

**Specialised Exhibition and Distribution:
International Case Studies**

a report for
The Film Council

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1. Executive Summary

1.1 INTRODUCTION

1.1.1 Purpose

This document analyses the structure of support for specialised exhibition and distribution in three countries in Europe – Denmark, France and Spain – and three non-European countries – Australia, Canada and South Africa. The purpose of this review is to highlight support mechanisms and practices in these countries for possible consideration by Film Council for application in the UK.

The report has been prepared by Olsberg/SPI (“SPI”) and Kern European Affairs (“KEA”). It is intended to contribute towards the preparation of the Film Council’s specialised exhibition and distribution strategy, and to complement studies simultaneously being performed by other consultants on the specialised distribution and exhibition sectors in the UK, on education as it relates to the specialised distribution and exhibition sectors in the UK, and on e-cinema.

1.1.2 Approach

The definition of specialised exhibition and distribution is not an unambiguous one. Policy-makers and practitioners in the countries under study would not necessarily provide similar definitions – if they could provide them at all. In most countries, the policy agenda is principally directed to national cinema rather than specialised cinema. Therefore, SPI and KEA, the authors of this report (the “Authors”), have examined mechanisms and structures of support even if applied to broader categories of cinema.

1.2 KEY OBSERVATIONS

1.2.1 The Distribution and Exhibition Environment

Except for France, distribution is generally dominated by subsidiaries of US¹ majors. However, in all the countries reviewed, there is, unlike the UK, at least one locally owned major distributor – Australia: Roadshow, Canada: Alliance Atlantis, France: UGC, Pathé and Gaumont, Denmark: Nordisk, Spain: Sogepaq. In most countries there is increasing concentration in the distribution sector as local companies consolidate to compete with Hollywood-owned majors. There is also a trend to make alliances with Hollywood majors to ensure supply of US movies for distribution.

The large distributors, who naturally focus on the distribution of principally American mainstream features, whether they are locally or US owned, are tending everywhere to wider releases of films timed closer to their original US release. They are demanding

¹ Though it is recognised that current ownership of Hollywood studios is spread among countries including France and Australia, this report will often refer to these companies as US in recognition of the location of their headquarters.

longer and guaranteed bookings from exhibitors, thus lessening the flexibility of exhibitors to programme alternative fare in mainstream sites.

In most countries exhibition is less dominated by US companies than is the case for distribution. Introduction of multiplexes in Europe has lagged the rest of the world, where in certain countries, e.g. Canada, there is now a recognised over-supply of screens, and older multiplexes are now being closed. In general, the smaller nationally-owned exhibitors tend to focus more on non-mainstream film.

The debate continues around the world as to whether specialised film can play economically in the multiplex environment. Feeling differs in different countries. France has a system of regulations and incentives such that multiplexes often play specialised film, especially if there is no specialised exhibitor nearby. In other countries, specialised cinema in multiplexes is regarded as unworkable – though both Canada and South Africa have had success with multi-screen (five or six screens or more) specialised cinema complexes in large urban centres.

1.2.2 Public Sector Support for Specialised Exhibition and Distribution

Below is a chart summarising the pattern of principal government support of exhibition and distribution. ‘National’ indicates that support is directed to the exhibition or distribution of national films (it may also include European films in European countries). ‘Specialised’ indicates that support is directed to specialised films and ‘none’ indicates that there is no substantial support.

	Support for Exhibition	Support for Distribution
Australia	None	National
Canada	None	National
Denmark	National/Specialised	National/Specialised
France	National/Specialised	National/Specialised
S. Africa	None	None
Spain	National	National

Thus, public sector support for specialised film exhibition and distribution, where it exists at all, generally exists in the context of support for national film.

France is unique in having a specific comprehensive support policy for specialised cinema. This policy aims at ensuring diversity in supply, and does not have the commercial intent of increasing box office performance of specialised film. Furthermore, only in France has a detailed and widely accepted process of defining specialised cinema been accepted – here a committee determines whether a film is “*art et essai*”.

The source of financial support is usually general state funds, except in the case of France, where the CNC re-allocates funds obtained by a nationwide levy on broadcasters

and cinema tickets. The CNC's resources are substantial. It allocates over 200 million Euro to production, distribution and exhibition. France's support of exhibition and distribution of both national and specialised film involves a greater investment than for any other country.

