production levels were Austria, Spain and Italy, whereas production levels decreased in France, the United Kingdom and Portugal. British, French and German producers showed renewed interest in co-productions, whereas in Italy and Spain the principal increase in volume came from entirely nationally financed films.

British films remain those with the highest budgets, reaching an average of £5.99 million (9.98 million €) in 2002, while French average production costs also rose to reach 4.44 million € (an increase of just 1%). Costs have in fact been steadily rising. In Europe the average time spent on film production (from the development phase to the release of the master print) is a minimum of two years.

A gap has opened up between five European countries and the rest of Europe. These five countries, Germany, the United Kingdom, Spain, France and Italy together account for 67% of European production. Yet the total of their respective productions in 2000 amounted to only 71% of American production. During that year Europe and the USA produced a total of 1367 films. Europe, with 739 films, represents 54% of this total and the USA 46%, but when it comes to European theatre operation the market share of the American films represents 66% (lowest level achieved since 1997 according to the Focus 2002 World Film Market Trends study published by EAO), whereas the group of European films represents only 4.51% of the American market for the same year²¹. The EU confirmed its leading role in the production of feature films, with 630 productions in 2002 (almost unchanged compared to 2001, +13% compared to 1997) compared to about 450 films produced in the United States.

2.4.2. *Film Financing*

The basic principle underlying any type of financing is that the film has to have commercial appeal. In terms of bank financing, every project must have been tested in the market, which means that an exhibitor or broadcaster in a particular territory must have agreed to pay a certain sum on completion and delivery of the project. The bank also requires some basic information, as well as a completion bond, to consider any type of film finance. Annex 2 contains a detailed description of the different aspects of financing.

2.4.3. *Small and medium sized enterprises (SMEs)*

As previously stated, the European audiovisual sector is largely made up of Small and Medium sized enterprises (SMEs) whose economic life and fate is linked to individual projects. This, as well as the industrial structure is unique in that audiovisual productions are each a one-off creation of an intangible product. Also, the sector is still highly labour intensive. These two factors mean that the European audiovisual sector is not able to profit fully from the positive effects of economies of

20 Films released in 2001

21 IMCA Study (Study n° DG EAC/34/01)

scale that have proved to be a factor of growth in other sectors. In addition, the high financial risks associated with audiovisual production stem from the fact that the success and therefore the economic viability of individual projects is based on a number of random factors, notably public taste, cultural aspects, the experience of those associated with the projects, and the ‘story’ in question.

The role of public policy for the sector is to increase positive externalities to maximise the development potential of the sector, which translates directly into growth and employment. In this respect the exploitation of the potential of the Internal Market is a positive externality. It must be understood that because of the nature of the EU market structure, full exploitation does not imply that public policy should try solely to create large market players but rather to create an environment needed in particular to SMEs that will facilitate circulation of non-national audiovisual works throughout the European Union.

Some large audiovisual companies operate in the European Union. According to European Audiovisual Observatory’s list of 50 leading audiovisual companies worldwide (1998-2002), ranking by audiovisual turnover, 33 companies come from the European Union member countries. Despite the large number of European companies on the list, breakdown of the audiovisual turnover of the 50 companies by nationality shows that North American companies dominate by 44.6%, while European companies come second at 29.8%, and Japan holds the third place at 18.3%. Time Warner (US) had the highest turnover every year between 1998 and 2002 (21.9 billion \$ in 2002). The highest ranking European company (5) is Vivendi Universal (France), which had a turnover of 18.1 billion \$ in 2002.

2.4.4. *Fragmentation*

The European audiovisual sector suffers from market fragmentation and structural deficiencies of the distribution channels. Fragmentation is the main reason for the reduced circulation of European films outside their national markets. On top of the fragmentation of individual revenues as a result of the increasing number of distribution channels there is also a fragmentation of the national or regional markets, weakening the transnational circulation of programmes within the European area. This fragmentation leads to a vicious circle of under-investment starting from the conception of audiovisual works, through to the production and distribution phases, resulting in low profitability for the works and hence a reduced investment capacity. Fragmentation is also reflected in an under-capitalisation of undertakings that jeopardises their industrial development strategy at an international level, particularly in terms of building up catalogues of rights which are sufficiently attractive to find different windows of exploitation for distribution. The market fragmentation impacts negatively on the circulation of works and prevents them from collecting revenues from a larger market. This increases the investment risk of single projects and catalogue projects, which in turn has a dissuasive effect on private lending to the sector.

Given the very specific and significant risk of fragmentation of the internal market and market failure in the audiovisual sector, intervention cannot be left solely to the Member States, who concentrate mainly on support to production and national distribution. Without Community support for the transnational dimension, there is a danger that the potential of the Single Market will not be properly exploited or else

will be exploited mainly by large non-European companies with consequent negative effects on the European Union's growth and employment. According to estimates provided by the European Audiovisual Observatory, the European Union's trade deficit with the United States in the European Union market is 7-8 billion \$ annually, the latest figure being 8.2 billion \$ in 2000. The audiovisual sector is the United States' biggest export earner, and Europe represents a major market. These figures prove not only that the trade deficit between the United States and the EU remains, but also that the European Union is not properly exploiting its own market, and underline the real possibilities for growth and hence employment within the sector.

Whilst it is clear that this fragmentation has resulted in culturally diverse and highly independent production industry, providing a voice for the different cultural traditions that make up our European heritage, it has however prevented European operators from achieving a higher market share in comparison with non-European imports. Whilst rich in cultural terms, the European audiovisual industry still struggles to match the high competitiveness of its American counterpart.

2.5. Challenges in the audiovisual production chain

2.5.1. Improvement of Professional Skills and Competencies

A clear need has been identified to improve professional skills and competencies particularly in respect of development and distribution. The aim is for professionals to successfully compete in the European and global marketplace on the basis of world beating skills. Hence certain sector-specific skills gaps need to be addressed. In the development sector, for example, emphasis should be placed especially on support for business, management and leadership skills, so that the numerous economic pitfalls of the development phase could be avoided. The other sector-specific areas and approaches prioritised by industry for implementation are the following:

a) Development

- Script Development: in particular for writers, directors, producers and development personnel.
- Screenwriting skills: including conversion courses for directors and writers from other media to learn how to write for the big screen.
- Pre-production roles in animation: designers, layout artists, storyboard artists.

b) Distribution and Sales

- Understanding and combating piracy.
- IT skills for junior roles.
- Sales managers: negotiation, contract development and contract management.
- Project management skills for publicity, sales and marketing roles.

- Sector awareness training for publicity, sales and marketing roles covering contract legislation, the broader distribution business, knowledge of films, past and present and script reading²².

It should be noted that there are often few links between the different training centres, which, because of their more direct contacts with the industry, could benefit from networking between Member States and between fields of training. There is also a lack of co-ordination between the Member States as to the type of training offered and priorities in view of the development of the sector.

Apart from initial training, rapid changes in the economic environment and the ongoing changes in the new audiovisual technologies call for an improvement of skills and competencies that meet the market needs.

2.5.2. *Development*

The development of an audiovisual work represents a key phase in the production chain and is the determining factor for the decision as to whether the work should be produced or not. Too many projects in Europe enter production at the end of an inadequate development phase. Put another way, they enter production without having benefited from sufficient investment at the development stage and this hampers their marketability and economic viability. Average investment by the European audiovisual industry in project development is less than 5% of that in production, compared with 10% for the United States.

This under-investment upstream translates at the production stage into a work that is less attractive for potential distributors and broadcasters, which in turn means a lack of investment in promotion and distribution, resulting in lower profitability. This vicious circle, exacerbated by the under-capitalisation of companies, perpetuates the weakness of the industry's development strategy.

It is becoming essential for producers to take into account right from the development stage a clear strategy for marketing and distributing the finished product in as many countries and using as many means of distribution as possible. The enlargement of exploiting possibilities would reduce the investment risk in the sector and allow for larger production budget. This strategy must intermesh with a major distribution and promotion effort geared to achieving optimum exploitation of the work and high revenues.

2.5.3. *Distribution*

The strong presence of American productions on the European audiovisual markets is a well-known characteristic of the last decades. In 2000 the transmission of American programmes by European television networks reduced in volume but American receipts for TV rights increased by 15.9%. In the European Union the assets of audiovisual companies under foreign control are estimated at 15.3 billion € and their operating revenue at 12.7 billion €.

22 The UK Film Skills Strategy study by UK Film Council and Skillset: A Bigger Future 2003. Available at <http://www.ukfilmcouncil.org.uk/usr/downloads/abiggerfuture.pdf>

Most European markets are currently characterised by a "bi-polarisation":

- Television programming mainly comprises programmes of national or American origin; generally speaking, works of national origin predominate.
- The cinema is dominated to varying degrees (according to the Member State concerned) by works of American origin, with the remaining market share being taken mainly by nationally produced films.

Europe's biggest weakness lies in the low circulation of non-domestic European films and audiovisual programmes, which erodes the profitability of these works and hinders the generation of revenue that could be ploughed back into the production of new works. The reasons for this, in particular in the film sector, are primarily as follows:

- The low profitability and distribution of non-national European films in Europe weakens the development of the audiovisual industry. European films circulate poorly in the European Union countries and overall market share for films produced in Europe reached an estimated 27% in 2002, whereas America's share was 71%. The vast majority of European films do not exceed 50,000 admissions outside their country of origin. In 2002, out of the 20 greatest successes in terms of number of admissions in 12 European Union countries, only one film is European (co-production) and three European-American co-productions.
- The sovereignty of the American film industry in Europe is explained by the European audiovisual industry's tendency to be centred on its domestic market and by structural weaknesses especially in distribution. The European distribution sector is structured insufficiently to cope with American competition. As an example of the disparity between the European and American industries, it should be noted that Europe has 483 distribution companies as opposed to 225 American companies which distribute 56% US movies against 37% European. The United States has more than a 50% market share in Europe on the basis of five distribution companies that operate powerful, integrated distribution networks. These networks, combined with the results obtained on their national market, allow them easy access to cinemas abroad. Thus the market share of American distributors in 2002 is 90% in the United Kingdom²³, and 70% in Germany. Due to a better control of distribution the American "Majors" can organise the release of their films everywhere in Europe within a restricted time or even at the same time everywhere in the world, as the release of the last *Matrix* sequel proved (*Matrix Revolutions*, released November 5, 2003). The European distributors do not manage to co-ordinate film releases over a short period, so they are spread out over several months, making effective pan-European promotion difficult.

European distribution companies that are not concentrated at European level, resist with difficulty the commercial pressure of American companies. Accordingly:

23 Source: UK Film Council: Statistical Yearbook

- National ‘non-commercial’ films and European films in general have a problem of access to cinema screens.
- Large national distribution companies distribute national films with high commercial potential.
- Small independent distribution companies distributing independent European productions with lower commercial potential.

This situation places the independent distributors in an unfavourable position with respect to cinema owners and in particular with respect to national circuits.

From the distributors’ point-of-view, a closer co-operation of the three main actors for the production and marketing process is needed: the producer, the distributor and the sales agent. If producers were more aware of the promotion and distribution needs for audiovisual works, and had a more market oriented approach from the outset, it could strengthen the industry and make it more competitive on the whole.

2.5.4. *Funding*

The primary source of cinema funding in Europe is public sector support. The reimbursable and non-reimbursable funding of films accounts for a range of 42% on average (Italy, Spain) to 60% in certain cases. The second source of funding is the contribution made by the executive producer. Percentages vary from one country to another within a very narrow range. The countries in which the contribution of the producer is lowest are Germany and Spain.

Lastly, the third source of funding are the television channels and represents an average volume of around 20%, except in Italy where the funding from television channels is around 2.40%. The accession and candidate countries, by contrast, depend more heavily on the support of TV channels as a result of the relative scarcity of public funding²⁴. The size of the audiovisual markets in the accession countries in general is very small.

Broadcasters are the pre-eminent partners of the film production and distribution industry in Europe. In the accession countries, film production is almost entirely funded by TV broadcasters. The budgets of new TV channels are very small. In recent years, broadcasters have been filling up existing schedules (24 hours) or launching new digital channels: either supplementary channels or channels with their own profiles and specialities, such as education channels, children’s channels, youth channels, cultural channels, etc. Broadcasters have had to reduce their budgets in recent years, owing to the downturn in advertising revenue and the escalating costs of rights. It is essential for new incentives to be introduced to encourage dissemination of European audiovisual works.

Audiovisual SMEs have very limited access to external finance, which is a major and growing obstacle to production. The current market trend means that commercial banks are cutting their business with small and very small companies, as this segment of the market is considered too risky, while the profit margin expectations

24 IMCA Study.

are too narrow. As pointed out by the recent study carried out by an external consultant for Direction General Budget on SME policy there are particular gaps in the supply of external finance to SMEs related to sectors and geographical areas²⁵. In addition, there is a general need to re-examine the ceilings on financing since costs of production have risen sharply. Higher budgets could also entail larger investment in the marketing of the work, which in the long run could enhance sustainability of investments for the sector.

2.5.5. *Accession Countries*

In the accession countries 86 feature films were produced in 2001. Of the ten new countries joining the European Union in 2004, Poland produces the greatest volume of films. In 2000, 29 films were produced in Poland, 22 in Hungary, and 16 in Czech Republic, while in Lithuania no films were produced in 2000. The remaining countries produce annually under ten films each. Poland has the highest revenue from cinema box-office, 107.4 million € in 2001. Currently in the accession countries film production is almost entirely funded by TV broadcasters.

Some of the latest (2002) cinema attendance figures among non-European Union countries were mentioned earlier in the chapter on cinema attendance.

Films from the accession countries are rarely distributed outside their national markets, as a recent study by the European Audiovisual Observatory shows: Between 1996 and 2001 only 42 films from the countries of central and eastern Europe were distributed commercially in at least one Member State of the European Union, seen by a total of 2.2 million people in the Union, making a market share of only 0.054 %.

The professionals from the accession countries need to have access to training organised abroad, which aims to improve professional skills and competencies. Such access would give the accession countries' professionals a valuable opportunity of networking with other professionals in European audiovisual sector. This, in turn, would enhance the chances for the audiovisual works from the new member countries to circulate outside their national borders. Public funding to support the audiovisual sector in the accession countries is almost non-existent; as mentioned before, the accession and candidate countries depend heavily on the support of TV broadcasters.

The European Audiovisual Observatory's statistics on nine Eastern European candidate countries (admitted into the MEDIA Programme in 2002-2003) are in Annex 3.

2.5.6. *Development of new technologies*

Digital broadcasting reached almost 18% of EU households (27.4 million) at the end of 2002, an increase of about 15%. This covers mainly satellite transmission. Over 22 million households were using this mode at the end of 2002, while only in a few countries has digital transmission via cable become popular (3.5 million households EU-wide at the end of 2002). Digital terrestrial television is operational only in a few

25 European Commission –DG Budget, Strategic Evaluation of Financial Assistance to the SMEs, Final Report, December 2003

Member States (UK, Germany, Spain, Sweden and Finland) and Digital Subscriber Line (DSL) connections are not yet significant economically. With the re-launch of digital terrestrial broadcasting in the UK and the first switch-off of analogue broadcasting in some areas of Germany, by mid-2003 this mode of broadcasting covered 2.1 million households in the EU.

The fastest growing audiovisual industry sector in the European Union 1997-2001 was DVD rentals and retail, with an average annual rate of growth of 174%. The DVD sector confirmed its importance in 2002 when its turnover from retail sales reached the sales of the traditional VHS cassettes, against a background of overall increase of sales of recorded audiovisual products.

In the context of developing digital distribution methods, taking account of the international dimension of the market is no longer an option for the producers and distributors of European content, but a vital necessity. There is a considerable increase in demand for content because of the development of digital dissemination techniques (bouquets, Internet, DVD). This growth is reflected in a diversification of the modes of exploitation, an increase in the marketing life of productions, the emergence of new derived products and market globalisation. It is also raising some concerns because of the fragmentation of the audience for the new channels and audiovisual services. This fragmentation is reflected in a reduced financial capacity on the part of the distributors and by a longer exploitation cycle for works. As an example, a television production which could in the past pay for itself in one or two national broadcasts will now require a large number of broadcasts over a long period of time in order to recoup its costs.

One of the pressing issues for producers and production companies concerns the creation of digital masters for the audiovisual works produced. Without such digital formats it is not possible for European cinematographic and audiovisual works to profit fully from different distribution means.

The growing economic importance of audiovisual content calls for the development of a European industry that is competitive and able to benefit from the strong growth in demand for content. The lack of skills in the digital sector should be tackled by specific schemes.

A description of the main technical innovations is in Annex 4.

2.6. Target groups

In view of the different actors outlined in section 2.2 and the problems experienced and in line with the policy objectives followed the Commission's proposal aims to concentrate on improving the value chain for European audiovisual works. The Programme is therefore intended to target the whole value chain and all the actors concerned (due to the interdependence of the system). Any action that targets only one group of players (such as producers for example) will fail since the production and distribution structures are inextricably linked. In concrete terms, this means that the Programme will target the following groups:

2.6.1. *Improvement of professional skills and competencies:*

- Professionals
- Trainers
- Audiovisual enterprises
- Film schools

2.6.2. *Development:*

- European independent production companies (SMEs) (Producing fiction, animation, documentaries, and multimedia.)
- European independent producers

2.6.3. *Distribution:*

- European film distributors (cinema, video, DVD, etc.)
- Independent European cinema and television producers
- European sales agents (for cinema and television)
- Owners of copyright (catalogues); distributors etc.
- Independent European distributors
- Rental and retail sector dealing with European audiovisual products (video, DVD)
- Companies specialised in the digitisation of content
- Consumers of audiovisual products and services

2.6.4. *Promotion*

- Organisers of European and International audiovisual festivals featuring 70% European works
- Organisers of European and international audiovisual markets
- Organisers active at EU/International level to promote European cinema
- Organisers of European and International audiovisual events to promote European works and talent
- Television broadcasters
- Audiences of European and International audiovisual festivals, markets and events

2.6.5. *Pilot projects and new technologies:*

- Project organisers of innovative market applications using new technologies
- Cinema owners
- European independent producers and production companies

Thus the Commission proposal targets all main groups active in the audiovisual sector. Only non-European companies are not covered by the action.

2.7. Need for Community Action

2.7.1. *Need for continuing Community Action*

The complexity of the European audiovisual sector, as described above, should be reflected in the Community intervention. The linkages among the various actors in the production and value chain of the sector ask for a fully-fledged intervention at European level, reaching all phases of the production chain and all parties. The emergence of a financing crisis for the sector requires a specific action in supporting the sustainability of growth for the sector. A horizontal objective of Community policy should be the promotion of a business culture based on the concrete synergies between public and private investment in the audiovisual sector and to make that synergy more effective. Sound and transparent practices for the elaboration of financial plans are the only way to use public money as concrete leverage in the most effective manner with a structuring effect for the sector. The National funds should mainly implement control and promote transparency. A European dimension in the practices of National funds would promote the European dimension of financing mechanisms and in the long run harmonisation of practices of film financing. That would have a structuring effect both on production and for the competitiveness of the sector. Such an objective necessitates action at all levels of the production and distribution cycle. In accordance with the principles of subsidiarity and complementarity, Community action concentrates on pre-production and post-production support leaving the support of production to the national bodies.

