QUESTIONS FOR FILM AGENCIES/PUBLIC ORGANISATIONS/FILM PROFESSIONALS' ASSOCIATIONS/OTHER STAKEHOLDERS

Please fill in your profile first:

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Name of your organisation/company	UK Film Council
Country	UK
Field of activity	Government strategic agency for film in the UK
Number of members (if relevant)	n.a.

1. What are the new training needs created by the digital technologies? What are the needs that are not covered by your national training activities?

Recent research and consultation with industry undertaken by Skillset, the UK sector skills council for creative media, has identified the following training needs around exhibition and new technology:

- Support for projectionists making the transition to digital (it has already supported some training in this area via BKSTS)

- Training in "Change Management", so staff can retrain to maximise new technology

- Training for Programmers, Film Bookers and those in marketing to make the most of opportunities for screening non-film product on digital screens

This research and some R&D into 3D Stereoscopic training needs which Skillset has funded will inform future funding programmes. Skillset is not currently able to say what needs will or will not be covered by future training as 2010 priorities are yet to be finalised.

2. Which measures should Member States take to make sure that digital masters are available for their future national productions?

For new films, that is to say films produced in the course of the last decade, digital masters will tend to have been a specified delivery for pay-television and DVD. Digital masters for theatrical exhibition are a more recent phenomenon and these are rarely specified in the deliveries, since the tendency was for the master copy to be a 35mm negative with positive prints being specified, for example, by the financiers, sales agents etc. But in the future, it would be a question of the UK Film Council and other funders - including sales agents and national distributors - specifying in their contracts with producers that a digital master is a requirement. But where a film is already being distributed digitally to cinemas, this requirement is already bring made.

The issue for older films is more problematic. Often the only materials held by the national archive, for example, will be a 35 mm postive print.

3. Who should pay for the production costs of a digital master (DSM)?

For new productions, the cost should be an integral part of the budget. However there might be specific requirements by the licensee - for example to produce the Blueray disk - and will be subject to the contract between the producer and the distributor.

For older films - as is demonstrated by the experience of Eurimages whose offer to producers to finance in whole or in part the production of DSMs for films in which Eurimages had participated was ignored by producers - the issue is more complicated.

Funding bodies in the member states, along with national archives and the European Commission, should work to ensure that all feature films are available in a digital format of a high enough standard to permit the production of digital copies for high-definition platforms (including theatrical). It should be kept in mind that some films will not obtain a theatrical release. In such cases, it would be inappropriate to force filmmakers to go to the expense of creating a digital master for theatrical exhibition which will never be used.

The usual position is that the costs of producing a master of the film (whether 35mm or digital) is borne from the production budget. The master has to be adapted to create new 'masters' for each distribution format because the frame per second speed is different, for example, between cinema projection and DVD. Such costs have tended to be borne by the national distributor.

4. How can the "pay once approach" be encouraged (= one single master, to be slightly adapted for each distribution channel: cinema, HDTV, DVD…)?

As noted by our colleagues in Francophone Belgium, we do not assume that the approach of "slightly adapting" a single master for each distribution channel is necessarily an option: the differences between a copy of a film intended for theatrical release and one for release, for example, on digital terrestrial television, may be significant - not only with regard to the image but also to the sound. A "pay once approach" might result in a version of a film which is a compromise between the demands of the different platforms and this may be sub-optimal. As a general principle, we would suggest that this is an issue best left to the market.

5. How can the inter-operability of the different projection systems be ensured?

If by "inter-operability" it is intended that any copy of any film should be able to play on any projection system, this presumably could be ensured by sophisticated decoders and machines capable of taking everything from a digibeta tape to a Blueray disk to a 70mm print, but this might be so demanding that it would not be worthwhile.

As far as projection of digital prints in theatres is concerned, different integrators could be obliged to ensure that every film can play out from every server and through every projector, but this is unrealistic. We assume that as digital

projection becomes more widespread, de-facto standards will be established and the ability to play out a digital copy on systems other than that for which it was originally intended will improve. As for question 4, we would suggest that this is an issue best left to the market.

As long as all DCI-certified digital cinema equipment can play the same format, i.e. single inventory product, then this might be termed interoperability. This mirrors the 35mm world. One might argue that today's DC equipment should be able to play other formats e.g. Bluray, digibeta etc. but this is another argument: it is a commercial decision that goes beyond the principle that a DCI copy should be able to play out on any DCI equipment, irrespective of manufacturer and equipment configuration.

6. Should there be one single standard for digital projection?

As indicated in the answer to question 5, we believe that de facto standards will energe; we would note, based on the comments of our colleagues in Rome from SMPTE and the EDCF, that this single standard does not yet exist although we are informed that this situation will be resolved in the very near future. We are doubtful whether a single obligatory standard is possible or desirable: it may well be that a film will be made in a given community to be showed in a given cinema and, as desrable as it might be that this film could be shown elsewhere, this might well involve some kind of standards conversion. One might imagine a film made in Kerela for showing in Kerela being taken up for distribution in the UK and the properties of such a film might well involve some adaptation (as, for example, they do with regard to language or subtitling). Again, we would suggest that this is an issue best left to the market

That said, the UK Film Council supports the concept of a single standard. Whatever happens in the digital world should at least mirror what happens in the 35mm world i.e. a 35mm print will play on any 35 mm projector anywhere in the world. (It is worth remembering that a similar discussion took place at the beginning of cinema with regard to sprocket shapes etc.) Likewise, in the digital world, a digital projector should be able to play any digital copy that was prepared for it. The DCI standard currently covers both of these elements and has become the de facto standard. It way well be the case that certain producers will accept a lower standard for their product and there may be certain cinemas with lower standard equipment ready to play it. That is their own commercial decision. However, it is not reasonable for production and distribution to have various inventories of product available to play on different standards of play-out equipment. Again, pragmatically, such exhibitors should not expect other producers and distributors to accept their lower standard and their business plans should be written to exclude the possibility of playing much of the major product from around the world. If they are happy with this, then so be it.