1.2.3 Distribution Funding

Support can be granted on an automatic and selective basis and implemented at different levels of the distributor's operations:

- Funding for specific actions of the distributor – making additional prints, acquiring specific films – Denmark, France, Spain
- Funding for marketing costs on a film-by-film basis – Australia, Canada, Denmark, France, Spain
- Non-specific funding of the distributor's operations – Canada, France
- Structural (i.e. non-cash support) due to regulatory and policy rules – Canada, France, Spain

MEDIA Plus – the EU subsidy program for the audio-visual sector – provides funds for the distribution of European films outside their country of origin. Since automatic support is directed towards admissions, however, it is often regarded as benefiting commercial films rather than specialised films. There is also a selective support mechanism.

Support for distribution is generally regarded by recipients as effective but it does not necessarily act as an influential determinant of their actions. In other words, distributors are generally pleased to be receiving funding without acknowledging that funding affects their business decisions in a substantial way. Again, as in so many other cases in the current study, France is the exception. Here there is, among other measures, an automatic distribution support mechanism which decreases at 200,000 admissions and is generally regarded by distributors as effective in reducing their risk of acquiring specialist product, compared to US films. There is also in France support aimed at the distributors of specialised films, although policy is increasingly shifting towards support of the film distributed rather than support for distributors

However, in general, whether distribution support is effective in achieving policy goals is difficult to determine. At one end of the extreme, substantial funding of distribution and production in Canada for Canadian films has not lifted Canadian box office above a 2% market share. At the other end, France, where distribution support is part of a whole construct of administration-intensive structures, has been very successful in achieving exposure of specialised film with an 18% share of admissions. It goes without saying that there are numerous other factors involved other than financial support of the sector.

1.2.4 Exhibition Funding

Exhibition support is, in general, even less prevalent than distribution support, and outside Europe, exhibition is generally left as a completely free-market activity.

In Europe, most notably in France, exhibition support consists of subsidies available for the construction and operations of cinemas that conduct a certain amount of specialised

business, based on the programme of screenings and number of screens devoted to specialised cinema.

France provides four times the funding to its exhibition sector that it does to its distribution sector. Such support is regarded in France as an essential aspect of supporting a broad geographical representation of specialised cinema and cinema in general. Over half exhibition support is an automatic support based on box office. However, exhibitors are also 'rewarded' for their educational activities – events, festivals, school screenings, etc.

The important role of exhibitors has also been recognised at EU level with the implementation within MEDIA of the Europa Cinemas scheme, which has far wider applicability in the rest of Europe than it does in the UK.

1.2.5 Structural and Regulatory Measures

France has a complex network of regulations affecting the activities of exhibitors and distributors. Notably, multiplexes are required to screen specialised film if there is no specialised cinema nearby, and have certain restrictions on their ability to show specialised film if there is a specialised screen.

Canada has supported its nationally owned distribution companies for 13 years by severely limiting the ability of new non-Canadian owned distributors to distribute films they did not majority finance.

Furthermore, Canada also has Canadian content requirements for Canadian broadcasters which serves to increase the value of Canadian content over similar non-Canadian content by an estimated five to ten times.

1.2.6 Other Issues

Substantial education activity associated with specialised distribution and exhibition exists only in Denmark and France of the countries examined. In Denmark, there are both local workshops focussing on cinema, and the opportunity for 'life-long learning' through specific institutions, some of which focus on cinema. In France, there are a large number of different initiatives both focussed on exposing young people to cinema, but also to encourage cinema to have a strong place in community and cultural life.

Two active campaigns of mobile cinema exist in South Africa. A non profit organisation, FRU, aims to increase exposure to African stories and address social issues. A division of the country's largest distributor and exhibitor has the goal of developing the appetite of poor and rural communities for American mainstream cinema.

A successful alternative distribution model exists in Canada, the Toronto Film Circuit, which increases exposure for specialised film around the country. It is administered by volunteer local groups which organise and market (often) weekly screenings in their communities.