If the programme ceased to exist, the competitiveness of European audiovisual works on European and global market would not be improved nor would the cultural diversity objective be fulfilled. In short, without Community support none of the identified needs of the European audiovisual sector would be met.

2.7.2. *Need for a New Approach*

There is no doubt that the needs of the European audiovisual sector have evolved, hence continuing current programmes beyond 2007 is not an option. The rapid growth of the European audiovisual industry alone calls for new policy and support measures. The introduction of new technology and technical innovations has to be taken into consideration, just like the changing structural, economic and cultural landscape of the audiovisual industry in general.

Three factors in particular make changes to Community support a necessity. Firstly, the historic event of ten new member's accession to the European Union in May 2004 demands a new strategy for developing and strengthening the European

audiovisual sector. Secondly, new technologies have become a major economic concern. In order to profit from the rapid proliferation and diversification of audiovisual services and products, new corporate strategies have to be developed to match the internationalisation and the integration of digital technology throughout the production chain, from the time of conception through to the distribution and marketing of an audiovisual work. Thirdly, the chronic under-investment in and by the sector, in particular in the areas of the development and distribution needs to be addressed. As mentioned earlier, the lack of financing for the SMEs is still a major and growing obstacle to production²⁶.

Additionally, the new programme will need to take a more integral approach in supporting the structures of the industry in comparison to the current programmes.

PART 2 ANALYSIS OF COMMUNITY ACTIONS FOR THE EUROPEAN AUDIOVISUAL SECTOR

3. OBJECTIVES AND RELATED INDICATORS

3.1. Global objectives

The new MEDIA programme will have the following global objectives:

- Preserve and enhance European cultural diversity and its cinematographic and audiovisual heritage, and guarantee its accessibility for European citizens as well as to promote intercultural dialogue;
- Increase the circulation of European audiovisual works inside and outside the European Union;
- Strengthen the competitiveness of the European audiovisual sector in the framework of an open and competitive market.

The programme will take into account four horizontal priorities in the programme:

First, the importance of the creative process within the European audiovisual sector and the cultural value of Europe's cinematographic and audiovisual heritage need to be taken into account within the actions proposed.

Secondly, the strengthening of the production structures of the SMEs, which constitute the core of the European audiovisual sector, as a means of enhancing its competitiveness. This will mean contributing to the spread of a business culture for the sector and facilitating private investments in the sector.

Thirdly, the programme will reduce, within the European audiovisual market, the imbalances between countries with a high production capacity and countries with low production capacity or a restricted linguistic area. This priority responds to the need to preserve and enhance

26 See paragraph 2.1

cultural diversity and inter-cultural dialogue in Europe. This priority will contribute to the transparent and competitive functioning of the Single Market with its potential of economic growth for the whole Union.

Finally, the programme will follow and support market evolutions with regard to digitisation. The programme will put in place measures to accompany the changes that digitisation is producing in the audiovisual sector at all stages of the production and distribution chain as well as in terms of new competencies for the professionals of the sector.

The improvement of the competitiveness of the industry will be pursued in a more capillary way by reinforcing the strategic and coherent approach of the programme. Community action will be integrated into a single programme intervening in the pre-production and in the post production phases. Community intervention is in line with the principles of subsidiarity and complementarity with Member States' policies, as these are mainly directed to support the production of audiovisual works. Furthermore, the enhancement of the circulation of European audiovisual works entails a specific European added value that transcends National policies.

3.2. Specific objectives and indicators

Pre-production

The programme will intervene upstream in the production chain in the field of improvement of professional skills and competencies and the development of audiovisual works.

In the field of the *improvement of the skills and the competencies* of audiovisual sector professionals, the specific objectives of the programme are to:

- strengthen the professionals' skills and competencies in the development, production, distribution/exhibition and promotion sectors, in order to improve the quality of European audiovisual works. The programme supports in particular actions concerning:
 - Script writing techniques, with the aim of increasing the quality of European audiovisual works and their potential circulation;
 - financial and commercial management of production, distribution and promotion of audiovisual works, with the aim of improving the development of European strategies from the development phase;
 - inclusion upstream of digital technologies for production, post-production, distribution, and marketing and archiving of European audiovisual programmes.
- improve the European dimension of audiovisual training activities by:
 - support for the networking and mobility of European training professionals, in particular:
 - European film schools;
 - training institutes;

- partners of the professional sector;
 - training for trainers;
 - support for individual training maps
 - the adoption of co-ordination actions and of promotion of the projects supported.
- enable, through special scholarships, the professionals from the new Member States to take part in such projects.

In the sector of *development*, the specific objectives of the programme are to:

- support the development of production projects intended for the European and international market, submitted by independent production companies;
- support the elaboration of sound financial plans and setting up of European production and co-production projects.

The programme will ensure that adequate co-ordination and synergy between the two components of pre-production support is established and pursued.

Post-production

The programme will intervene downstream in the production chain, namely in the distribution and promotion phases.

In the sector of distribution and exhibition, the specific objectives of the programme are to:

- strengthen European distribution by encouraging distributors to invest in the co-production, acquisition and promotion of non-national European films and to set up co-ordinated marketing strategies, which have to comply with EU competition law;
- improve the circulation of non-national European films on the European and international markets by incentive measures for their exportation, their distribution on any support and for their programming in cinemas;
- promote the transnational distribution of European audiovisual works produced by independent production companies by encouraging co-operation between broadcasters on the one hand, and independent producers and distributors on the other;
- encourage the digitisation of European audiovisual works;
- encourage cinemas to exploit the possibilities offered by digital exhibition.

In the field of *promotion*, the specific objectives of the programme are to:

- improve the circulation of European audiovisual works by ensuring access for professionals to European and international audiovisual markets;

- improve access to European audiovisual works for the European and international public;
- encourage common actions between national film and audiovisual programme promotion organisations;
- encourage promotion of the European cinematographic and audiovisual heritage.

3.3. Operational objectives and indicators

Pre-production phase

Acquisition and improvement of skills and competencies of professionals

In this area the programme will concentrate on the following elements.

3.3.1. *Strengthen professionals' skills and competencies in the fields of development, production, distribution/distribution and promotion, in order to improve the quality and the potential of European audiovisual works.*

3.3.1.1. Script writing techniques

Operational objective:

- enable experienced script writers to improve their capacities to develop techniques based on traditional and interactive methods of writing.

Actions to be implemented:

- support the development and the implementation of training modules covering the identification of the target public, the edition and the development of scripts for an international public, the relationship between the script writer, the editor of the script, the producer and the distributor.
- support distance learning and encourage exchanges and partnerships associating countries and regions with low audiovisual production capacity and/or with linguistic or geographically restricted areas.

3.3.1.2. Economic, financial and commercial management of production, distribution, marketing and promotion of audiovisual works.

Operational objective:

- encourage professionals to understand and incorporate a European dimension into the fields of development, production, marketing, distribution/distribution and promotion of audiovisual programmes.

Actions to be implemented:

- support, in addition to the actions carried out by the Member States, the development and the update of training modules in management taking into account the European dimension.
- support distance learning and encourage exchanges and partnerships associating countries and regions with low audiovisual production capacity and/or with a linguistic or geographically restricted area.

3.3.1.3. Inclusion upstream of digital technologies for production, post-production, distribution, and marketing and archiving of European audiovisual programmes

Operational objective:

- strengthen the capacity for professionals to use digital technologies, in particular in the fields of production, post-production, distribution, marketing and archiving of European audiovisual programmes.

Actions to be implemented:

- support the development and implementation of modules of training in digital audiovisual technologies, in addition to the actions carried out by the Member States.
- support distance learning and encourage exchanges and partnerships associating countries and regions with low audiovisual production capacity and/or with a linguistic or geographically restricted area.

3.3.2. *Improve the European dimension of the audio-visual training activities*

3.3.2.1. Support for the networking and mobility of European training professionals (European cinema schools, training institutes, professional partners of the sector)

Operational objective:

- encourage exchanges between the institutions and/or existing activities of training.

Action to be implemented:

- encourage the programme beneficiaries to intensify the co-ordination of their activities of initial and further training in order to develop a European network.

3.3.3. *Training for trainers*

Operational objective:

- Improve the skills and the exchange of best practices of trainers.

Action to be implemented:

- support training for trainers.

3.3.4. *Support for individual training maps*

Operational objective:

- Encourage mobility in Europe of cinema students.

Action to be implemented:

- Mobility scholarships, linked to a training project.

3.3.5. *The adoption of co-ordination actions and of promotion of the projects supported.*

Operational objective:

- promote co-ordination among the projects supported by the programme.

Action to be implemented:

- contribute to the adoption of targeted actions of co-ordination and of promotion of the training activities supported by the programme.

3.3.6. *Enable the professionals from the new Member States to take part in the projects through special scholarships.*

Operational objective:

- facilitate the participation of national professionals from the new Member States to the projects supported by the programme.

Actions to be implemented:

- set up a grant mechanism.

The indicators for the implementation of the “skills and competencies” area of the programme are as follows:

| Specific Objectives | Indicators |
|---|---|
| Improve competencies in creative, management and technological skills | N° projects supported N° of participants in the projects supported N° of participants in training projects having projects developed in the development programme N° of co-productions initiated after training projects |
| Improve the European dimension of audiovisual training activities | N° on non-national participants N° of projects involved in the European network Proportion of training projects supported where co-operation and professional contacts within such projects continues |

| | |
|---|--|
| Support individual training maps | N° of scholarships granted |
| Encourage the participation of professionals from new countries | N° of participants from the newly entered countries N° of co-productions initiated after training projects Proportion of training projects supported where co-operation and professional contacts initiated within such projects continues |

Development

In this area the programme will focus on the following elements.

3.3.7. *Support the development of production projects intended for the European and international market, submitted by independent production companies*

Operational objectives:

- support the development of European audiovisual works: drama, animation, multimedia and documentary;
- encourage companies to produce quality projects with an international potential for circulation;
- encourage companies to take digital technologies into account in the fields of production and distribution from the development phase;
- encourage companies to elaborate international marketing and distribution strategies from the projects' development phase.
- enable small and medium-sized companies to access support for development and to adapt actions to their respective needs;
- ensure complementarity with the actions supported by MEDIA in the field of the improvement of the skills and competencies of audiovisual sector professionals.

Actions to be implemented:

- support the development of audiovisual works projects or of project catalogues.
- Support independent producers and production companies for the digitisation of audiovisual works.

3.3.8. *Support the elaboration of sound financial plans and setting up of European production and co-production projects.*

Operational objectives:

- encourage the development of sound financing plans by production companies for production of works of the following types: drama, animation, multimedia and documentary;
- encourage the search for financial partners at European level to achieve the optimal financial synergy between public and private investors and include distribution strategies at the outset of production.

Action to be implemented:

- support the side costs of private financing of production and co-production projects presented by SMEs;
- support financial companies active in the elaboration of investment plans for the development and co-production of audiovisual works with a potential for transnational circulation;
- enhance co-operation with the national agencies in the form of an institutionalised exchange of monitoring tools as well as implementation of transparency practices in a European network.

The indicators for the implementation of the “development” area of the programme are as follows:

| Specific Objectives | Indicators |
|---|---|
| Support the development of production projects intended for the European and international market submitted by independent production companies | <ul style="list-style-type: none"> N° of projects supported by genre Distribution per type of project supported N° of projects completed and produced Percentage of aid going in costs above the line, creative part Percentage of aid going in costs below the line, management part Geographical distribution of support N° of projects supported in international distribution Revenues of the projects produced that received development funding |
| Support the elaboration of sound financial organisation and set-up of European production and co-production projects | <ul style="list-style-type: none"> N° of companies supported N° of projects completed with co-production N° of projects completed with private finance Percentage of Community financing relative to overall financing Structure of project financing in terms of sequence |

| | |
|--|--|
| | of investors joining the investment plan Recurrence of support for single projects Average turnover of the companies Revenues of the projects produced Percentage of development expenses relative to the final budget of the production Average number of employees of the companies receiving support |
|--|--|

Post Production phase

Distribution:

Horizontal operational objective:

- promote the linguistic diversity of European audiovisual works distributed.

Action to be implemented:

- support dubbing and subtitling for distribution and the distribution, by all channels, of European audiovisual works, accessible for producers, distributors and broadcasters.

3.3.9. *Strengthen the European distribution sector by encouraging distributors to invest in co-production, acquisition and promotion of non-national European films and to set up co-ordinated marketing strategies*

Operational objective n°1:

- encourage cinematographic distributors to invest in co-production, acquisition and promotion of non-national European films.

Actions to be implemented:

- establish a system of automatic support for European distributors, proportional to cinema admissions for non-national European films in the Member States taking part in the programme, subject to a ceiling by film and modulated by the country concerned.
- The support thus generated should only be used by distributors for investment in:
 - co-production of non-national European films;
 - the acquisition of non-national European films;
 - expenses of edition (prints, dubbing and subtitling), of promotion and of marketing for non-national European film.

Operational objective n°2:

- encourage co-operation between European distributors for the adoption of common strategies on the European market.

Action to be implemented:

- establish a system of selective aid for non-national European film distribution intended for European distributor groupings and grant them direct aid when they exist on a permanent basis.

Operational objective n°3:

- encourage co-operation between distributors, producers and sale agents in order to set up international marketing strategies from the production phase of European audiovisual works.

Action to be implemented:

- establish a support system for the creation of a promotion kit of European cinematographic works (including a subtitled print, an international sound track - music and effects - and promotion materials).

Operational objective n°4:

- encourage access to financing of SMEs for distribution and international sale of non-national European works.

Action to be implemented:

- support part of the financial expense, in insurance connected with the activities of distribution and/or of international sale such as: the acquisition of European film catalogues, the prospecting of new markets for these films, the constitution of permanent groupings of European distributors.

3.3.10. *Improve the circulation of non-national European films on the European and international markets by incentive measures for their export, for their distribution through all distribution channels and for their programming in cinemas*

Operational objective n°1:

- encourage cinematographic distributors to invest in appropriate edition and promotion costs for non-national European films.

Actions to be implemented:

- establish a selective support system for cinematographic distributors for the promotion and marketing of European cinematographic work outside their production territory. The selection criteria of the films will include provisions aiming to differentiate between the projects according to their origin and their budget category.

- grant support to films of interest to the development of European cultural diversity, in particular in the form of aid for the release of a non-national European works catalogue over a given period.

Operational objective n°2:

- encourage the exhibition of non-national European films on the European market, in particular by supporting the co-ordination of a cinema network.

Actions to be implemented:

- support cinema owners in programming a significant share of non-national European films in commercial cinemas for first release for a minimum defined duration. The support granted to each cinema will in particular be determined according to the number of admissions for these cinemas for non-national European films over a reference period.
- contribute to the development of actions for education and of young public awareness-raising in cinemas.
- support the creation and the consolidation of a European cinema owners' network developing common actions for this type of programming.

Operational objective n°3:

- encourage international sales and the exportation of non-national European films in Europe and world-wide

Action to be implemented:

- establish a support system for European international distribution companies of cinematographic films (sale agents), established according to their performance on the market over a given period. Support thus generated will have to be invested by the international distributors in the expenses of acquisition and of promotion of new European works on the European and international markets.

3.3.11. *Promote the transnational distribution of European audiovisual works produced by independent production companies by encouraging co-operation between broadcasters, on the one hand, and independent distributors and producers.*

Operational objective n°1:

- encourage the distribution of non-national European audiovisual works coming from independent production companies.

Actions to be implemented:

- support independent producers to produce works (drama, documentary and animation) involving the participation of at least three broadcasters from several Member States, belonging to different linguistic areas. The

selection criteria of the beneficiaries will include provisions aiming to differentiate between the projects according to their budget category.

- grant support to audiovisual programmes of interest to the development of European cultural diversity and audiovisual heritage.

Operational objective n°2:

- facilitate access to financing for European independent production companies.

Action to be implemented:

- support part of the financial expense, of insurance and of completion guarantees connected with the production of work (drama, documentary and animation) involving the participation of at least three broadcasters from several Member States, belonging to different linguistic areas.

Operational objective n°3:

- encourage the international distribution of European television programmes.

Action to be implemented:

- establish a support system for European international distribution companies of audiovisual works (international distributors), determined according to their performance on the market over a given period. Support thus generated will have to be invested by the international distributors in the expenses of acquisition and promotion of new European works on the European and international markets.

3.3.12. Support the digitisation of European audiovisual works

Operational objectives n°1:

- improve the distribution of non-national European works on digital support for private use (DVD), in particular by encouraging co-operation between editors for the creation of multilingual masters on a European scale;
- encourage the use of digital technologies in European works (realisation of numerical masters suitable for being exploited by all the European distributors);
- encourage particularly the editors to invest in appropriate promotion and distribution for non-national European audiovisual works;
- support the multilingualism of European works (dubbing, subtitling and multilingual production).

Action to be implemented:

- establish an automatic support system to European cinematographic and audiovisual works editors on supports intended for private use (such as DVD, Dvd-Rom), given according to their performance on the market over a given period. Support thus generated will have to be invested by the editors in the expenses of edition and distribution of new non-national European works on digital support.
- Support companies specialised in the digitisation of content.

Operational objectives n°2:

- encourage on-line distribution of non-national European works through advanced distribution services and media (Internet, video-on-demand, pay-per-view);
- encourage the adaptation of the European audiovisual programme industry to the developments of digital technology, in particular with regard to the advanced services of on-line distribution.

Action to be implemented:

- support European companies (on-line access suppliers, thematic channels etc), by measures for the digitisation of works and for the creation of promotion and publicity material on digital support, to create European works catalogues in numerical format intended for use on the new media.

3.3.13. *Encourage cinemas to exploit the possibilities offered by digital exhibition*

Operational objectives:

- encourage cinemas to invest in digital equipment, by facilitating access to credit by cinema owners.

Action to be implemented:

- support part of the financial expense, including insurance incurred by the cinema owners for investment in digital equipment.