Only in France did the Authors observe the kind of close links between broadcasters and filmmakers that exist in the UK. In France, pay and free-to-air broadcasters not only fund production of features but also contribute to a voluntary fund to aid in the distribution of smaller films.

However, everywhere television is more interested in mainstream films. It has become almost impossible to sell television rights for specialised films in Europe. This increases the financial risks for these films. The Franco-German channel ARTE is the only TV channel in Europe that devotes some screening time and resources to less commercial cinema.

1.3 CONCLUSIONS

1. Debates on the promotion of specialised cinema often involve two non-identical goals:
 - Increasing the availability (more films shown in more locations) of cultural cinema
 - Increasing the commercial results (more box office) of non-mainstream films
2. The philosophy of the support policy in the countries surveyed is underpinned by different objectives – aesthetic/art and diversity in France, the promotion of Spanish cultures and languages as well as fostering exchanges with Latin-America, film education in Denmark, support of national films and companies in Australia and Canada.
3. Only France has a clear definition of specialised film – ‘*art et essai*’ – and a clear policy valuing quality apart from commercial considerations.
4. The French system works in France. By any measure (900 specialised screens, 20 significant distributors, 150 specialised films distributed) it is a success. It is also supported by the industry.
5. Outside France, specialised cinema is regarded by many as in crisis in Europe. In those (primarily) English-speaking territories studied outside Europe, it also has problems but (as generally defined as non-US, non-national cinema) is often more healthy than that country’s national cinema.
6. Generally, the emphasis of film support policy is the development of a local commercial and popular cinema able to compete for market shares with foreign productions, essentially US. Accordingly, in most countries, the bulk of support for this local cinema is at the level of production rather than distribution or exhibition.
7. Determining the actual effectiveness of these policies is not easy. It is also difficult to isolate one measure. In the case of France, the effectiveness of policy is the result of a broad set of measures that complement and support each other at the level of policy formation and target sector definition. It is also based on a tradition of bureaucratic reporting and processes that enables management and accurate monitoring of

professionals requesting aid. Moreover these policies are implemented throughout production, distribution and exhibition. However, the individual mechanisms used for support are still interesting as possibly applicable to the UK.

8. Distribution support specifically aimed at reducing the risk to distributors of acquiring and marketing specialised films leads to their greater interest in doing so. France's automatic support of distribution, decreasing substantially at 200,000 admissions seems to do this. At 200,000 admissions, distributors will have received \square 180,000.
9. Support which leverages P&A funds is geared to increasing box office rather than increasing availability.
10. France's combination of substantial funding for exhibition and regulations governing competition with multiplexes seems to encourage availability of specialised film. It is unclear whether both are required.
11. There are possibilities for linking production funding and policy for specialised distribution and exhibition. For example, in the context of supporting national film, Canada requires films accessing production support to use Canadian-owned distributors. The entire picture of support needs to be considered.
12. In other countries, particularly Canada and South Africa, multi-screen specialist arts cinemas in major urban centres have proved to be commercially successful and be able to function without any support. However, there are a limited number of candidate locations in each country, and this idea does not really address the issue of broadening availability of specialised film.
13. Cinema admissions are increasing in Europe. The renovation of screening rooms and the improvement of facilities may also benefit specialised cinema. The renewed interest in cinema, though mainly benefiting mainstream films, is nevertheless an opportunity. The potential role of multiplexes in the promotion of diversity is being considered by policy-makers.

1.4 RECOMMENDATIONS

1.4.1 Clarity of definition and purpose

Any support mechanism for specialised distribution and exhibition will require a clear definition of the type of film that is to be supported. The definition included in Appendix 3 is a useful guide. However, it may not be sufficiently clear and free from

ambiguity to be completely useful for a policy initiative involving provision of funding. This point is addressed further below.

Secondly, as discussed in Section 1.3 above, the goal of providing a broader range of cinema to UK audiences is not identical to the goal of improving the performance of those specialised films that obtain distribution. The former is about encouraging distributors to acquire and distribute a broad range of cinema. The latter is about achieving a greater box office for those films that the distributor has decided to acquire. The assumption of the authors of this report is that attention should be directed to encouraging the distribution and exhibition sector to acquire and efficiently market a broader range of cinema, therefore reducing, at least in part, the current challenges associated with the distribution and exhibition of specialised film.