The indicators for the "distribution" area of the programme are as follows:

| Specific objectives | Indicators |
|---------------------|------------|
|---------------------|------------|

| | |
|---|---|
| <p>Strengthen the European distribution sector</p> | <p>N° of companies supported in their distribution activities</p> <p>Size of the companies supported</p> <p>N° of films distributed in Europe with Community financial support;</p> <p>Increase in reinvestments (in P&A and MG and co-productions)</p> <p>Percentage of the reinvestments going to P&A and MG and co-production</p> <p>Groupings of distributors created in Europe</p> |
| <p>Improve the circulation of non-national European (NNE) films on European and international markets</p> | <p>N° of films subtitled and dubbed</p> <p>N° of films circulated</p> <p>N° of admissions by non-national European films outside their national territory</p> <p>Audience share of NNE Film</p> <p>Share of the market in commercial cinemas</p> <p>Market share of the NNE film</p> <p>Market share of NNE films in cinema network supported</p> <p>N° of projects supported</p> <p>N° of promotional packages supported</p> |
| <p>Promote the transnational distribution of audiovisual works produced by independent production companies</p> | <p>N° of independent producers supported</p> <p>N° of works produced with private financing and its percentage</p> <p>N° of groupings created in order to get Community support</p> <p>N° of groupings continued after receiving Community support</p> <p>N° of works supported</p> <p>N° of countries sold to per work</p> <p>Revenues of the projects supported</p> <p>Number of works shown on TV at prime time</p> |

| | |
|--|---|
| Support the digitisation of European audiovisual works | N° of digital prints, disks DVD supported N° of subtitling and dubbing of works supported N° of films circulated by digital means N° of films edition from areas of restricted linguistic areas Size of the companies supported |
| Encourage cinemas to exploit the possibilities offered by digital exhibition | N° of cinemas investing in digital equipment |

Promotion:

3.3.14. *Improve the circulation of European audiovisual work by ensuring access for the European audiovisual sector to European and international professional markets.*

Operational objective n° 1:

- improve the conditions for professionals' access to trade events and to professional audiovisual markets, inside and outside Europe.

Action to be implemented:

- give technical and financial assistance within the framework of events such as:
 - the principal European and international cinema markets;
 - the principal European and international television markets;
 - the thematic markets, in particular for cartoons, documentary, multimedia and new technologies.

Operational objective n° 2:

- encourage the constitution of European catalogues and the setting up of databases concerning European programme catalogues intended for professionals.

Action to be implemented:

- support the constitution of European catalogues and the setting up of databases concerning European programme catalogues intended for professionals

Operational objective n°3:

- encourage support for promotion from the pre-production or production phase.

Action to be implemented:

- support the organisation of forums for development, financing, co-production and distribution of European (or mainly European) works and programmes;
- set up and launch marketing and sales promotion campaigns of European cinematographic and audiovisual programmes at the production phase

3.3.15. *Improve access to European audiovisual works for the European and international public.*

Operational objectives:

- encourage audiovisual festivals to program a majority or significant share of European work;
- prioritise festivals contributing to the promotion of works from Member States or regions with low audiovisual production capacity and of works of young Europeans, and enhancing cultural diversity and intercultural dialogue;
- encourage initiatives for image education organised by festivals for a young public, in particular in close co-operation with schools and other institutions;
- encourage professionals' initiatives, in particular of cinemas, public or commercial television networks, festivals and cultural institutions, aiming, in close co-operation with the Member States and the European Commission, to organise promotional activities intended for the general public for European cinematographic and audiovisual creation;

Actions to be implemented:

- support audiovisual festivals programming a majority or significant share of European works;
- support festivals contributing to the promotion of works from the Member States or regions with low audiovisual production capacity and of works of young Europeans, and enhancing cultural diversity and intercultural dialogue;
- support initiatives for image education organised by festivals for a young public, in particular in close co-operation with schools and other institutions;
- support the setting up by professionals, in particular of cinemas, public or commercial television networks, festivals and cultural institutions, aiming, in close co-operation with the Member States and the European Commission, to organise promotional activities intended for the general public for European cinematographic and audiovisual creation;

- support the organisation of events with broad media coverage such as prize awards.

3.3.16. *Encourage common actions at European level between national promotion organisations.*

Operational objectives:

- encourage networking and co-ordination of European common actions and projects.

Action to be implemented:

- support the creation of European promotion platforms;
- support European groupings and umbrella organisations of national and/or regional promotion on the European markets and world-wide;
- support the networking of festivals, in particular the exchange of programming and of expertise;
- support the grouping of projects following identical, similar and/or complementary objectives;
- support the setting up of networks of data bases and catalogues.

3.3.17. *Encourage promotional actions for the European cinematographic and audiovisual heritage*

Operational objective:

- Facilitate the organisation of events, in particular for a young public, intended to promote the European cinematographic and audiovisual heritage.

Action to be implemented:

- support the organisation of events valorising the European cinematographic and audiovisual heritage.

The indicators for the “promotion” area of the programme are as follows:

| Specific Objectives | Indicators |
|--|--|
| Promote the European audiovisual industry within the Union and abroad by facilitating participation at markets by professionals and encouraging common promotional actions at European level | N° of companies financed for their promotion by the Community N° of promotion organisation set up N° of companies that made use of the promotion projects set up by Community support N° of audiovisual markets attended by professionals |

| | |
|---|--|
| | <p>Percentage of promotion budget in productions</p> <p>N° of films sold in Europe</p> <p>N° of films sold outside Europe</p> <p>Margins of revenues of the films sold relative to their costs</p> <p>Use of databases set up within promotion actions</p> |
| Encourage common actions at European level between national promotion organisations. | <p>N° of events supported with a recognised added value</p> <p>Presence of the European organisation present in the major markets</p> <p>Visibility of the European events and organisation for promotion</p> <p>N° of information requests from professionals to the European promotion organisations</p> |
| Improve and guarantee the broadest access possible of the European and international public to European cultural diversity and to the intercultural dialogue. | <p>N° of festivals supported</p> <p>N° of thematic festivals supported</p> <p>Audience reached in the festivals</p> <p>N° of festivals supported dealing with non European issues</p> |
| Ensure the widest promotion of the European cinematographic and audiovisual heritage in particular for a young public | <p>N° of festivals supported</p> <p>N° of audience reached by these festivals</p> <p>N° of NNE Films shown in these festivals</p> <p>Promotion programmes on TV</p> <p>N° of promotion actions targeting young people</p> |

3.4. Pilot Projects/Digital technology

The pilot projects have proved to be a success in responding to market evolutions resulting from the introduction of information and communication technologies. Whilst certain of the areas previously covered have now been introduced into the programme, this “test laboratory” remains vital to respond to changes. The new programme will focus on those areas considered by the sector as likely to be influenced by the use of new information and communication technologies. The results of the pilot projects will be publicised widely in order to encourage the dissemination of best practices by means of conferences, and the organisation of events on-line and off-line.

4. POLICY OPTIONS AND ALTERNATIVE DELIVERY MECHANISMS

The following policy options have been examined:

- No action: necessity for Community intervention
- No policy change: continuation of existing action
- Legislative measures
- Alternative options for a new expenditure programme
- Delivery mechanisms for the retained expenditure programme option

4.1. No action: necessity of Community intervention

The need for Community action is clear: The fragility of the audiovisual sector has been aggravated by the economic recession of the last two years. The sector suffers from underinvestment and lack of financing from the private sector. National policies alone can only contribute to the support of national production without providing a structuring effect for the sector, namely the full exploitation of the European single market and the international dimension of the European audiovisual sector. The industry is forced to think internationally as national markets do not guarantee its economic sustainability. Community action has become an essential instrument in the last years for the consolidation of a European audiovisual industry. If the programme ceased to exist, the competitiveness of European audiovisual works on European and global market would not be improved nor would the cultural diversity objective be fulfilled. At this particular stage, ceasing support would undermine the positive effects on the sector that the current programmes have produced in the last decade. In short, without Community support none of the identified needs of the European audiovisual sector would be met.

4.2. No policy change: continuation of existing expenditure programme

There is no doubt that the needs of the European audiovisual sector have evolved, hence continuing the current programmes beyond 2007 is not an option. The emerging needs of the sector require a more structuring support at European level. With the financing crisis of the sector and the introduction of new technologies, Community instruments should provide support in a more flexible way, focusing on achieving a long term impact within the sector. The aim should be the reinforcement of the competitiveness of the sector in order to allow the audiovisual industry to play its fundamental role in building European culture and citizenship. The current programme provides an essential instrument to increase the circulation and to improve the quality of production of European audiovisual works, but is not effective enough in responding to the challenges of attracting private investment in the sector and fully exploiting the possibilities offered by the introduction of digital technology. This is explained at point 2.5 above.

4.3. Legislative measures

Two of the key problems for the sector are access to financing and the circulation of non-national European works. Community financing is designed to provide a

leverage effect, which could not be achieved by legislative measures for the audiovisual sector. Such instruments were not therefore retained as unworkable and inappropriate in relation to the objectives of reinforcing the competitiveness of the audiovisual sector.

4.4. Alternative options for a new expenditure programme

The approach chosen to reach the overall policy objective is that of a new Community expenditure programme to provide support for the European audiovisual sector. This programme would follow on from MEDIA Plus and MEDIA-Training (a fourth generation programme) building on the results achieved to date.

The legal basis for action at Community level is found in Articles 157 and Article 150(4) respectively of the EC Treaty. These Articles cover industrial policy and professional training. The choice of a single programme reflects the needs of the sector and notably the heterogeneous nature of the European markets, in socio-economic, financial, and regulatory terms. The results of the EIA confirm that Community action should target pre and post production in a more capillary manner. The simplification and integration of Community action into a single expenditure programme reflect the interlinkage between the various activities in the production and distribution value chain. In particular this approach recognises that the pre-production process depends on the quality of professional skills and competencies.

The global objectives of the programme (as set out in section 3 above) reflect the Treaty objectives of the Articles on which the programme is based.

The results as described in the mid-term evaluation of the MEDIA Plus Programme highlight the effectiveness of a number of the mechanisms and the results obtained by the MEDIA Plus and MEDIA-Training Programmes²⁷. The evaluator proposed measures to adapt the support instruments to the changing audiovisual landscape. The evaluation also vindicated the choice of the transnational circulation of works as the priority for the programme, as well as the concentration on three strategic activities (improvement of professional skills and competencies, project development and production, distribution and promotion). These elements also justify the choice of an expenditure programme as the most effective policy option for reinforcing the competitiveness of the European audiovisual sector.

4.5. Delivery mechanisms for the retained expenditure programme option

There is an established need for new policy and support measures. The introduction of new technology and technical innovations has to be taken into consideration, just like the changing structural, economic and cultural landscape of the audiovisual industry in general.

This report clearly demonstrates that there is a need for simplification and integration of the different components of the European audiovisual value chain. In view of this, the design for a new programme reflects this need and streamlines and integrates the two current MEDIA Programmes into one programme, focusing on pre and post-

27 See paragraph 8.2.4

production. This also places an important emphasis on the role played by the improvement of the skills and competencies of professionals, which has a positive impact along the whole of the European audiovisual value chain.

Certain choices made in target groups reflect changes that have or are occurring in Europe, for example opening the Programme to broadcasters to incentivise the showing of European non-national audiovisual works. The new programme therefore includes more explicitly certain target groups, such as measures to increase co-operation among the different actors (distributors, producers and sales agents for example); it is a “win-win” situation for European operators and audiences. The new mechanisms will ensure that the European and international public have the widest possible access to European audiovisual works, thereby meeting horizontal objectives of promoting European cultural diversity and enhancing the European cinematographic and audiovisual heritage, as well as facilitating intercultural dialogue. The choice of mechanism remains the support of festivals, subject to specific criteria to ensure that such objectives are respected fully.

Another aspect considered was that of digitisation; the socio-economic and financial opportunities for European cinematographic and audiovisual works need to be fully exploited. The new programme will therefore include specific mechanisms to enable European audiovisual works to be digitised and hence to profit from all exploitation opportunities. This will have a far-reaching impact on the long-term profitability of the sector.

A further issue to be addressed was that of the increased size of the Internal Market and the need for the accession and other countries sharing the same objectives to profit from the opportunities that exist. The new programme therefore introduces specific mechanisms to facilitate participation by the accession countries and remains open to co-operation on the basis of contributions by third countries.

Finally, the new programme retains and builds on flexibility; the European audiovisual sector is adapting to constantly changing parameters. The pilot projects remain at the heart of the new programme as a tool for testing and introducing new mechanisms.

In terms of implementation of the Programme, central management is essential to ensure that the European dimension is taken into account. It would be neither appropriate nor effective for the Programme to be implemented through decentralised National agencies as this would not enable projects from different Member States to be evaluated against each other. The Public consultation confirms that this approach is considered by operators to be the best adapted to the aims of the Programme and the needs of the sector.

In terms of implementation discussion is on-going as to whether technical assistance should be provided through a Technical assistance office or as Executive agency²⁸.

28 See paragraph 9.2

5. RISKS AND ASSUMPTIONS

The audiovisual sector depends heavily upon public support. The actual economic context increases that dependency. With its particular value chain and production cycle the audiovisual sector carries very high financial risks. In the current economic context private investors are even less inclined to bear the risks of financing the production process of small companies.

Public financing should contribute to creating a favourable socio-economic environment for the European audiovisual sector. It should aim at stimulating private financing. It is not within the scope of public support to force the market by sustaining non-viable companies. It is rather the objective of Community intervention to enable companies active in the audiovisual sector to improve their competitiveness and therefore to enhance their financial sustainability. Such an objective involves action at all levels of the production cycle. Following the principle of subsidiarity Community action concentrates on the pre-production and post-production support.

The underlying assumption is that Member States are financing the production phases of the audiovisual sector as well as initial training for professionals. Although it is plausible that this support will continue at Member State level indirect intervention in the production phase should be made in terms of facilitating access to finance for the sector's SMEs and favouring networking of European professionals in view of stimulating co-productions. Co-productions could help in financing the sector both directly and indirectly. Directly, it could be a way of adding financing and increasing the budget (thereby increasing the potential circulation of the works). However, the most important benefit would be indirectly achieved by diminishing the investment risk due to the expansion of revenues from exploitation from the national to the international market, which would attract in turn private capital into production financing.

On the demand side, it is expected that cinema attendance will not considerably vary over the next years. As findings have confirmed, no significant substitution effects between cinema attendance and home video have taken place. After the collapse of cinema revenues at the end of the eighties the sector has regained vitality in the nineties and this trend is expected to be confirmed in the coming years.

Community action will also focus on promoting cultural diversity of the audiovisual sector in Europe as well as improving the skills of the professionals of the sector. This will contribute to a favourable social and cultural environment for the strengthening of the sector.

The urgency of Community action is to be stressed in the light of enlargement and the progressive introduction of new technologies in the sector. If one considers development support, it should be noted that this kind of support does not figure in the public support of many Member States. An interruption to Community action would mean that companies would invest less in the development phases of production, essential for the production process not only in creative terms but also in business terms. The risks of discontinuing Community action in the audiovisual sector, which has an immense economic potential, would be to open the door to

competing economies that are already profiting from the weak competitiveness of the European market.

The main risks associated with the implementation of the programme lie in the difficulty of measuring the exact impact of some of its horizontal actions. While the impact of the programme is clearly recognised for the distribution and the development lines, actions such as promotion and training are more difficult to quantify in terms of their results and impacts. In respect of the improvement of professional skills and competencies, the time frame for evaluating the improvement of human capital in the production cycle is per definition a long-term process. The results so far recognised are mostly to be looked at in terms of the increase in co-productions through the networking effects. With regard to the promotion action, introduced with MEDIA Plus, it is even more difficult to measure its effectiveness. The existence of a European policy for the promotion of European audiovisual works is based on the assumption of the necessity of strengthening the internal market and enhancing the competitiveness of the industry world-wide.

A major risk stems from the economic conjuncture in which the programme intervenes. As set out above, the sector is highly risky and subject to market fluctuations. In addition, the accession of the new Member States, with their less developed audiovisual industries and limited public policies for the audiovisual sector, provides an unknown variable for the implementation and success of the programme. In addition the rapid technological changes that are taking place in the audiovisual sector are affecting the whole production structure and value chain. The demands of the market are not yet clearly defined in Europe.

In order to minimise the risks associated with the programme, flexibility to adapt the programme to changing economic and technological circumstances should be maintained. As public policy should accompany market evolution and strengthen the competitiveness of the sector, implementation should be in tune with the sector's needs. Instruments for close monitoring of the European audiovisual sector, including trend analysis studies and expert advisory groups should be set up. Monitoring of the correct implementation of the programme at the level of companies will also be ensured by regular audits (30 per year) of the beneficiary companies. In this way corrections to the programme can be effectively introduced and the programme will respond to the changing circumstances of the European market.

6. POSITIVE AND NEGATIVE IMPACTS

6.1. Social impact

The social impact of the programme relies mainly on the positive effects in terms of development of human capital. The means for achieving these positive effects are not only promoting training activities for professionals but also by promoting mobility and exchanges at a European level. The European audiovisual sector is characterised by a high mobility of labour. The mobility of labour is mainly due to the creative needs of the production process and is based on artistic factors. However, competitive advantages do play a role in relocating labour in the European audiovisual sector. In the last years when financing for audiovisual production has

become a major problem, mobility of labour has drastically increased. Many projects are realised through co-production schemes, which include requirements in terms of the nationality of the labour force or the shooting location. The choices of shooting locations are often determined by special incentives such as favourable fiscal measures or availability of public funds. The new programme should take into account the specificity of the sector in terms of labour mobility, but it is likely to have negligible effects on job migration with regard to the pre-existing mobility in the sector.

The new programme will consist of a single programme for the audiovisual sector instead of the two existing programmes, MEDIA Plus and MEDIA-Training. A more integrated and coherent approach is expected to produce more effective integrated support to the sector. The programme, moreover, will help the sector in adapting to new technologies and will allow the sector's professionals to benefit from the Single Market. There are no negative social effects foreseeable at this stage.

No specific negative effects are foreseen with regard to the target groups. The programme is a win-win programme, as it will bring about European added value for all beneficiaries or participants. It is the aim of the programme in fact to expand the potential market of the works produced by European independent companies, consequently expanding the potential return of investments in the sector. As the programme focuses on supporting independent SMEs a negative effect on major companies, mostly American companies competing with the European ones, would only testify to the effectiveness of the programme. The enhanced competitiveness of the SMEs of the sector would minimally affect the social structure of the larger companies. Larger companies could in turn benefit from a wider and more competitive European market that the programme is contributing to shape.

The programme will have a positive impact in promoting cultural diversity and mutual knowledge and understanding of cultures in Europe. In coordination with other Commission programmes, the new programme could involve third countries in an inter-cultural dialogue. In particular regional programmes such Euromed Audiovisuel could create an effective synergy with the new programme in promoting exchanges involving the Mediterranean area.