Our brief does not include, nor have we been provided with, a detailed analysis of the nature and needs of the UK specialised distribution and exhibition sector, but commends that we assess “the extent to which (the international) measures may be transferable” to the UK. Given this, the following recommendations are made as to measures which we believe may be most transferable for support of specialised distribution and exhibition in the UK. It should be remembered that these measures come out of our detailed analysis of the case study countries, not out of an analysis of the UK.

1.4.2 Semi-automatic distribution support

The French automatic distribution support scheme, discussed in point 8 of Section 1.3 above, is generally regarded as effective in reducing the risks for distributors in acquiring films which are not expected to achieve a high level of box office success. It is recommended that a similar support scheme in the UK could be effective. It would need to have the following elements:

- Certainty (or to all intents and purposes certainty, if absolute is not structurally possible) as to the applicability of a film for support: Therefore a distributor would know, at the time it was screening a film at a festival for example, that the film would qualify for support and how much that support would be. Only under these circumstances can the distributor factor the support into its evaluation of expected costs and revenues associated with the film, and so decide to acquire a film that, absent the support, it might regard as too risky.
- A meaningful level of support: A sum needs to be available to have a meaningful impact on the economics of distribution.
- A mechanism that reduces the level of support as the film’s performance improves: The purpose of the intervention is to reduce the risk of a film not performing well, not to improve the economics of a hit, so support should decline as admissions increase.
- A low level of required bureaucracy and a high level of transparency

It is recommended that the Film Council consider a support structure which provides a cash grant to qualifying specialised films, the level of which declines as admissions increase. This grant would be available for the distributor to cover its costs of acquiring and marketing films – including subsequent acquisitions, and also to assist with general operational costs such as corporate marketing expenses.

A possible structure would be as follows:

A clear definition of a qualifying film

This could be determined by any of the following – a clear and precise set of definitions, a designation awarded by a UK body prior to first screening (but there would be obvious timing difficulties) or a committee structure. For a number of reasons to do with British industry culture, a committee might not be effective in the UK. A point system might be a transparent method of designation. Points might be given for:

- lower budget films
- foreign language films
- films by filmmakers in an early stage of their careers
- films with principal characters with issues of ethnicity, sexual orientation or disability (although that might be overly deterministic of narrative)
- films clearly experimental in nature – though this would need further clarification
- classics and archive films
- films for which the distributor undertakes to book the films in a certain number of theatres outside London
- films planned for distribution with a limited number of prints.

Support levels

By analogy with the French system, support might be at a level of £0.50 per admission until the film has achieved 200,000 admissions, declining to £0.25 per admission up to 300,000. Therefore the total available to a qualifying film would be £125,000. However, these suggested numbers would need to be considered in the context of the economics of the UK specialised distribution sector.

Administration

The system would need little administration. The distributor's application would need to be checked – especially as regard whether the film qualifies. With regard to payment of awards, a cheque could be written at each verified level of 10,000 admissions. It might make more sense to tie the awards to the equivalent box office numbers rather than admissions, since the former number is more frequently reported in the UK.

With regard to verification of box office or admissions, there could be a role for the Research and Statistics Unit (“RSU”) of the Film Council to monitor results.

Effect

The Authors believe that this kind of structure effectively reduces the risk of distributors acquiring and marketing riskier films. It also does so in a way that is ‘light’ on administration, non-paternalistic, and low cost. We believe, given sufficient resources, it could transform specialised distribution in the UK.

Alternative – Selective distribution support

The semi-automatic system could be augmented by a selective system, whereby Film Council or, by analogy with the French system, a committee composed of distributors, producers, exhibitors, Film Council representatives, representatives of community associations and educationalists, would decide on a regular basis a list of films, submitted

by distributors, that deserve support. If the selection decisions were sufficiently predictable, this might also provide some of the same benefits of the semi-automatic system described previously.

1.4.3 Grants for specialised exhibitors

The purpose of specialised exhibition support is to encourage exhibitors to show a broad range of cinema. The 'semi-automatic' support described previously for distribution would work less well in the context of exhibition. Moreover there is already substantial availability of specialised film in London, but less in other areas of the country. Therefore a structure is recommended, modelled in part on various aspects of French exhibition support and the Europa Cinemas structure, whereby certain cinemas could enter into a contract with the Film Council to screen specialised film (as defined under the system discussed above in 1.4.3) in return for certain payments.

The aim of the programme would be to secure and support a certain number of screens throughout the UK that shows specialised films. (There are 900 such screens in France.) The Film Council could target support initially for 100/120 screens outside London partly or entirely devoted to specialised cinema. The priority should be on supporting independent cinemas rather than multiplexes. By setting a target in relation to the number of screens, the Film Council would be in a position to measure the efficiency of the support mechanism.

Availability

- Only cinemas outside the London metropolitan area would (as a first tranche of this programme) qualify for support
- Multiplexes would be encouraged to make voluntary commitments – both with regard to specialised film and educational initiatives. They could get financial support only where there was no local competition with independent cinemas.
- No distinction would be made with regard to Regional Film Theatres – i.e. they could apply but would receive no special treatment.

Support structure

The precise nature of the contract with the cinemas would reflect the precise nature, location and region of the cinema, but in general, the cinema would need to commit to a stated percentage of its screenings, and a stated percentage of its seat availability (screenings multiplied by capacity of screening room) for qualifying specialised film. The contract could also determine the nature and focus on certain educational programmes, in order to reward cinemas committing resources to well-managed educational activities.

Payment

In return the cinema would receive a stated payment – maybe £20,000 to £50,000 depending on the nature of the commitments and the Film Council's determination of the importance of specialised cinema provision in that particular area. It is also recommended that these contracts be available on a multi-year basis for cinemas undertaking major refurbishments (e.g. adding a screen) or even a complete new build of a cinema. Thus the economics of such construction programmes would be shifted in favour of specialised cinema provision.

Administration

This programme would require the human resources at Film Council to enter into these agreements annually and to monitor compliance. Cinemas would submit reports regularly (maybe quarterly) and their veracity could be confirmed by means of an annual 'audit' administered with the assistance of RSU. The Film Council could also encourage the setting up of a network or trade association of specialised exhibitors that could have a role in the policing or implementation of the programme.

Effect

The authors believe that the French experience shows in a positive way, and our English-speaking countries show in a negative way, the importance of support for exhibition. However, the focus should be on addressing gaps in provision – which the authors understand principally occurs outside London. The authors also believe that this kind of intervention, which does not distinguish between commercial and public sector organisations, is most effective in encouraging Film Council goals. It shifts the economics in favour of specialised cinema exhibition, but allows the 'market' still to determine (under these adjusted economics) how and by whom this provision should actually be made.

1.4.4 Other potential initiatives

Success-based support

If the policy goal is to incentivise distributors to maximise box office receipts of specialised film, an interesting model is the new Canadian distribution support mechanism, which provides funds for distributors according to their box office results with previous features. This mechanism is in service of Canadian national cinema rather than specialised cinema, and matches producer-based funding also determined by prior box office as part of an overall approach to encourage more commercial Canadian films.

Broadcaster support

French broadcasters are required to invest 0.2% of their turnover in theatrical distribution. In addition, Canal + has additional voluntary funding of £6m per annum. Measures like this are beyond the immediate remit of the Film Council, but the basic concept of encouraging broadcaster support of theatrical distribution is an interesting one which could do with further discussion in the UK.

Alternative distribution circuit

Canada's volunteer-based alternative distribution circuit, Toronto Film Circuit, provides an interesting model of specialised cinema support. This circuit encourages the creation and operation of local community-based groups outside major urban centres which book films into conventional venues (usually multiplexes) once a week or so, and organise grass-roots marketing for screenings. This circuit has broadened the availability of specialised cinema on a very economical basis in Canada, and could have applicability for those areas of the UK that can not support a cinema focussing on specialised cinema.

1.5 STRUCTURE OF THIS DOCUMENT

Section 2 gives a summary of the Authors' methodology and approach to their work. Section 3 summarises the findings in the six countries under study and includes a series of charts which give comparative information about the six countries. Sections 4 to 9 give detailed analyses of the different case study countries and Section 10 looks at certain European wide initiatives.