6.2. Economic impact

The programme is expected to have a positive economic impact in enhancing the sustainable economic development of the European audiovisual sector. It is expected to consolidate the single market with positive economic effects for the sector in terms of positive externalities, when economies of scale advantages do not occur. As the programme intervenes as a corrector of market failure and promoter of transparency, negative effects of market distortion are not to be expected. The audiovisual sector has a peculiar competition pattern. Its fragmentation in terms of actors and markets makes it difficult to identify public aid as a source of market distortion. Instead public support operates as an incentive for companies to consolidate their structure and to improve their competitiveness. A clear example is the support to development, which constitutes an attempt to introduce a more market oriented rationale in the development and production of audiovisual projects both by insisting on the preparation of sound financial plans and by stimulating the creation of catalogues of projects by a single company. The overall competition can only benefit from

Community support as it will enable SMEs to compete with larger groups, guaranteeing plurality of actors in the European audiovisual market.

In accordance with the Lisbon strategy, the combined positive economic and social effects are likely to have a positive effect on growth and employment. A stronger audiovisual sector entails the creation of new jobs and new opportunities for economic growth. The specific support to micro, small and medium sized companies in the distribution and development components of the new programme is likely to produce positive effects in terms of consolidating the production and distribution structures and therefore increase job creation. Moreover, positive spillover effects on employment should be produced on collateral companies of the sector. The macroeconomic effect will be assessed closely in the ex-post evaluation of the programme.

If the direct impacts related to the objectives of the programme are positive overall, a possibility of negative indirect effects might exist in the exacerbation of the imbalances within the single market. The audiovisual sector is characterised by heterogeneous markets with some countries having a very high production capacity and other countries with a low production capacity. This translates both at the level of supply and demand, creating strong markets versus weak markets within the European Union. This divergence is expected to increase with the accession of the new countries. In some aspects the programme has worked more effectively when accompanying the market evolution of stronger markets within the Union, but has had a greater impact in relative terms on countries with a low production capacity. This is the case for the distribution and the TV distribution schemes. The positive discrimination systems set up to correct this market imbalance have worked effectively in other actions. An effort to provide flexibility for the countries with low production capacity as well as enhancing positive discrimination schemes should be included in the new programme to eliminate this risk. This could in itself contribute to diminishing the indirect negative effects associated with the imbalances within the European audiovisual market.

External evaluations have demonstrated the positive impact of Community action for the European audiovisual sector. The MEDIA II Programme had a substantial knock-on effect, even though this is difficult to quantify precisely. An estimation of this knock-on effect was provided in the mid-term evaluation of MEDIA II²⁹, which concluded that each Community Euro invested had generated 5.75 € of investment in the industry. This multiplier coefficient was of course much lower in the training sector (2.38) but was higher in the distribution sector (7.2) and, to a lesser degree, in the development sector (4.19).

This estimate of the leverage effect produced by Community funds ought no doubt to be revised upwards in order to measure the full impact of the MEDIA II programme. It does not take account of the introduction of the automatic distribution support and slate funding mechanisms, mechanisms, which, by virtue of their design and the reinvestment obligation that they contained, have had a strong knock-on potential. The indications emerging from the mid-term evaluation of the MEDIA Plus

29 Commission report on the results obtained in the context of the MEDIA II programme during the period 01.01.1996-30.06.1998, COM (1999) 91 final.

Programme confirm this trend. The findings on the first two years of implementation of the MEDIA Plus Programme shows that 90% of the non-national European films circulated in Europe have benefited from MEDIA Plus support. Impressive figures are available likewise for cinema exhibition. Within the network of Europa Cinema, supported by MEDIA Plus, the market share of non-national European films rises to 38%.

Community intervention has been particularly successful in establishing co-ordination among European professionals in the audiovisual sector. The network effect of projects for the improvement of skills and competencies of professionals, promotion of European works and distribution is highly relevant for the strengthening of the industry. The new programme will continue to follow this objective and extend it to the newly entered countries.

6.3. Environmental impact

There are no negative effects of the programme foreseen on the environment. The relevant Commission services have confirmed the absence of any repercussion on environmental issues.

7. ADDED VALUE OF COMMUNITY INVOLVEMENT

MEDIA is a unique programme. Programmes or policies with identical objectives do not exist at any level (Commission, Europe, and Member States). Nevertheless, it is complementary to some actions and programmes of the Commission, and to existing programmes at European and national levels. The MEDIA Programme approach is complementary with Community legislation, and notably the Television without frontiers Directive³⁰ and the Directive on Copyright³¹. It is also complementary and coherent with other Community measures following a common strategy, such as the education and training programmes, support programmes for SMEs and information society technologies. The review of existing financing instruments to stimulate early stage financing in all parts of the Union as set out in President Prodi's *eEurope* initiative launched on 8 of December 1999, should offer new possibilities for start-ups developing and producing high-quality content using new technologies.

The benefits of financial support at Community level go beyond providing European professionals with sources of finance additional to national aid. Indeed, the existence of European support does not act against European cultural diversity: on the contrary, it aims to give audiovisual sector operators the resources required to reap the maximum advantages from a unified market while respecting national characteristics. The benefits linked to the existence of financial support at European level relate first of all to the integration of a European dimension in the projects supported, which MEDIA uses as the basis for selection. Community financial

30 Directive 89/552/EEC on the co-ordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities, as amended by Directive 97/36/EC of the European Parliament and of the Council; OJ EC L202/60 of 30.7.1997

31 European Parliament and Council Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society

support has a transnational dimension that is not present in national aid systems. The latter remain mostly oriented towards supporting national production or, in the distribution field, national films. For its part, MEDIA exclusively encourages the distribution of non-national European films. In the field of cinema, national aid basically funds the structures, while MEDIA aid consists of an incentive to show European films. With regard to development, an essential phase for the quality and export potential of a work, national aid is only just starting to develop and still involves only a small number of countries. Community support also has an impact at a national level: it favours a restoration of the balance between small countries, with a low production capacity and restricted linguistic or geographic areas, and large countries.

The Programme is thus complementary to both National and Community actions. It respects fully the principle of subsidiarity in the focus of its actions. Two thirds of public funding is invested in production, 15% in exploitation, 10% in distribution, 1.6% in development and 0.9% in scriptwriting. This aid is directed at cinema (56.9%) and at television (36.7%). The different Member States could not achieve the actions foreseen by the programme, and in addition this approach would be less cost-effective, and less likely to meet the objectives followed.

Public policies working towards similar objectives are as follows³²:

7.1. Other programmes of DG Education and Culture:

Socrates/Erasmus: ‘The Socrates’ and ‘Leonardo da Vinci’ programmes are complementary to the ‘skills and competencies’ area of the MEDIA Programme’s, as they support education and training projects with an artistic or intercultural slant, or which focus on cultural project management for professionals working in the cultural sector.

eLearning: is designed to enable Europe to catch up in the use of the new information and communication technologies. The eLearning action plan was adopted by the Commission in 2001 to encourage the use of new media in education. eLearning complements the MEDIA Programme in the areas of ‘promotion’ (‘audience education’) as well as that of ‘skills and competencies’.

7.2. Other Commission programmes:

eContent: The eContent (DG Information Society) programme, which has been allocated 100 million € for the period 2001-2005, focuses on commercial use of European digital content. The programme is complementary to the Media Programme in that it aims to promote the production, use and dissemination of European digital products and services by supporting co-operation between companies in the field and the public and private sectors.

Sixth Framework Programme: Information technology is one of the seven priority fields of the ‘Sixth Framework Programme’ (DG Research and Development) which focuses and integrates research in Europe as its first objective. A close link will be

32 See annex 5 for descriptions of the programmes.

established to monitor the relevant actions of the user-friendly information society programme under the 6th Framework Programme for Research and Technological Development. The relevant key actions of the programme develop technologies, test-beds, trials and services, which could be potential objects for support by MEDIA Programme later on in the market phase. The 'Sixth Framework Programme' also supports cultural activities in the area of science specifically for raising public interest in science and promoting science among young people.

Euromed: The programme Euromed Audiovisuel, establishing new co-operation between European and Mediterranean professionals from the audiovisual sector, received a budget of 20 million € for 4 years in 1998. The programme has since financed projects in the fields of production, development, and training, as well as preservation of heritage, distribution and promotion of audiovisual projects originating from Mediterranean professionals. This programme has developed a network of European and Mediterranean professionals and encouraged the transfers of competencies between the two sides of the Mediterranean basin.

A second programme Euromed Audiovisuel was adopted by the MED Committee of 21 April 2004 and received a budget of 15 million € for three years, over the period 2005-2007. The programme includes the following actions:

- Support for development, for distribution, promotion and exhibition of audio-visual projects.
- Support for the preservation of archives.
- Awareness-raising campaign among Mediterranean partners on legislative development on the protection of the audio-visual work.
- Support for vocational training.

Programme of Support for ACP Cinema. Over the years, strong audiovisual and cultural co-operation with the ACP countries (70 African, Caribbean and Pacific countries) has been developed and financed through the European Development Fund (EDF). In addition to funding available for national and regional projects in these fields, a support programme for films produced in all ACP countries was launched in September 2000. The programme was launched initially for a period of three years with a budget of €6 million. New features have been developed progressively, including support to television fiction production, and a scheme to support distribution and exhibition in ACP countries is under preparation.

Programme to support co-operation between EU and Latin American professionals in the audiovisual sector: in the framework of the Programme *Alinvest* devoted to supporting co-operation among SMEs with Latin America, a small project is supporting exchanges and co-operation between European and Latin-American companies mainly in the cinema sector.

7.3. Other strands of the same policy

The '*Television without Frontiers*' Directive³³ establishes the legal frame of reference for the free movement of television broadcasting services in the Union in order to promote the development of a European market in broadcasting and related activities, such as television advertising and the production of audiovisual programmes. The Directive is complementary to the MEDIA Programme, and to this end sets out certain obligations to be met by television channels regarding European works (including those produced by independent producers).

7.4. Related programmes or policies in Europe

Eurimages is the Council of Europe fund for the co-production, distribution and exhibition of European cinematographic works. Set up in 1988 as a Partial Agreement it currently has 29 Member States. Eurimages gives almost 90% of the Fund's resources to supporting co-productions. The two funds act in a complementary manner.

The European Investment Bank Group (EIB Group) and the Commission have identified four areas where they will join forces to maximise the impact of their respective operations and make best use of available European resources. This will ensure complementarity between the different actions at European level.

7.5. Related programmes or policies in the Member States:

Beneficial complementarity exists between Community support and national aid. The national schemes tend to concentrate mostly on support to production and national distribution, disregarding the transnational dimension of the industry.

7.6. Community Structural/Regional Instruments

The European Social Fund (ESF) and *The European Regional Development Fund (ERDF)* are important sources of funding for activities to develop employability and human resources in the EU. The focus of the two funds is different from that of the MEDIA programme although actions may be funded in the sector. This will however be to achieve different objectives, for example like the funding of community centres/digital cinemas in Sweden in rural areas where the last cinemas had closed several years earlier.

8. STAKEHOLDER CONSULTATION AND LESSONS LEARNED

This section covers stakeholder consultation and lessons learnt through previous Community action in the European audiovisual sector.

33 Directive 89/552/EEC on the co-ordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities, as amended by Directive 97/36/EC of the European Parliament and of the Council; OJ EC L202/60 of 30.7.1997

It describes how and which stakeholders were consulted to assess the impacts of the MEDIA Programmes, and the requirements for future policy, together with the results of the consultation. First the context of the consultation process is explained and the three different consultation exercises briefly described. These exercises were the following:

- Public Hearing
- Written Contributions
- Focus Groups

Each part of the consultation is closely examined. A list of the key messages and specific points made in the public hearing is presented. Findings of the written contributions are listed by topic. Finally, the issues raised by each focus group are explored.

In relation to past experience the report describes the findings of the recent evaluation exercises carried out by independent consultants in respect of the MEDIA II, MEDIA Plus, MEDIA-Training Programmes and the Preparatory action i2i audiovisual “Growth and audiovisual”.

8.1. Stakeholder consultation

The consultation of all stakeholders of the industry was deemed necessary to understand and properly take into account the needs of the sector.

The public consultation on the MEDIA Programme was launched on May 12 and ended on August 12 2003. It consisted of three different exercises: a public hearing held in Brussels on July 1/2, an on-line consultation on the MEDIA web-site and focus group meetings with specialists from the audiovisual sector.

The stakeholder consultation took as its starting point the structure of the existing MEDIA Plus and MEDIA Training programmes to facilitate the discussion. The topics of the consultation were the different actions covered by the MEDIA Plus and Training Programmes, including the pilot projects. Two themes of reflection were the subject of additional consultation in the framework of the public hearing, namely the impact of the European Union enlargement on the programmes, focusing on the emerging needs of the sector with the new markets, and SME’s access to credit and film financing issues.

The public consultation comprised both the opportunity for all interested parties to make written contributions and a public hearing held in Brussels. All interested parties and notably private and public bodies active in the audiovisual industry were invited to participate in the consultation, by means of a written contribution or intervention at the public hearing. All contributions received in the course of the public consultation exercise were made public, unless a specific request for confidentiality was made³⁴.

34 Available at: http://europa.eu.int/comm/avpolicy/media/med2eva_en.html

The consultation covered a wide range of stakeholders and target groups. The public hearing for interested parties was attended by approximately 150 people over two days. The target groups of the new programme were well represented. Over 40 written contributions were received from various private and public bodies all over Europe. These contributions concentrated on issues raised in a questionnaire published on the web-site, covering development and TV distribution, distribution, promotion, training, access to finance, and enlargement. Target groups were particularly well represented in the focus group meetings, as these groups were formed entirely of professionals (“experts”) from the audiovisual sector. The meetings covered development and TV distribution, distribution, promotion, training, access to finance for audiovisual SMEs, as well as pilot projects and new technologies.

The Public Hearing

The public hearing on a new programme for the European audiovisual sector Post-2006 took place on 1-2 July 2003. The hearing was well attended (approximately 150 people).

Two key messages emerged from the discussions:

- There is widespread agreement at all levels (professional and institutional) of the continuing need for Community action in the areas currently covered by the MEDIA Programmes. The current actions were generally considered to be effective and appropriate to the needs of the sector, in view of the structural deficiencies and market failure in the sector. Certain proposals were also made with a view to improving the focus or functioning of existing actions, notably with a view to integrating digital technology throughout the Programme lines;
- The MEDIA Programme will need to take into account the changes brought about by enlargement and the acute difficulties of the SMEs from the sector in accessing finance. As part of this debate, the approach of the Commission to co-production will need to be considered.

Specific points were made on a number of areas:

- The importance of complementarity between Community and Member State actions as part of the reinforcement of the sector and of increasing its competitiveness;
- The need to ensure that the instruments put in place are adapted to the production cycle of the SMEs that are the core operators within the audiovisual industry;
- The elaboration of mechanisms to favour co-production and notably to cover gap and bridge financing;
- The need for additional measures focusing on the financing needs of SMEs to be included in MEDIA 2007 to increase the full potential of the action at each stage of the chain in the audio-visual sector (balance the negative effects for a

segment of the market which suffers from the lack of interest of commercial banks);

- The need to develop in co-ordination with the Member States and other European financial institutions, specific instruments within the MEDIA programme to reduce the shortage of capital which constitute the main characteristic of the independent audiovisual sector;
- The problems faced by the sector in finding matching funds, especially in the new Member States;
- The need to provide flexibility throughout the Programme, partly to address regional, linguistic and cultural diversity (such as restricted linguistic/geographic markets or the specific situation of the new Member States' audiovisual sectors) but also to allow for future market and technological changes;
- The importance of working with broadcasters to benefit from this important European distribution opportunity – suggestions were put forward in respect of the need for specific skills and competencies and subtitling/dubbing;
- The need to restructure the promotion line of the programme, bearing in mind the limitations of national promotion for film, and the role played by promotion outside the EU;
- The need to integrate digital throughout the programme and the question of digitising content systematically to benefit from all exploitation possibilities;
- In respect of the improvement of skills and competencies there was a need to ensure that digital was covered fully by actions under the programme;
- Visibility and coherence of initiatives (perhaps in association with TV channels for European “events”) on the promotion mechanism to foster “audience education”.

Written Contributions

The written contributions concentrated upon the issues raised in the questionnaire published on the web-site together with the consultation document.

Pre-Production

Access to financing: The SMEs within the audiovisual sector have a structural capital shortage. This is likely to remain the case over the next years, as investments in the sector are considered to be “high risk”. The issues raised by the contributions are the following:

- Continuation of the Initiative i2i with an improvement of its geographical distribution. The need to balance the negative effects borne by small and very small companies - an entire segment of the market - that suffer from commercial banks strict conditions.

- Search for co-ordinated mechanisms adapted to market conditions and open to all independent European companies. The instruments should take into account the different categories of SMEs which constitute the European audiovisual sector, the need of increasing their own funds (or quasi-own funds) as well as the need to reduce the lending risks carried by financial institutions.

Improvement of Professional Skills: The role of this component for the development of the industry was acknowledged by all contributions. It has contributed to the improvement of the quality of professionals and has favoured contacts among them throughout the Union. The main issues emerging from the contributions are the following:

- Support covering all aspects of the production process, including development, production, distribution and promotion
- Focus on the adaptation of professionals to the use of new technologies
- Integration with the development aspects of audiovisual production
- Favouring projects having a strong European added value
- Promote distance learning to access the largest number of beneficiaries
- Inclusion of special schemes for television professionals

The categories should be reviewed and closer connections with and between European Film Schools should be explored. The specific problems linked to the new Member States need to be addressed.

Development and TV Distribution. The development component has proved to be a resounding success of the MEDIA Plus Programme. In particular, it has increased the relevance of development phases of the production process and has been complementary to national funding schemes in the various Member States. The main issues addressed by the contributions are the following:

- Structured support, such as slate funding, should be privileged as this helps not only the project, but also the company
- Favour the projects involving the use of new technologies and multimedia;
- Increase the involvement of TV in the co-production and distribution sector;
- Establish a link between financing support for SMEs and development;
- Support to dubbing costs, pitching sessions and participation at trade fairs should be made available for TV co-productions.

The development component of the actual programme should continue in the new generation with a more structured approach. The need to involve TV Broadcasters will have to be taken into consideration in the new programme (although not necessarily as a development issue).

Post Production

Distribution: All contributions expressed satisfaction with the MEDIA Plus programme in the distribution sector. The major issues raised by the contributions are the following:

- Improvement of synergy between the automatic and selective scheme, which tend to concentrate support on big successful films
- Introduction of a “slate funding” mechanism in the selective scheme to help high quality films with low budget and less commercial potential
- Support to groupings of distributors to be pursued in a non-formal manner
- Improvement of the geographical distribution of the sales agents support scheme (with the possibility to include TV sales agents under this heading)
- Recognition of cinemas as the most important vehicle for distribution and circulation of non-national European works
- Inclusion of new technologies in the support for distribution

These issues were the most relevant for the new programme. The programme for the distribution of European works should continue to pursue the same objectives as the MEDIA Plus.

Promotion: The need for a specific programme for the promotion of the European audiovisual industry was confirmed by all contributions. The issues raised by the contributions are the following:

- Confirmation of the necessity of a centralised European approach to promotion, with consistent allocation of public funding
- Support initiatives aimed at establishing international business platforms
- Need to consider audience education and means to achieve this as part of the larger promotion issue, involving TV Broadcasters.

The promotion action has had an important impact in underpinning the establishment of a European strategy for the industry. These efforts should be encouraged and continued in the new programme, as promotion policy relies primarily on public funding.

Enlargement

The new countries’ accession to the European Union is a challenge for the new MEDIA Programme for the audiovisual industry. The main issues emerging from the contributions are the following:

- Inclusion of special temporary measures to facilitate the participation of the new countries in the MEDIA Programme

- Special incentives for the distribution and development selection procedures for works originating in the new countries
- The new programme should allow for a degree of flexibility to answer the needs of the new countries. The aim is to favour an integration of the local creative industries into the European audiovisual industry.

The Focus Groups

The consultation was completed by the organisation of focus groups with professionals (“experts”) from the European audiovisual sector. The meetings covered various aspects of the MEDIA Plus and MEDIA-Training Programmes, including the pilot projects and i2i Audiovisual.

The Commission chaired the meetings. The main issues raised together with the conclusions by meeting are outlined below.

Pre-Production

Access to finance for audiovisual SMEs: The group demonstrated that small and very small companies do not receive the same conditions in accessing external finance. The current market trend means that commercial banks are cutting their business with small and very small companies. This segment of the market is considered too risky, while the profit margin expectations are too narrow.

There is no doubt that the shortage of own funds (and quasi-own funds), the nature of audiovisual products (intangible) and consequently the lack of collateral to offer to investors and/or banks to offset the risk create this situation. There is a range of actions to be implemented in order to balance the current negative effects: to continue to adapt the i2i preparatory action (help small and very small companies to continue to have access to bank finance and push for the creation of a completion bond market). In parallel, the Commission should carry on its investigations on new financial instruments in co-ordination with the Member States and the EIB Group (micro-credit guarantee, alternative guarantee instruments, venture capital instruments, Equity and Mezzanine Instruments). These instruments must be equally available for companies based in each Member State. Finally, the Commission should investigate the possibilities of strengthening the financing structure of audiovisual products – costs control and exchange of information between the European Commission, the national film funds and all interested parties (European Network of expertise).

Improvement of Professional Skills and Competencies: The group confirmed the relevance of the objectives of the MEDIA-Training Programme and its pan-European approach. The importance of supporting networking of the various European projects was highlighted as being one of the major improvements for the sector. The inclusion of other topics could match the needs of the sector even better. In particular activities focusing on the distribution action would provide a more integrated strategy for the sector. The lack of a business culture in the industry should be compensated by schemes aiming at providing a business strategy for the production process, including the distribution and promotion of audiovisual works. Particular attention was paid to the schemes on the use of new technologies, as the sector remains weak

in this regard. Moreover, the programme should promote distance learning, as it is a way of broadening the final beneficiaries.

Development and TV Distribution: The discussion confirmed the relevance of the objectives of the MEDIA Plus development programme, as the programme responds to the needs of the industry. The lack of financing for SMEs of the audiovisual industry is still the major obstacle to production. The slate funding scheme is adapted to the sector and needs further expansion. However, there is a general need to re-examine the ceilings on financing since costs of production (particularly for animation) have risen sharply. The group insisted on the need to provide more flexibility in terms of financing, to the companies concerned, as this flexibility is needed to adapt to the production cycles of the SMEs. In particular the time constraints seem to be inadequate in relation to production. As far as TV was concerned, the implication of the broadcasters in the production process was strongly advocated by the group as well as the need for co-production to be addressed at a European level (in particular gap and bridge financing).

Post Production

Distribution: The discussion focused on the appraisal of the present scheme and its eventual adjustments for the new programme. The actual MEDIA Plus Programme should be maintained as it is. It has proved to be very successful and well adapted to the various needs of the sector. The group favoured the establishment of a two-gear system, one for the commercially successful films with an automatic and selective scheme and one for quality films with lower audience expectations. The latter involves the establishment of a slate funding type of support that could incentivise distribution companies to take on board higher risk films. The support to groupings should not be prescriptive but respond to existing structures with a view to optimising their use of resources and the results obtained. A more structured and integrated programme for sales agents should be envisaged with a view of facilitating the co-operation among producers, distributors and sales agents for the promotion of European films. This could include support for the preparation of promotional material, extra prints and dubbing. Finally, all participants stressed the importance of support to cinemas, in particular regarding the success of Europa Cinema, but also to any other activity which could foster the exhibition of European films.

Promotion: The discussion concentrated on two aspects of the programme; the festivals and the promotional activities. As far as *festivals* were concerned the group agreed on the need of structuring support in a more targeted manner. A concentration of Community support on a few key markets, having a real added value for the industry and a recognised European dimension, could help in creating a more strategic approach to the promotion of the industry. However, it was also stated that the festival component was an important cultural initiative and should be linked more closely to audience and their participation. On the *promotion* component of the programme, participants insisted on the need for a European strategy and a centralised policy. The need of broadening the scope of the promotion action in order to make it an essential step alongside the whole production cycle also emerged as an important issue, for example audience education. Promotion should be a more structured element of the industry to increase its competitiveness.

Pilot Projects and New Technologies

The discussion focused on the need to further promote actions for multimedia and on-line distribution. Multimedia should be considered as an important part of the audiovisual industry, although a number of participants considered that a new definition of multimedia was required for the MEDIA Programme. Certain participants considered that the ceiling for multimedia (and in general) was too low, and didn't reflect the cost of audiovisual works. Similarly, the average cost of producing a feature film had risen in past years and the MEDIA actions should reflect this increase. The EU had an advantage in respect of mobile technology that it should exploit. The development of digital content should be pursued involving also broadcasters. The lack of skills in the sector should be tackled by special schemes. An important element of discussion was the effect of digital technologies on distribution. The need to provide content, equipment and skills for digital exhibition emerged as essential for the industry.

8.2. Lessons from the past

8.2.1. MEDIA I and MEDIA II

The Community response to the crisis in the European market for audiovisual programmes dates from the end of the 1980s.

While the European single market was being put in place, the MEDIA I Programme (1991-1995) throughout its 5-year duration stimulated transnational collaboration among producers, distributors and broadcasters established in the Member States of the Union. Endowed with a rather modest total budget (200 M. €), the MEDIA I Programme enabled professionals to strengthen their position on their national markets and, at the same time, to have access to new forms of transnational collaboration (co-productions, cross-border co-operation, partnerships, company groupings, etc.).

Building on the experience gained under MEDIA I and conscience of the structural weaknesses of the European programmes market, MEDIA II (1996-200), overall budget 310 M. €, chose to focus its efforts and fixed three priorities: professionals' training, the development of works with a genuine European potential and the distribution and dissemination of non-national audiovisual programmes. MEDIA II support had a knock-on effect in terms of investments in the audiovisual sector since each invested Community € generated 5.75 € in the industry. This multiplying coefficient is naturally lower in the training sector (2.38), but more important in distribution (7.2) and, to a lesser extent, of development (4.19).

8.2.2. Continuity and consolidation through MEDIA Plus/Training

The MEDIA Plus Programme was adopted by the Council on December 20th 2000 to run from 1 January 2001 to 31 December 2005, with a budget of 350 million €.

This programme results from a proposal made by the European Commission on the basis of Article 157, intended to continue Community action in this sector. The MEDIA Plus proposal aimed to achieve the following objectives:

- an improvement in the competitiveness of the European audiovisual sector — including small and medium-sized enterprises — on the European and

international markets, by supporting the development, distribution and promotion of European audiovisual works, taking account of the development of new technologies;

- strengthening the sectors which help improve the transnational movement of European works;
- respect for and promotion of linguistic and cultural diversity in Europe;
- enhancing the European audiovisual heritage, in particular by digitisation and networking;
- development of the audiovisual sector in countries or regions with a low audiovisual production capacity and/or a restricted linguistic or geographical area and strengthening networking and transnational co-operation between small and medium-sized enterprises;
- the dissemination of new types of audiovisual content using new technologies.

The MEDIA Plus Programme aims of strengthening the competitiveness of the European audiovisual industry with a series support measures dealing with: the development of production projects and companies; the distribution of cinematographic works and audiovisual programmes; the promotion of cinematographic works and audiovisual programmes. The programme has now existed since 1991. During this period, the programme has enabled many thousands of films to be distributed within the European Union, as well as the development of many others or their promotion etc. In addition, the Programme has supported various events to facilitate market access and to improve public access to the European audiovisual heritage.

The MEDIA-Training Programme was adopted by Decision n°163/2001/EC of the European Parliament and of the Council on 19 January 2001 to run from 1 January 2001 to 31 December 2005, with a budget of 50 € million.

This programme results from a proposal made by the European Commission on the basis of Article 150(4), intended to continue Community action in this sector.

The MEDIA-Training proposal aimed to achieve the following objectives, which are based on the EC Treaty objectives:

To meet the industry's needs and promote competitiveness by improving the continuous vocational training of professionals in the audiovisual sector, with a view to giving them the know-how and skills needed to create competitive products on the European and other markets, in particular in the field of:

- application of new technologies, and in particular digital technologies, for the production and distribution of audiovisual programmes with a high commercial and artistic added value; economic, financial and commercial management, including the legal framework and the techniques for the financing, production and distribution of audiovisual programmes;

- script-writing techniques and storytelling including techniques for the development of new audiovisual programme types.

To encourage co-operation and the exchange of know-how and best practice through networking between the partners responsible for training, namely training establishments, the professional sector and undertakings, as well as through developing training for the trainers.

The MEDIA-Training Programme is intended to give professionals in the European audiovisual programme industry, mainly through continuous vocational training, the necessary skills to allow them to take full advantage of the European and international dimension of the market and of the use of new technologies. The programme has now existed since 1991. During this period, the programme has supported numerous projects, which have had a positive impact on employment within the European audiovisual sector, imparting professional skills to allow professionals to benefit fully from the European and international dimension of the market for audiovisual programmes.

To enhance the international dimension of the MEDIA Training programme, training projects could be opened to Mediterranean professionals. A budget of 2.5 Million, for this purpose could already enable joint actions to take place in 2006. Under the second programme Euromed Audiovisuel II, a positive impact for the audiovisual sector and for the promotion of cultural diversity over the period 2004-2007 will be highly dependent on the strengthening of cooperation and the synergies between the instruments of aid for the sector in Europe and the policies of aid for this sector towards the Mediterranean countries. The recently launched programme concentrates on the search for co-operation between European and Mediterranean professionals in order to develop new projects as from 2005. The programme will be managed either by official authorities, or by Mediterranean professionals in partnership with professionals of the Member States of the EU.

8.2.3. *The ex post evaluation of MEDIA II*

The ex-post evaluation of MEDIA II confirmed that a Community programme to assist the European audiovisual industry was fully justified by the economic situation in the audiovisual sector³⁵. The focusing of resources on development, distribution and training was appropriate for tackling the weaknesses of the European industry, the fragility and lack of competitiveness of European audiovisual products arising to a large extent from chronic under-investment both upstream (training, development) and downstream (distribution) of the production process.

- Thus, in the area of training, MEDIA II's aim was to support initiatives to enable professionals to acquire the know-how and skills needed in order to take account of the European and international markets (economic and commercial management, integration of new technologies, screenplay techniques) and to enhance the creative and commercial potential of their projects.

35 Available at: http://europa.eu.int/comm/avpolicy/media/index_en.html

- In the area of development, MEDIA II's aim was to promote, by providing financial and technical assistance, the development of production projects aimed at the European and international markets and to contribute towards the development and strengthening of companies. The aims were to bring onto the European market programmes that were better adapted to the standards of the international market and to make companies structurally stronger.
- In the area of distribution, MEDIA II's aim was to improve the circulation of non-national European films and programmes. The main focus was on the distribution and screening of cinema films in cinemas outside their territory of origin. Other mechanisms were also put in place to promote the widest possible circulation of European programmes through television and other media (video, multimedia). Finally, the programme supported a series of initiatives aimed at facilitating the promotion and access to the international market of European independent productions.

The ex-post evaluation also underlined the complementarity between national measures and the MEDIA Programme. During the period 1996-2000, the bulk of national aid (84%) was for production, while MEDIA II focused on training, development and distribution. The few instances of national aid for distribution were chiefly in support of national films, while MEDIA II exclusively encouraged the distribution of non-national European films. In the area of cinema operation, national aid was chiefly for structures, while MEDIA II aid was chiefly for cinemas to show European films. In the area of development, national aid was insignificant except in Germany, Finland and France.

Finally, MEDIA II has also proved to be well suited to the specific needs of the European audiovisual sector, which comprises mainly small and medium-sized enterprises and is marked by an economic imbalance between countries with strong production potential and countries with a low production capacity and/or a restricted linguistic and geographical area³⁶.

On the one hand, new mechanisms were set up in the course of MEDIA II to meet the specific needs of medium-sized companies (automatic distribution support and slate funding)³⁷, while existing mechanisms (selective distribution support and support for the development of individual projects) remained open to smaller companies.

On the other hand, the introduction of flexible positive discrimination in favour of countries with a low production capacity and/or a restricted linguistic and geographical area made it possible to begin to restore balance to the European market³⁸.

36 The following were considered as countries with a low audiovisual production capacity and/or a restricted linguistic and geographical area during the MEDIA II programme: Austria, Belgium, Denmark, Finland, Greece, Ireland, Iceland, Liechtenstein, Luxembourg, Norway, Netherlands, Portugal and Sweden.

37 See paragraphs 2.2.1, 2.3.1. and 3.1

38 See paragraph 2.1.

When the discussions on the future of MEDIA were launched, the need to provide Community support for the audiovisual sector was evident because of the sector's economic situation, reflecting how much needed to be done in terms of training, development and distribution. In fact, the economic assessment of the audiovisual sector justified a substantial increase in the MEDIA budget. While MEDIA II had had a budget of 310 million €, MEDIA Plus and MEDIA-Training were allocated 400 million €.

Experience acquired from MEDIA II influenced the design of MEDIA Plus in the following ways. The focusing of resources on the three strands of training, development and distribution was maintained. However, the instruments set up under MEDIA II were adapted to take account of the results recorded over the period 1996-2000 and to take account of the sector's changing needs.

8.2.4. *The mid-term evaluation of MEDIA Plus/Training and i2i Audiovisual*

Community intervention in the audiovisual sector since MEDIA I has been based on a diagnosis of the structural difficulties facing the European audiovisual sector. This approach is still valid, as is shown by the initial results of MEDIA Plus, MEDIA Training and i2i audiovisual, and the existence of financial support at Community level is more necessary than ever³⁹.

Priorities relevant to the structural difficulties facing the European audiovisual sector

MEDIA Training

The emergence of a European audiovisual market and the appearance of new technologies call for appropriate professional skills. This is the aim of MEDIA-Training, in training professionals in: the application of new technologies, particularly digital, to production and distribution; economic, financial and commercial management, ensuring the reliability of undertakings and oriented towards external markets; scriptwriting and narration techniques, essential for improving the quality and export potential of European works.

MEDIA Plus – Development, Distribution and Promotion

Improving the development of European works is the *sine qua non* for improved production quality, better suited to international market standards. This is the aim of the Development strand of MEDIA Plus, helping to strengthen the structural competitiveness of the European audiovisual industry.

In the distribution field, the aim of MEDIA Plus is direct action to remedy the chief symptom of the European industry's weakness: the lack of circulation of non-national European films and programmes. The chief instrument remains support for the distribution outside their country of origin of European films, supplemented by measures aimed at cinemas (Europa Cinema network), TV broadcasting and sales agents.

39 Mid-term evaluation of the Media Plus and MEDIA-Training programmes available at: http://europa.eu.int/comm/avpolicy/media/index_en.html

In the field of promotion and festivals, MEDIA Plus supports a series of initiatives to facilitate the promotion of and international market access for independent European productions. The aim is to improve the visibility of European output and give European undertakings greater presence in European and extra-European markets.

Finally, support for pilot projects is intended to respond to the needs of the European audiovisual industry in terms of adapting to new technologies.

The i2i Preparatory Action

The basis for i2i is the difficulty experienced by SMEs and micro-undertakings in accessing finance from banks. Its aim is to reduce banking and financial costs for these essential players in the European audiovisual sector and thereby improve the conditions for their development.

Proof of the relevance of European priorities: ever-increasing demand from market players

Applications for financial support from MEDIA continue to increase, particularly in the development and distribution field. Taking the development sector as an example, 352 projects were submitted in 2001, 574 in 2002 and 778 in 2003, i.e. an increase of 120% over 2001.

Participation in the programme by the new (accession) countries is not enough in itself to explain this rapid growth. It is also due to a greater perception by professionals of the need to integrate the European dimension into their economic activity.

The downside to this success is the increase in unmet needs. Again taking development as an example, while the number of applications increased by 120% during the period 2001-2003, the budget increase linked to the participation of the accession countries enabled only a 33.5% increase in the number of projects funded (from 209 in 2001 to 279 in 2003).

Initial results showing that MEDIA Plus, MEDIA Training and i2i audiovisual are achieving their objectives

The results set out below provide an overview of the implementation of MEDIA Plus, MEDIA Training and i2i audiovisual during the period 2001–2003. However, trends in the audiovisual sector, which extend far beyond this period, mean that a quantified assessment of the economic, social and professional impact of these three support mechanisms is not yet available.

Benefits linked to the existence of financial support at European level

The benefits of financial support at Community level go beyond providing European professionals with sources of finance in addition to national aid.

In addition, the existence of European support does not act against European cultural diversity: on the contrary, it aims to give undertakings in the audiovisual sector the resources to take maximum advantage of a unified market while respecting national characteristics.

Account taken by professionals of a European dimension

The benefits linked to the existence of financial support at European level relate first of all to the integration of a European dimension in the projects supported, which would not exist if the selection machinery used for MEDIA did not favour this aspect. Awareness of the existence of a European market is one of the preconditions for players to make the most of its potential and improve the circulation of non-national European works.

We are therefore gradually seeing a true, far-reaching change in the attitudes and practices of European audiovisual professionals and the undeniable beginnings of the networking of these professionals at European level.

Restoring the balance between European countries

Community support also has an impact at a national economic level: it enables balance to be restored between small countries, where national aid is often non-existent or at a very low level, and large countries. As noted above, the diversity of these different markets is one of the weaknesses of the European audiovisual sector.

In order to take account of the particular needs of countries and regions with low production capacity and restricted linguistic areas, a flexible policy of positive discrimination, with no quantified *a priori* objectives, has also been established within the framework of the programme. This system, which enables countries and regions with low production capacity and restricted linguistic areas to benefit from a percentage of European aid greater than their weight in the European market, helps to create the conditions for a long-term convergence of productive structures at the Union level while preserving cultural diversity.

Beneficial complementarity between national aid and Community support

Community financial support has a transnational dimension, which is not present in national aid systems.

The latter remain mostly oriented towards supporting national production or, in the distribution field, national films. For its part, MEDIA exclusively encourages the distribution of non-national European films. In the field of cinema distribution, national aid basically funds the structures, while MEDIA aid consists of an incentive to show European films. With regard to development, an essential phase for the quality and export potential of a work, national aid is only just starting to develop and still involves only a small number of countries.

In the absence of Community financial support, there would therefore be a high risk that the potential of the internal market would not be exploited or that, on the contrary, would be exploited but by non-European companies, with negative consequences for growth and employment in Europe.

8.3. Conclusions on the results of the evaluation exercises

The MEDIA Plus and MEDIA-Training Programmes are highly effective and are suited to the needs of the sector and of beneficiaries, providing appropriate categories of support. The indicators used for evaluation show that the tools set up by the

commission produced satisfactory results and achieved their midterm goals. They were particularly necessary in the difficult economic period of the year 2001/2003.

The evaluation of the MEDIA Plus and MEDIA-Training Programmes confirmed that Community intervention operates in line with changing needs (newcomers, funding crisis, consolidation of the industrial base, international expansion), which are increasingly at the heart of the problems experienced by European professionals. The first assessment of the programme after 27 months of implementation demonstrates a high level of results. Effectiveness is also measured by the fact that MEDIA Plus accompanies risk-taking by European SMEs, which are otherwise increasingly hesitant to develop European actions and strategies and to try to get a foothold on European markets. The preparatory action I2I for SMEs has been effective in contributing to the construction of financial plans for the companies. The action should be fully integrated in the programme.

The different fields of support of the MEDIA Programme provided their full measure of European added value through an analysis of the guidelines of the different programmes that are separate and complementary to the many national support schemes. European added value is particularly pronounced in the implementation of European networks.

9. HELPING TO ACHIEVE COST EFFECTIVENESS

The cost implications of the proposal result from the assumptions. These assumptions take into account the experience of support to the sector of previous Community actions as well as the emergence of new needs for the sector in the field of digital technologies and film financing. The assumptions draw on the conclusions of the stakeholder consultation carried out prior to the preparation of the proposal.

9.1. Cost implications of the programme over 7 years: €1.055.000

The total budget for direct financial outlays and administrative costs includes:

A: Support programme

Commitments (in € million to three decimal places)

| Breakdown | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|----------------------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Action 1 Pre-production | 31 | 33 | 40 | 45 | 51 | 56 | 62 | 318 |
| Action 2 Post-production | 54 | 58 | 70 | 81 | 93.5 | 100.5 | 109 | 566 |
| Action 3 Pilot projects | 6 | 6 | 7 | 7 | 8 | 8 | 9 | 51 |
| Action 4 Horizontal issues | 3.977 | 4.068 | 4.403 | 4.736 | 5.549 | 5.911 | 6.110 | 34.754 |
| TOTAL | 94.977 | 101.068 | 121.403 | 137.736 | 158.049 | 170.411 | 186.110 | 969.754 |

B: Implementation costs

(in € million to three decimal places)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 1) Technical and administrative assistance | 8.889 | 9.776 | 10.419 | 11.062 | 11.724 | 12.338 | 12.613 | 76.821 |
| a) Technical assistance offices | | | | | | | | |
| b) Other technical and administrative assistance: - intra muros: - extra muros: <i>of which for construction and maintenance of computerised management systems</i> | 9.012 | 9.901 | 10.546 | 11.192 | 11.857 | 12.473 | 12.751 | 77.732 |
| Subtotal 1 | | | | | | | | |
| 2) Support expenditure | 0.562 | 0.573 | 0.584 | 0.596 | 0.608 | 0.620 | 0.633 | 4.176 |
| a) Studies | 0.189 | 0.193 | 0.197 | 0.200 | 0.205 | 0.209 | 0.213 | 1.406 |
| b) Meetings of experts | 0.260 | 0.265 | 0.270 | 0.276 | 0.281 | 0.287 | 0.293 | 1.932 |
| c) Information and publications | 1.011 | 1.031 | 1.051 | 1.072 | 1.094 | 1.116 | 1.139 | 7.514 |
| Subtotal 2 | 10.023 | 10.932 | 11.597 | 12.264 | 12.951 | 13.589 | 13.890 | 85.246 |
| TOTAL | 8.889 | 9.776 | 10.419 | 11.062 | 11.724 | 12.338 | 12.613 | 76.821 |

C: Human resource costs

| Types of post | | Staff to be assigned to management of the action using existing and/or additional resources | | Total | Description of tasks deriving from the action |
|------------------------------|---|---|---------------------------|--------|--|
| | | Number of permanent posts | Number of temporary posts | | |
| Officials or temporary staff | A | 8(10) | | 8(10) | <i>If necessary, a fuller description of the tasks may be annexed.</i> |
| | B | 3(3) | | 3(3) | |
| | C | 8(8) | | 8(8) | |
| Other human resources | | | 2 | 2 | 2 DNEs |
| Total | | 19(21) | 2 | 21(23) | |

Overall financial impact of human resources

| Type of human resources | Amount (€) | Method of calculation * |
|-------------------------|------------------------|-------------------------|
| Officials: 19(21) | 2052.000 (2268.000) | 108.000 x 19 (21) |

| | | |
|-----------------------|-------------------|------------|
| Other human resources | 90.000 | 45.000 x 2 |
| Total | 2142000 (2358000) | |

The amounts are total expenditure for twelve months.

Other administrative expenditure deriving from the action (to be completed)

| Budget line (number and heading) | Amount € | Method of calculation |
|---|----------|--|
| Overall allocation (Title A7) | | |
| A0701 – Missions | 35.000 | 54 missions at 650€ per mission |
| A07031 – Compulsory committees ¹ | 258.000 | 25 Member State representatives for 860€ for 6 meetings per year. |
| A07040 – Conferences | 200.000 | - |
| A0705 – Studies and consultations | 50.000 | - |
| Other expenditure (specify) | - | - |
| A07030 – Meetings | 62.000 | 3 meetings per year of focus groups (1010€ for travel and per diem per person) |
| Information systems (A-5001/A-4300) | | |
| Other expenditure - Part A (specify) | | |
| Total | 605.000 | |

The amounts are total expenditure for twelve months.

9.2. Could the same results be achieved at lower costs?

To answer this question Table 1 indicates the outputs and their unit costs, and Table 2 makes an assessment of the major assumptions on the basis of which the cost of the programme has been calculated.

In elaborating the new estimates for the detailed budget and its allocation in the new programme two new actions will have to be taken into consideration, namely digital and film financing. The support granted for the digitisation will appear in the increased budget for both the pre-production and postproduction components, namely in the development action (linked to slate funding) and in the distribution action and exhibition actions. The measures to facilitate access to finance for SMEs will appear across the actions of the programme. They include additional actions in the pre-production aspect in particular in the development action. However, the measures to facilitate access to credit target SMEs active in the post production component of the programmes, namely in the distribution action.

Finally, it is plausible to assume that the newly entered countries will have developed by 2007 more familiarity with the programme if not a more dynamic audiovisual sector and a more proactive national audiovisual policy. Therefore their participation in the programme will entail increased levels of commitments towards these countries. The new programme will also include scholarships, in particular for the professionals coming from these new Member States, to enable them to participate in projects for the improvement of their professional skills. These scholarships will be financed up to 75% by the new programme. Transitional

measures for the co-financing of projects coming from the new Member States are foreseen in the pre-production component of the programme, namely improvement of the professional skills, and for the post production component, in promotional actions. Reducing the requirements of matching funds from 50% to 25% will enable these countries to integrate more easily into the European audiovisual sector.

An executive agency may be responsible for the administrative management of the programme. The agency would be operational as from January 2005. In establishing the agency a feasibility study has been carried out by an independent external consultant. The study demonstrated the higher efficiency of centralised management of the programme in respect to decentralisation at a National agencies' level. A centralised management guarantees the European dimension of the programme and the subsidiarity principle.

Table 1

Commitments (in € million to three decimal places)

| Breakdown | Type of outputs (projects) | Number of outputs (total for years 1...n) | Average unit cost | Total cost (total for years 1...n) |
|--|----------------------------|---|-------------------|------------------------------------|
| | 1 | 2 | 3 | 4=(2X3) |
| <u>Action 1 Pre-production</u> | | | | 318.000 |
| - Measure 1: Skills improvement | | 300 | 0.267 | 80.000 |
| - Measure 2: Development | | 2615 | 0.091 | 238.000 |
| <u>Action 2 Post-production</u> | | - | - | 566.000 |
| - Measure 1: Distribution | | - | - | 461.000 |
| Distribution (selective/automatic) | | 3000 | 0.090 | 270.000 |
| TV Distribution | | 1000 | 0.096 | 96.000 |
| Exhibition | | 1700 | 0.056 | 95.000 |
| - Measure 2: Promotion | | 1500 | 0.070 | 105.000 |
| <u>Action 3 Pilot projects</u> | | 50 | 1.020 | 51.000 |
| <u>Action 4 Horizontal issues</u> | | | | 34.754 |
| - Measure 1 : MEDIA Desks | | 28 | 1.000 | 28.000 |
| - Measure 2 : EAO | | 1 | 0.350 | 2.500 |
| - Measure 3 : Events | | 14 | 0.304 | 4.254 |
| TOTAL COST | | | | 969.754 |

Table 2**Pre-production**

| Assumption | Assessment |
|---|--|
| Improvement of skills and competencies will improve the competitiveness of the European audiovisual sector. The Programme will fund approximately 50 projects a year. | The new programme is based on an integrated approach reflecting the linkages between these skills and the production and distribution of successful projects. The weight given to this component of the programme reflects the reality of the sector and the cost of the projects. |
| The newly entered Member States will have exceptional requirements in terms of | The new programme will respond to the exceptional needs for improvement of |

| | |
|--|---|
| <p>improvement of the skills and competencies of the audiovisual sector professionals. There is a decrease in the matching fund requirement for professionals from the new Member States.</p> | <p>skills and competencies by</p> <ul style="list-style-type: none"> • establishing scholarships • reducing the requirements for matching funds to 25% • The budget is increased to integrate the need to reduce the requirement for matching funds for the new Member States. |
| <p>Insufficient investment is made in the development phase of audiovisual production and in particular it is project driven and doesn't have a structuring effect on production entities. The programme focuses on three different types of development action, including single projects and slate funding. Community action aims to support approx. 2200 projects p.a. split in a ratio of 1:2 between single and slates.</p> | <p>The new Programme addresses this problem through the slate funding mechanism and adds a new heading on digitisation to encourage its use from the pre-production phase. The costs of these actions reflect the minimum costs as foreseen in the sector for these activities. Community action will cover approx.</p> |
| <p>In the development action a new horizontal issue is the digitisation of production as from the pre-production phases. The Programme foresees digitisation of content as a major new action. The cost is based on the average number of EU production (approx.600 p.a.)</p> | <p>In terms of digitisation the programme will provide support to the companies for digital prints of their projects. The amount foreseen within the development action accurately reflects the cost in the marketplace of 5000 € per hour of which the Community action will finance approx. 50% and the number of audiovisual works produced.</p> |
| <p>Another issue is the establishment of measures to facilitate the construction of sound financing plans for the production companies. The Community intervention is based on a unit cost of approx. 35.000€.</p> | <p>The programme will establish support to SMEs to cover part of the side costs of private financing. It will support companies providing financial intermediation for co-productions. It will assist the network of national agencies for the monitoring of financing mechanisms in Europe. All these costs are based on past experience and discussions with experts. In particular, the unit cost is based on the results of the i2i Preparatory action and the actual insurance and completion bond costs and side-costs.</p> |

Post production

| Assumption | Assessment |
|--|--|
| <p>The costs of the distribution scheme will be split amongst the automatic, selective and slate funding schemes. The programme will support approx. 3500 projects.</p> | <p>All the costs are based on experience and reflect real costs in the sector. The Programme currently supports 9 out of 10 films distributed through its actions. This calculation is based on the production p.a. In addition, the automatic scheme generates reinvestment in the sector.</p> |
| <p>The Programme will continue to support the Europa cinema network comprising roughly 1000 screens. The support has been increased under MEDIA 2007 to enable common promotional activities to be carried out. As an average this means roughly 7000€ per screen.</p> | <p>The Europa Cinema network shows 38% European non-national films as opposed to 8% for other cinemas. The action enables these cinemas to show such films that have a lower commercial potential. The figures are based on past experience and the cost of promotional packages for the new action line.</p> |
| <p>The Commission will support roughly 1750 festivals and markets over the 7-year period.</p> | <p>The cost of the key markets (Cannes, Berlin and Rotterdam) is based on past experience. For the festivals the Commission uses its contribution (small in percentage terms – 5-10%) to have a leverage effect (a condition is that 70% is EU content). The new Programme will enable additional festivals to be supported on the same basis to widen the impact of the action. The ceiling will be limited to 60.000€ for each grant</p> |
| <p>The pilot projects receive a percentage of financing linked to the project submitted. This accounts for the variable Community support received.</p> | <p>The pilot projects represent a limited percentage of the budget of the new Programme. Individual amounts for Community support will be decided on the basis of the Technical advisory group to ensure that the amounts granted are in line with the market value of the projects.</p> |
| <p>The horizontal issues of the Programme include the cost of the MEDIA Desks and information about the Programme. The MEDIA Desks are financed jointly by the Community and the Member States. The horizontal issues include participation in the European Audiovisual Observatory.</p> | <p>The budgets of the MEDIA Desks are drawn up on the basis of the operative Community financial framework. The costs for participation in the European Audiovisual Observatory are based on the previous years' evidence.</p> |

In conclusion, the cost of the programme is the lowest possible. The only way in which the cost of the programme could be significantly reduced would be by cutting down the number of supported projects. This would endanger the viability and effectiveness of the programme. The programme's multiplier effect would be seriously at risk and so would be its expected results and impacts.

9.3. Could the same or better results be achieved at the same cost by using other instruments?

Under heading 4 this report discusses the recourse to a Community expenditure programme versus non-intervention and other approaches. It concludes that an expenditure programme is needed given the objectives laid down in the Treaty. If the programme ceased to exist, the objective of strengthening the European citizenship would not be fully achieved. The audiovisual sector is an essential medium for the transmission of European cultural, political and social values. The strengthening of the audiovisual sector is therefore an essential tool to give European citizen the choice. It enables European citizens to understand the coexisting cultures in Europe and to grasp the meaning of European citizenship. If the programme ceased to exist, the competitiveness of European audiovisual works on European and global market would not be improved and consequently the effect on the consolidation of the European citizenship could not be achieved. In short, without Community support none of the identified needs of the European audiovisual sector would be met and the role of the audiovisual sector in the construction of European citizenship could not be fulfilled.

The report also discusses the need for a new expenditure programme versus the continuation of the existing one (4.2). It concludes that continuing the current programme would not be satisfactory either, as it is not adapted to the changes that are taking place in the European audiovisual sector.

In light of the above, it can be concluded that no other instrument would allow for the same or better results to be achieved at the same costs.

9.4. Should the new programme be simplified in its structure and management?

In its Communication on the Financial Perspectives, the Commission underlined the importance of using the revision of legal instruments which occurs around 2007 to create a significant movement towards greater simplicity in the conception and in the operation of Community instruments. The new programme for support to the European audiovisual sector mentioned in this Communication contributes significantly to this aim.

The choice of a single programme reflects the needs of the sector and notably the heterogeneous nature of the European markets, in socio-economic, financial, and regulatory terms. The results of the preliminary impact assessment carried out by DG EAC confirm that Community action should target pre and post production in a more capillary manner. The assessment clearly demonstrates that there is a need for simplification and integration of the different components of the European audiovisual value chain. In view of this, the design for a new programme reflects this need and streamlines and integrates the two current MEDIA Programmes into one programme, focusing on pre and post-production. This reflects the interlinkage between the various activities in the production and distribution value chain. In particular this approach recognises that the pre-production process depends on the quality of professional skills and competencies. The new programme therefore places an important emphasis on the role played by the acquisition and improvement of the skills and

competencies of professionals, which has a positive impact along the whole of the European audiovisual value chain. It also recognizes the importance of establishing exchanges of competencies among European professional for the promotion of European co-operation.

The Programme will be simpler for the Commission to manage and for the user, for a number of reasons. First, there will be a simplification of internal procedures: for example to render the issue of financial capacity of an applicant proportional to the size of the subsidy requested. The Commission will propose a clause in the draft decisions setting out that the levels of financial and administrative complexity that can be imposed on applicants and beneficiaries must be proportionate to the size of the grant, with the intention that this should lead to significant procedural simplification. The aim here is to respond to the demand in the public consultation to reduce the complexity of these programmes.

The Programme will be simpler for the beneficiary. A number of measures will be introduced to facilitate access and use by potential beneficiaries. An example is that of their reporting obligations: given that those that benefit from the MEDIA programme are mostly small and micro-enterprises, it is absolutely essential to reduce the amount of resources allocated to the administrative follow-up of projects without allowing the quality of the information provided to deteriorate.

The Commission regards these measures as the starting point for a clearer and simpler approach to an extremely complicated sector. This approach will still need to evolve. The introduction of new technology and technical innovations has to be taken into consideration, just like the changing structural, economic and cultural landscape of the audiovisual industry in general. The new programme should retain and build on flexibility; the European audiovisual sector is adapting to constantly changing parameters. The aim is to continue to build on the simplified procedures and new integrated approach to constantly evaluate and respond to changes that impact on the Programme.

10. MONITORING AND EVALUATION

The Commission monitors the most pertinent indicators throughout the implementation of the programme. The Commission services will monitor the implementation of the programme at three levels. Firstly, the data collected through the European Audiovisual Observatory will enable the Commission services to follow the economic evolution of the European audiovisual sector and will provide an essential instrument to assess the relevance of the objectives of the programme with to the evolving needs of the sector. Secondly, the MEDIA Desks network will enable the Commission services to monitor the evolution of national markets and policies with a view of ensuring synergies between European action and national supports. Finally, the follow-up of individual contracts will ensure feedback from the beneficiaries on the effective implementation of the programme. In the context of this follow-up the Commission will consult, when necessary, the operators from the sector to ensure that the specific objectives and the implementation of the programme remain adapted to the evolution of the sector.

10.1. Details and frequency of planned evaluation:

The Commission will draw up two Programme evaluation reports based on external independent evaluations (a mid-term evaluation, and an ex-post evaluation) which will be

communicated to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions.

Mid-term report: the first report will be drawn up three years after the start of the programme. The object of this report is to provide an initial assessment of the impact and effectiveness of the programme on the basis of the results obtained. Any changes or adjustments that are deemed necessary will be proposed by the Commission for the second half of the programme.

Final Report: the second report will be drawn up no later than 31st December 2015.

Furthermore, in the light of the experience acquired under the MEDIA II Programme, the Commission plans to continue its practice of auditing beneficiaries (around 30 per year) in order to check that Community funds are being used properly. The results of audits will form the subject of a written report.

10.2. Evaluation of the results obtained:

Information providing a measure of the performance, results and impact of the Programme will be taken from the following sources:

- statistical data compiled on the basis of the information from application dossiers and the monitoring of beneficiaries' contracts;
- audit reports on a sample of programme beneficiaries (30 per year);
- consultations with MEDIA Desks and Antennae and on national markets;
- consultations with experts and institutional bodies (national and international professional associations);
- consultations with audiovisual professionals and with specialist training bodies.

The new programme will provide the legal basis for the expenditure required for monitoring the implementation of Community instruments of audiovisual policy. In particular, the new programme will pursue the existing participation of the Commission to the European Audiovisual Observatory. The participation of the Commission as a Member of the European Audiovisual Observatory will provide an important tool for monitoring the evolution of the sector and the emergence of new needs. It will also provide the data required to evaluate the results and impact of the programme.

11. DRAFT COMMISSION PROPOSAL AND JUSTIFICATION

11.1. What is the final policy choice and why?

The analysis of the adverse effects of the current state of fragmentation on economic growth, innovation, job creation and the competitiveness of the European audiovisual sector has shown that no policy change is not an appropriate option. This also takes into account the fact that enlargement will inevitably result in even larger divergences across the EU. There is a consequent need to ensure that the structure of MEDIA 2007 is flexible enough to allow the maximum possible participation of

candidate countries. This applies in particular for the acquisition and improvement of skills and competencies.

This report has clearly demonstrated that there is a need for simplification and integration of the different components of the European audiovisual value chain. In view of this, the design for a new expenditure programme reflects this need and streamlines and integrates the two current MEDIA Programmes into one programme, focusing on pre and post-production. This also places an important emphasis on the role played by the improvement of the skills and competencies of professionals, which has a positive impact along the whole of the European audiovisual value chain.

The legal basis for action at Community level is found in Articles 157 and Article 150(4) respectively of the EC Treaty. These Articles concern industrial policy and professional training. The global objectives of the programme reflect the Treaty objectives of the Articles on which the programme is based.

As a reminder, MEDIA 2007 will have three global objectives of equal importance:

- Strengthen the competitiveness of the European audiovisual industry in the framework of an open and competitive market;
- Increase the circulation of European audiovisual works inside and outside the European Union;
- Preserve and enhance European cultural diversity, the European audiovisual heritage and promote the intercultural dialogue.

The programme will follow four priorities across the overall objectives of the programme. Firstly, strengthening the production structures of the SMEs, which constitute the core of the European audiovisual sector. This will contribute to enhancing the competitiveness of the industry. This priority will be put forward by contributing to the spread of a business culture for the sector and facilitating private investments in the sector.

Secondly, the programme will follow and support market evolutions with regard to digitisation. The programme will put in place measures to accompany the changes produced by digitisation in the audiovisual sector at all stages of the production chain, as well as in terms of new competencies for the sector's professionals.

Thirdly, the programme will pursue the reduction within the European audiovisual market of imbalances between countries with a high production capacity and countries with a low production capacity or a restricted linguistic area. This priority responds to the need of preserving and enhancing cultural diversity and dialogue in Europe. It also aims at reducing imbalances between countries with high production capacity and countries with low production capacity. This priority contributes to the transparent and competitive functioning of the Single Market with its potential of economic growth for the whole of the European Union.

Finally, the programme will enhance the creativity and cultural potential of the European audiovisual sector. In this respect it will encourage the dissemination and the preservation of the European audiovisual heritage.

The improvement of the competitiveness of the industry will be pursued in a more capillary way by reinforcing the strategic and coherent approach of the programme. Community action will be integrated into a single programme intervening in the pre-production and in the post production phases. Community intervention is in line with the principle of subsidiarity with Member States' policies, as these are mainly directed to support the production of audiovisual works. Furthermore, the enhancement of the circulation of European audiovisual works entails a specific European added value that transcends national policies.

The new programme will intervene upstream in the production chain in the field of improvement of professional skills and competencies and the development of audiovisual works, and downstream in the distribution and promotion phases.

A Community intervention supporting European audiovisual sector is definitely needed in order to reach the objective set for the European Union in the Lisbon European Council to "become the most competitive and dynamic knowledge-based economy on the world." The programme is complementary to both National and Commission actions, and respects fully the principle of subsidiarity in the focus of its actions. Member States, however, could not achieve the actions foreseen by the programme, and in addition to this approach, would be less cost-effective, and less likely to meet the objectives followed. Programmes or policies with identical objectives to MEDIA do not exist at any level (Commission, European and Member States).

11.2. Why was a more/less ambitious option not chosen?

The choice of option is based on the information contained in various studies, the findings of the evaluation exercises carried out on MEDIA Plus, MEDIA Training, i2i Audiovisual and MEDIA II together with the results of the far-reaching public consultation and an analysis of the needs of the sector.

The main risks associated with the implementation of the programme lie in the difficulty of measuring the exact impact of some of its horizontal actions. While the impact of the programme is clearly recognised for the distribution and the development lines, actions such as promotion and training are more difficult to quantify in terms of their results and impacts. A major risk also stems from the economic conjuncture in which the programme intervenes. As explained in this report, the sector is highly risky and subject to market fluctuations. In addition, the accession of the new Member States, with their less developed audiovisual industries and limited public policies for the audiovisual sector, provides an unknown variable for the implementation and success of the programme. Finally, the rapid technological changes that are taking place in the audiovisual sector are affecting the whole production structure and value chain. The demands of the market are not yet clearly defined in Europe. MEDIA 2007 reflects these risks in the choice of option and delivery mechanism

12. CONCLUSION

The content of MEDIA 2007 draws on the positive features of the MEDIA Plus and MEDIA Training Programmes, together with i2i Audiovisual, whilst adapting them to the current and future needs of the sector.

With regard to the content of the actions, the current proposal ensures continuity for the MEDIA Programmes and hence for the European audiovisual sector, whilst adapting Community action in line with the new political priorities and ensuring a certain flexibility to enable the Programme to adapt to future orientations for audiovisual policy.

ANNEX 1: GLOSSARY

1) Above the line

In a cost analysis of any audiovisual work the expenditures that exceed the running expenses of the production, are above the line costs. These costs can include rights for the initial script and music, as well as the salaries for the director, producer, screenwriter and actors. Many of these expenditures eventuate into the most expensive budgeted items for a film but are open for adjustments.

2) ACP

African, Caribbean and Pacific Group of States. The ACP Group was formed when the first Lomé Convention was signed with the European Economic Community (EEC) in 1975. It encompassed 78 countries in 2002.

3) ADSL

Asymmetric Digital Subscriber Line: Like ISDN, ADSL uses standard phone lines to deliver high-speed data communications. But while ISDN's transmission speed is limited to 64 kbps, ADSL technology can deliver upstream (*from* the user) speeds of 640 kbps and downstream (*to* the user) speeds of more than 6 mbps. Furthermore, ADSL uses the portion of a phone line's bandwidth not utilised by voice, allowing for simultaneous voice and data transmission.

4) Automatic Support

The aim of the MEDIA Programme's "automatic" support scheme is to encourage and support the wider transnational distribution of recent non national European films by providing funds to operators for further investment in such films based upon their record of generating an audience for European films. It also aims to encourage the development of links between the production and distribution sector thus improving the competitive position of non-national European films.

5) Below the line

Below the Line costs are the running expenses of the production, accounting for the cost of the studio and locations, technical equipment and crew, travel costs, as well as overheads and unforeseen events, and other costs (bank charges, insurance and publicity). The primary distinction between above the line and below the line costs is that the below the line costs are usually fixed (see also "above the line").

6) Bridge Financing

Interim financing of one sort or another used to solidify a position until more permanent financing is arranged.

7) CNC

Centre National de la Cinématographie.

8) Countries with High Production Capacity

The following countries are considered as countries with a high audiovisual production capacity: France, Germany, Italy, Spain and the United Kingdom.

9) Countries with Low Production Capacity (and/or a restricted linguistic zones)

The following countries are considered as countries with a low audiovisual production capacity: Austria, Belgium, Denmark, Finland, Greece, Ireland, Iceland, Liechtenstein, Luxembourg, Norway, the Netherlands, Portugal and Sweden, as well as those countries which are candidates to join the European Union and which fulfil the conditions defined in each call for proposals.

10) Downstream

Stage of the audiovisual chain that succeeds production (distribution).

11) DSL

Digital Subscriber Line

12) EAO

European Audiovisual Observatory

13) EIB

European Investment Bank.

14) Equity Financing

Financing by selling common stock or preferred stock to investors.

15) ERDF

The European Regional Development Fund.

16) ESF

European Social Fund

17) EDF

European Development Fund

18) Free-to-air Broadcasters

Television channels that are funded by licence fee or advertising and delivered free to the viewers. Contrast with pay-TV.

19) Gap Financing

The “gap” is the part of the budget that is not covered by presales/equity/soft money.

20) HDTV

High Definition TV: a television system with approximately twice the horizontal and twice the vertical resolution of current 525 line and 625 line systems, component colour coding (e.g. RGB or YCbCr) a picture aspect ratio of 16:9 and a frame rate of at least 24 Hz.

21) Interim Financing

Short-term financing given in anticipation of longer-term financing.

22) LCD

Liquid Crystal Display: the flat screen technology mostly used in laptops, as opposed to CRT or tubes in monitors.

23) Mezzanine Financing

Late-stage venture capital, usually the final round of financing prior to an initial public offering (IPO).

24) MG

Minimum guarantees.

25) Micro-credit

Micro-credit (also known as "micro enterprise finance" or "micro finance") programs provide access to loans and business development services to start up or expand micro enterprises.

26) Micro Enterprise

A very small business defined as the Commission as a business with fewer than 10 staff. See SMEs.

27) NFTF

The Nordic Film and TV Fund

28) NNE

Non-national European

29) P&A

The actual costs incurred by a distributor in producing the screening prints (the P) of a film, plus the actual costs incurred for advertising that film (the A), which usually also includes overhead on the advertising.

30) Pay-per-view (PPV)

Conditional access services where the user is able to buy one particular program.

31) Sale and Leaseback

Sale of an existing asset to a financial institution that then leases it back to the user.

32) Selective Support

The aim of the Programme's "selective" support scheme is to foster the wider transnational distribution of non-domestic European films and to encourage theatrical distributors in particular to invest in promotion and adequate distribution for non-domestic European films. It also aims to encourage the establishment and consolidation of co-operation networks between European distributors, as well as co-operation between distributors, Sales Agents and/or producers.

33) Slate Funding

MEDIA Programme's support for the development of catalogues of projects. Slate Funding is aimed at companies with a proven track record in developing and producing projects with potential to sell in the international market and which are able to develop simultaneously at least 3 projects over one year.

Awards will be made on the basis of a three-year business presentation concentrating in the strategy of project development.

To be better suited to the investment capacity of the companies, the Programme proposes two types of Slate funding and, within those, different amounts:

Slate funding 1: 60.000 €, 70.000 €, 80.000 € or 90.000 €;

Slate funding 2: 100.000 €, 110.000 € or 125.000 €.

The selected companies will be awarded one of these amounts in the form of a rolling credit line. It is up to the Commission to grant an additional contribution of the same or of a different amount, according to the needs of the company at the time. Granting of the second stage funding is conditional upon the applicant satisfactorily meeting the terms and conditions of the first contract.

34) SMEs

SMEs is the abbreviation of Small and Medium-sized Enterprises. The Commission has adopted a Recommendation concerning the definition of SMEs which now provides a clear global framework for all the measures directed towards micro-, small and medium-sized enterprises. The adopted definition is as follows:

| | Medium-sized | Small | Micro-enterprise |
|--|---------------------|--------------|-------------------------|
| Max. number of employees | Max 250 | Max. 50 | Max. 10 |
| Max. turnover (in million €) | 40 | 7 | - |
| Max. balance-sheet total (in million €) | 27 | 5 | - |

To be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply. The thresholds for the turnover and the balance sheet total will be adjusted regularly, to take account of changing economic circumstances in Europe (normally every four years)⁴⁰.

35) Strike Price

Cash cost of a film budget.

36) Upstream

Stage of the audiovisual chain that precedes production (training, development).

37) Venture Capital

Funds made available for start up firms and small businesses with exceptional growth potential. Managerial and technical expertise are often also provided. Also called risk capital.

38) Video-on-demand

(VOD) – Multi-channel system allowing a film to be broadcast immediately if it is requested by an individual viewer.

40 Available at: <http://europa.eu.int/ISPO/ecommerce/sme/definition.html>

ANNEX 2: FINANCING IN THE SECTOR

• Completion Bonds

All feature films funded by a bank must have a completion bond in place. Completion bonds guarantee to all financiers that the film will be delivered on time and that any overcost will not be the responsibility of the financiers. The bond is only on risk once the 'strike price' has been made available for the production. The strike price will be clearly defined in the bond and is normally the cash cost of the film. When an overcost has been incurred by a production, the first portion is paid from the completion bond's internal resources. However, all completion bonds are backed by substantial insurance policies. The bonds cost in the region of 3% of the film's budget, which varies according to the track record of the team. Nevertheless, not all risks are covered by the bond. The completion bond excludes any costs attributed to the following:

- Producer not having clear title to the film
- The artistic commercial appeal of the film
- Any costs incurred after delivery of the film
- Any overage incurred which is covered by other insurance
- Acts of war or terrorism

Two types of finance offered by banks are the following:

• Contract Discounting

Contract discounting means that the producer enters into a contract with the buyer or sales agent the value of which is payable upon delivery of film, after which the bank would advance or discount the value of the contract to allow the producer to make and deliver the film. The buyer then repays the bank upon delivery of the film.

• Gap Financing

The "gap" is the part of the budget that is not covered by presales/equity/soft money. For example, where a producer has raised 75% of the film's budget, a gap financier would consider lending the remaining 20-25% of the budget against unsold rights/territories, provided that some key requirements are fulfilled and terms accepted.

In addition, nearly all European films involve some sort of soft money. Sale and leaseback is a very common component of films financed by banks. In certain circumstances, a bank might lend against the sale and leaseback benefit when providing gap finance. Other popular forms of soft money finance are co-productions, tax partnerships and state funding.

Production Documentation

A complex number of agreements is needed to prepare a film. Film agreements can be financing agreements, employment agreements or construction agreements, and together they cover a number of legal domains. The principal agreements are the following:

1) Production Agreements

Production agreements include firstly two types of chain title documents (the Screenplay Agreement and Underlying Rights Agreement); and, secondly, the Production Agreement, which can be and most often is a financing agreement. In multi-party financing, which is the most common form of European film financing, there is usually one party whose decision leads to the commitment of others to finance or distribute. This must be stated clearly in the agreement; i.e. whether it is the screenplay, the director or the completion guarantor on whom the commissioning party relies.

2) Financing Agreements

Different film financing agreements can be:

A production, financing and distribution agreement (PFD), in which a party will commit to advance money to buy a product (and when), and the specifications of the film, in return for a grant of rights. An all rights agreement for the American majors is described as a ‘negative pick up’ agreement.

The distribution agreement regulates the activities of the distributor, and arrangements between the producer and the distributor for the exploitation of the film. The agreement states whether all rights of the film are granted, the term of the agreement, and the financial terms of the agreement (distribution fees, gross receipts and distribution expenses). It also lists the licensor approvals, restrictions, delivery, accounting and audit, as well as the termination of the agreement.

Primary Rights in a Distribution Agreement mean the following:

- Theatrical and Non-Theatrical Exhibition
- Exhibition in a public place that is not a cinema (e.g. airlines, ships, military bases)
- Home Video Rights, DVD, Pay-Per-View, Pay and Free TV

Ancillary Rights include:

- Merchandising Rights
- Soundtrack Album Rights
- Screenplay Publication Rights

- Novelisation Rights
- ‘Making of’ books of the film
- Options on sequels

A loan agreement is normally with a specialist bank, that lends interim finance to a producer against the security of distribution agreements, sometimes with a gap. This is more expensive, since banks charge fees and interest but has the advantage of giving the producer creative freedom.

A subsidy agreement. All the Member Countries offer subsidy agreements, i.e. state funding, to filmmakers. Some examples of national and regional funding bodies are given in section 7.

3) Completion Guarantee

The Completion Guarantee (or Bond) is the most important document in the production documentation. A completion guarantor guarantees to financiers the delivery of a film on time and with its budget. It can minimise a financier’s financial exposure and allows it to be repaid through the money that accrues through distribution. The completion guarantor’s covenant to repay is usually backed up by reinsurance of some kind.

4) The Inter-Party Agreement

Agreement by all financiers that they will fund the cash cost of the budget (‘Strike Price’) come what may (unless the film is abandoned).

5) Distribution Agreements/Sales Agreements

No film is likely to be financed unless it is going to be distributed, so that either an interim discounting bank can be repaid on delivery, or that subsidy bodies, or other kinds of investor can see at some stage a return of their investment. A producer can (as copyright owner of the film) sell directly to a distributor. In independent film financing, it is more likely that a producer will sell on the distribution rights or grant the rights to sell the film to a sales agent, in both cases for a commission and expenses, which are sometimes deferred or capped until the financiers can be repaid, and very often the subject of much argument.

Distribution Commission/Fees:

- Theatrical and Non Theatrical 25-40%
- Video Royalty
- Pay Television 15-50%
- Free Television 10-50%
- Ancillary Rights 25-50%

6) Artists/Producer/Director

Written agreements with the artists, the producer and the director (who if he or she is an EU national, is part owner of the copyright in a film, under EU inspired legislation) are critical for copyright purposes.

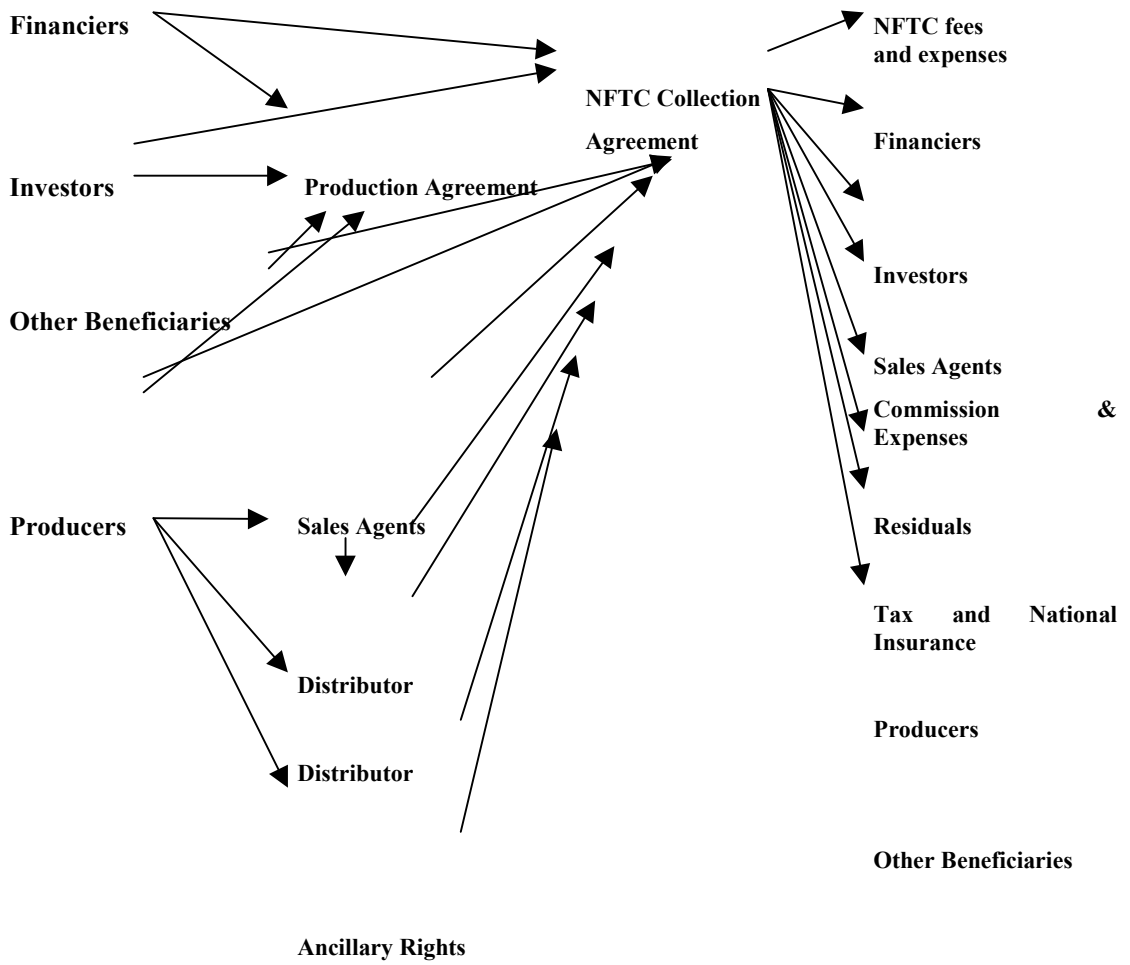
7) Insurance Agreements

Since the 11 September, insurance markets have been extremely volatile, hence basic points of insurance law must be stressed. Firstly, it is important to know that a production company or a producer, the insured, is under a duty to reveal any relevant fact to an insurance company before to the effecting of insurance. Secondly, most insurance is effected in the first instance, by the use of 'cover notes', giving brief details of the insurance, insurance premium, special conditions etc. The cover does not, however, list the full terms of the insurance agreement, which is why it is important to check the full terms of a policy before the cover note is assured.

8) Collection Agreements

Most financiers use an independent agent to receive monies, check entitlements, and pay them (unless they are a bank or a major distributor, whose bargaining power is greater). In Europe there are now three, Fintage House, National Film Trustee Company and Freeway International. Lending banks can also provide this service for a fee, usually after they have been repaid; 1% of the funds is a common

figure.



Ancillary Rights

Pre-Sales

Source: The National Film Trustee Company (NFTC)

ANNEX 3: NEW MEMBER STATES' STATISTICS

The European Audiovisual Observatory's statistics on nine Eastern European new Member States (admitted into the MEDIA Programme in 2002-2003):

Production

| Country | Number of films produced (of which co-productions) in 2001 |
|----------------|--|
| Bulgaria | 4 (1) |
| Cyprus | 4 (4) |
| Czech Republic | 16 (6) |
| Estonia | 3 (1) |
| Latvia | 3 (2) |
| Lithuania | 0 |
| Poland | 29 (2) |
| Slovakia | 4 (2) |
| Slovenia | Not Released |

Box-office

| Country | Box-office revenues 2001 in million € | Variation 2001/2000 (%) |
|----------------|---------------------------------------|-------------------------|
| Bulgaria | 4.4 | - 3.1 |
| Cyprus | 5.5 | - 3.4 |
| Czech Republic | 24.5 | + 37.9 |
| Estonia | 4.7 | + 52.9 |
| Latvia | 3.4 | - 9.4 |
| Lithuania | 4.2 | - 3.9 |

| | | |
|----------|---------------|---------------|
| Poland | 107.4 | + 46.9 |
| Slovakia | 4.7 | + 33 |
| Slovenia | Not available | Doesn't apply |

Cinema Admissions

| Country | Cinema Admissions (2001) in millions | Variation 2001/2000 (%) |
|----------------|--------------------------------------|-------------------------|
| Bulgaria | 2.01 | + 8.4 |
| Cyprus | 0.86 | -7.5 |
| Czech Republic | 10.36 | + 18.8 |
| Estonia | 1.3 | + 20.3 |
| Latvia | 1.15 | + 21.1 |
| Lithuania | 2.37 | + 12.7 |
| Poland | 26.2 | + 40.1 |
| Slovakia | 2.84 | + 7.6 |
| Slovenia | Not released | Doesn't apply |

ANNEX 4: MAIN TECHNICAL INNOVATIONS

Main technical innovations

The main patterns of the audiovisual sector: business models, transmission modes, consumer behaviour, consumer electronic goods, etc., after having undergone significant changes in the nineties, have remained largely constant over the last years. With the exception of events concerning the profitability of operators, no dramatic changes in market patterns are foreseeable in the natural evolution of the present landscape. More important developments could result from commercial exploitation of a number of technologies, which are already available, but that remain largely unused because of lack of clear value-added for the consumer or uncertainties surrounding the possible business models.

Apart from digital television, as indicated above, the main technical innovations that could contribute favourably to the development of the audio-visual sector are the following:

- *Flat Panel Displays*: Very large industry investments are gradually bringing down the prices of large displays using 'plasma' technology. Innovations in materials and manufacturing processes are allowing LCD technology to compete with the plasma panels market segment, thus facilitating rapid dissemination of an essential piece of hardware for the supply of audiovisual services. Synergies between digital broadcasting, high quality panels and enhanced quality for DVD could constitute an attraction for consumers.

- *High Definition TV (HDTV)*: HDTV is the next technological step after wide-screen, adding high resolution, and optimal pictures to large screen displays. It suits notably 16/9 ratio screens, which are gaining importance as household equipment. It is likely that HDTV will be available to consumers in Europe before the switch-off of analogue broadcasting. High-end Home Cinema equipment able to show HDTV programming is already on sale in Europe. However, little specific HD content is available. According to one recent report⁴¹, it is likely that audiovisual content with HDTV digital technology will be available within three years on a new generation of DVD. It should be noted that feature films shot in 35 mm film, are of more than sufficient quality for broadcasting in HD.

- *Interactive television*: Interactivity can increase consumer interest in conventional TV programmes through the possibility of active involvement in games played during programmes or by allowing the viewer a number of choices, like a different commentary track or another camera angle. This type of interactivity does not require a return channel and is known as enhanced broadcasting. Interactive television can also offer bi-directional services, when receivers are equipped with a return channel, offering true interactive possibilities.

41 High Definition: the future of DVD, multi-client study by Screen Digest, http://premium.screendigest.com/content/2003-06-01_yp_1.stml/view

- *Internet:* broadband and ADSL. The Internet, with the development of graphic browsers on the World Wide Web has dramatically changed the way people communicate and has opened new access to audiovisual content. However, the Internet is still used by substantially fewer people than TV and with different motivations. Although a growing number of EU citizens have access to the Internet from their home, school or place of work, they remain a minority compared to the people having (and watching) televisions in their homes. Moreover, in order to be able to view audiovisual content via the Internet a broadband connection (via Cable or DSL) is required. In 2002, less than 20 million households were connected to broadband Internet⁴².

42 Source: eMarketer, June 2002

ANNEX 5: OTHER PROGRAMMES AT NATIONAL AND EUROPEAN LEVEL

Other programmes of DG Education and Culture:

Socrates/Erasmus: ‘The Socrates’ and ‘Leonardo da Vinci’ programmes are complementary to the ‘skills and competencies’ area of the MEDIA Programme’s, as they support education and training projects with an artistic or intercultural slant, or which focus on cultural project management for professionals working in the cultural sector. These to education programmes aim at improving the quality of education relating to the arts.

eLearning: The Commission has adopted the "eLearning" initiative to adapt the EU's education and training systems to the knowledge economy and digital culture. At the Lisbon European Council on 23 and 24 March 2000, the Heads of State and Government set the Union the objective of becoming "the most competitive and dynamic knowledge-driven economy in the world". Europe which, enjoys one of the highest levels of education, and has the necessary investment capacity, still lags far behind in the use of the new information and communication technologies. eLearning is designed to enable Europe to catch up by intensifying its efforts. eLearning action plan that was adopted by the Commission in 2001 to encourage the use of new media in education has made education in the visual image one of its priorities. Hence eLearning complements MEDIA Programme in the areas of ‘promotion’ (‘audience education’), as well as ‘skills and competencies’.

Other Commission programmes:

eContent: The eContent (DG Information Society) programme, which has been allocated 100 million € for the period 2001-2005, focuses on commercial use of European digital content. The programme is complementary to the Media Programme in that it aims to promote the production, use and dissemination of European digital products and services by supporting co-operation between companies in the field and the public and private sectors. The key actions in receipt of funding relate, inter alia, to public-sector services, which use the information and the development of digital databases and the necessary software tools. The key actions may involve subjects such as art, cultural heritage, archives, libraries and tourism. The programme is also concerned with multilingual access to multimedia products and services distributed via digital networks and adapting them to local cultural requirements.

Sixth Framework Programme: Information technology is one of the seven priority fields of the ‘Sixth Framework Programme’ (DG Research and Development) which focuses and integrates research in Europe as its first objective. The bulk of expenditure under the programme is centred on major research projects that will be structured so as to have an integrating effect on Europe’s research resources, resulting in a common endeavour. FP6 research projects require that the partners make a much greater commitment to permanent structural change. The second objective of the programme is structuring the European Research Area (ERA), and the third objective aims at strengthening it. Budget for the Sixth Framework Programme was 17.5 billion € in 2001, which is 3,9% of the EU total budget.

A close link should be established with the relevant actions of the User-friendly information society programme under the 6th Framework Programme for Research and Technological Development. The relevant key actions of the programme develop technologies, test-beds, trials and services, which could be potential objects for support by MEDIA Programme in the market phase.

Euromed: The Barcelona Declaration, in 1995, launched the Euromed Partnership (DG External Relations) on three separate chapters, the third one being devoted to co-operation in the social, cultural and human fields.

Under this chapter of the Euro-Mediterranean Partnership, programmes in the audiovisual and cultural field have been developed and financed through the MEDA mechanism. In essence, there are four regional programmes:

- Euromed Heritage (tangible and intangible heritage),
- Euromed Audiovisual (archive conservation, production and distribution for radio, television and cinema),
- Euromed Humanities (history, literature and religion) and
- Med-Media (training in particular).

Programme of Support for ACP Cinema. Over the years, strong audiovisual and cultural co-operation with the ACP countries (70 African, Caribbean and Pacific countries) has been developed and financed through the European Development Fund (EDF). In addition to funding available for national and regional projects in these fields, a support programme for films produced in all ACP countries was launched in September 2000. The programme was launched initially for a period of three years with a budget of €6 million.

The Commission programme covers production and distribution of feature films, medium-length films and shorts for the cinema, and also documentaries and films made for TV. To receive funding, the applicant must be an audiovisual production or distribution company based in an EU Member State or ACP country, in possession of all rights to the proposed project associating a director from an ACP country. The programme has become an effective tool serving the ACP countries' film industries.

"Training and awareness-raising in the field of development". This programme was created principally to cover financing of awareness raising campaigns for the promotion of better understanding by the public of issues connected with developing countries and of development co-operation actions of the European Union and of its Member States. With the "Audiovisual projects for television" strand of the programme the Commission aims to promote production and broadcasting of television programmes on European TV stations and/or of developing countries, likely to contribute to a better understanding by the public of the realities of the developing world, of the need for North-South co-operation and of European actions and initiatives in this field. The programme is accessible for European companies and NGOs.

Other strands of the same policy

The '*Television without Frontiers*' Directive⁴³ establishes the legal frame of reference for the free movement of television broadcasting services in the Union in order to promote the development of a European market in broadcasting and related activities, such as television advertising and the production of audiovisual programmes.

Related programmes or policies in Europe

Eurimages is the Council of Europe fund for the co-production, distribution and exhibition of European cinematographic works. Set up in 1988 as a Partial Agreement it currently has 29 Member States. Eurimages aims to promote the European film industry by encouraging the production and distribution of films and fostering co-operation between professionals.

Eurimages has developed three funding programmes: Assistance for co-production; assistance for distribution; assistance to cinemas. The majority (almost 90%) of the Fund's resources, which originate from Member States' contributions, goes to supporting co-productions. Since it was set up in 1989, Eurimages has supported the co-production of more than 900 full-length feature films and documentaries. The rules and conditions under which assistance is awarded were changed in January 2000 to reflect developments in film-making in the Member States of the Council of Europe and to respond better to the needs of those working in the industry⁴⁴.

The European Investment Bank Group (EIB Group) and the Commission have identified the following four areas where they will join forces to maximise the impact of their respective operations and make best use of available European resources:

Training: Allowing banking sector staff and SME financial consultants to participate in Media Plus - supported training programmes in order to increase their knowledge of the various branches of the audiovisual industry, the main objective is to enhance the financial and banking community's understanding of the particularities of financing audiovisual schemes and building teams of specialist venture capital fund managers.

Development: Allowing the EIB Group to finance, as a priority, projects with a pan-European dimension emerging from co-operation between companies receiving Media Plus financial assistance.

Distribution: Simplifying eligibility rules for Media Plus assistance for transnational distribution of films or other works where these have been produced by one or more enterprises financed, directly or indirectly, by the EIB Group.

Finance: Offering the Commission scope to encourage access to the counter-guarantee facilities made available to the banking sector by the EIB Group (through the EIF, its specialist subsidiary) with a view to covering portfolios of loans to SMEs

43 Directive 89/552/EEC on the co-ordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities, as amended by Directive 97/36/EC of the European Parliament and of the Council; OJ EC L202/60 of 30.7.1997

44 Source: Council of Europe

in the European audiovisual sector. The EIB Group's financing activity will take two forms: lending by the European Investment Bank for financing medium and long-term investment, and operations involving its specialist subsidiary, the European Investment Fund (EIF), for strengthening SME equity and providing guarantees. Deploying a variety of financial engineering techniques in partnership with the European banking community, the EIB Group aims to increase the volume of funds available and improve the financial terms offered to those operating in the European film and audiovisual industry.

Initially scheduled to last for three years, the EIB Group's "Audiovisual i2i" will bring together substantial financial resources: estimates based on initial operations currently under appraisal suggest that the EIB Group's lending at the outset will exceed 500 million €⁴⁵.

Related programmes or policies in the Member States:

Beneficial complementarity exists between Community support and national aid. Nevertheless, as mentioned in the context of fragmentation of the industry, the national funds tend to concentrate mostly on support to production and national distribution, disregarding the transnational dimension of the industry. Some examples of national and regional public funds in the Europe Union are:

Centre National de la Cinématographie (CNC) – France. The budget of the CNC was 468.686.321€ in 2002. The source of the CNC's funding comes mainly from taxes on TV broadcasters, box-office revenue, video publishers, and directly from the national authorities. The missions of the CNC are: the cinema economy, audiovisual, regulation, cinema promotion, protection of film heritage and the implementation of international agreements. As regards the economy, the cinema and the audiovisual, the CNC manages State financial support for the film industry and audiovisual programmes as well as grants from the Ministry of Culture. Support is delivered in two forms: automatic aid (reinvestment subsidies awarded under purely economic rules) and selective aid, which meets qualitative and cultural needs.

UK Film Council. The budget for 2002 was 62.665.574€, the main sources being The National Lottery, and state owned Arts Council of England. The UK Film Council provides funding for film production and training as well as for distribution and exhibition.

The Nordic Film and TV Fund. The budget for the year 2001 was 7 821 595 €. The funding comes directly from state owned institutions, foundations and broadcasters in the Nordic (Denmark, Finland, Sweden, Norway and Iceland) countries.

NFTF promotes the production of audiovisual projects in the Nordic area by participating in the top-up financing of feature films, TV fiction, TV series, short films and creative documentaries. The Fund also promotes audiovisual productions by supporting project development, distribution and promotion, and Nordic language versions. It administers funds from the Nordic Council of Ministers, which are earmarked for distribution and cultural film initiatives. There are no pan-Nordic

45 Source: EIB.

thematic requirements, national quotas, or requirements in regards to the artistic or technical staff. Productions aimed at youth and children receive special attention.

The Irish Film Board. The budget for 2001 was 10.967.180€. The main source of funding is the State's Department of Arts, Sport and Tourism, and money received from repayment of loans to the fund. The Film Board provides both development and production funding for feature length projects, and also runs a wide range of short film schemes.

Dutch CV Film, Fine

A tax system favouring investments in the audiovisual sector was established in 1998. A company, Fine, established by the government, acts as an intermediary between film producers and banks or asset managers raising venture capital for film projects. The selection of these projects is based on an assessment of the financial set-up and content. To finance film projects the company structures limited partnerships called Film-CVs. Banks and asset managers issue shares in these film-CVs to Dutch private investors. These investors are eligible for a number of tax deductions with a positive effect on the return on investment and risks involved. The company itself invests venture capital in film productions financed with film-CVs.

Community Structural/Regional Instruments

The European Social Fund (ESF) is an important source of funding for activities to develop employability and human resources in the EU. It is used to add value to policies introduced to make a reality of the EU's objective of promoting employment opportunities for all in an inclusive society. The ESF will support five key activities between 2000 and 2006:

- Active labour market policies;
- Equal opportunities for all and promoting social inclusion;
- Improving training and education and promoting lifelong learning;
- Adaptability and entrepreneurship;
- Improving the participation of women in the labour market.

The ESF normally provides up to 45% of the costs of a project. The rest, which is called "match funding", has to come from other sources.

The European Regional Development Fund (ERDF) resources are mainly used to co-finance:

- productive investment leading to the creation or maintenance of jobs;
- infrastructure;
- local development initiatives and the business activities of small and medium-sized enterprises.

In practice, all development areas are covered: transport, communication technologies, energy, the environment, research and innovation, social infrastructure, training, urban redevelopment and the conversion of industrial sites, rural development, the fishing industry, tourism and culture.