It might also be argued that in the 35mm world, both large and small producers can have their product exhibited to the same standard worldwide. Why then should a system that allows certain product to be played at a lower standard be encouraged?

7. Should there be a pan-European database for trusted device lists (equipment certificates)?

This might well be an asset for both suppliers and users of equipment but we would be wary of such a database becoming a barrier to entry for innovative firms as happened in the case of network terminal equipment in the telecoms world.

8. How could the regions/municipalities contribute to the digital equipment of their local cinemas?

We see regions and municipalities having a vital role to play in the digitisation of their local cinemas, as they do in all aspects of infrastructure and social provision. In order for regions and municipalities to contribute more, the Commission and member states should work together with industry to raise the awareness of regions and municipalities of the challenges represented by digitisation and the solutions available, including co-operating to acquire equipment for many cinemas and arranging for the installation and maintenance of that equipment, as well as the training and consciousness-raising of operators. We would note that an area which has been neglected in both public policy and commercial strategy is the development of sufficient managers of venues programming films who are capable of seizing the opportunities presented by digitial for showing a broader range of films and alternative content, greater programming flexibility, reaching out to parts of the society that have traditionally not been well-served by cinema, and the need for more education, audience development and audience engagement, as well as new forms of marketing and community-building.

9. Which role could the European Structural Funds (ESF) play? (How) should the Member States be encouraged to use the ESF for the digitisation of their cinemas?

The ESF has already played a role in digitisation and could be more involved, for example by further promoting best practice on the part of member states to secure access and regional funding for digitisation. This could be done, for example, by the Commission encouraging member states and regions to formulate their strategies for digitisation and to discuss those strategies with the Commission as already happens in other areas, for example (we assume) reducing the carbon footprint, improving phyto-sanitary arrangements, waste disposal, water management etc.

10. To which extent/Under which conditions should the Member States financially support the digitisation of their cinemas?

The UK Film Council has been working with other film agencies in Europe, notably through the European Film Agency Directors' (EFADs) network and in discussion with DG Competition, precisely to agree the terms for public money

being used to facilitate digitisation of cinemas. The consensus at which the EFADs has arrived was set out in the San Sebastian Declaration which was published in September 2009. This was further discussed when the EFADs met with the Commission on 16 December 2009. This topic has still not been exhausted: apart from understanding better the needs of the exhibition sector, the EFADs are waiting to find out what, in addition to the €4 million-a-year proposed by the MEDIA Programme, the Commission is proposing to help make available through the ESF, EIB and the EIF, not to mention the CIP and other funds available for innovation. We assume that, as part of its mandate, the new DG Digital will address this question. But, in general terms, the UK Film Council agrees with the proposition made by the Commission, for example in the background paper which accompanies this consultation, that a significant number (around two-thirds) of screens will be able to make the transition to digital without any public support. The other one-third may well require some public support or else will be unable to make the transition, certainly not in the short timeframe which the Commission and many member states favour. The cinemas in this portion - accounting for about 10,000 screens - tend to be mono-screen cinemas in disadvantaged or less advantaged parts of Europe; it may well be that a portion of these cinemas require support in order to be refurbished (seats, building structure) and may, at the end of the day, be in the wrong place, for example, in a community that has seen industries close and population move out so that the community as a whole is no longer viable. In these extreme cases, public authorities may be intervening to revitalise the community, and maintaining or creating cinemas may be part of the public strategy.

11. How can the complementarity of public support schemes with the existing VPF models be ensured?

As the CNC has argued, it is vital that the digitising of cinemas is not allowed to determine how those cinemas are programmed: how long they play a film, whether a screen is used exclusively for one title for a pre-defined period, whether different films are treated differently by the exhibitor only because of the identity of the distributor (i.e. the terms of the VPF are such that the exhibitor is discouraged from showing films from other distributors). Therefore one aspect of the complementarity is that public support schemes serve to lessen the restrictions imposed by a distributor on an exhibitor.

Another aspect of such complementarity is that if, for any reason, an exhibitor cannot agree a VPF deal (for example because he or she wants to programme more older films or screen them fewer times, or perhaps show films from distributors which do not have the means to pay a VPF, or perhaps even because the exhibitor's strategy is to show alternative content including films from the local community, then the exhibitor should have available alternative ways of financing the costs of digitising. This could be 'pure' subsidy (including a public body contributing to the cost of equipment, as the UK Film Council did with the members of the UK's Digital Screen Network) or it could be providing guarantees in order to assist the exhibitor to lease equipment or to borrow money from a bank.

Usually VPF deals last 8-10 years. The VPF payable should cover off approximately 75/80% of the total equipment cost with the exhibitor funding the

rest from its own resources. Distributors thus are diverting certain sums from their print budget to help support the digital roll-out. This is a mechanism that works well for many cinemas, predominantly those that always play majors' product on the general release date and would normally receive a brand new 35mm copy.

However, the mechanism works less well, if at all, for those cinemas which generally open a film at some subsequent point in the release cycle and would, in the 35mm world, receive a print from another cinema. For these types of cinemas - and generally they are smaller, independently-owned, sometimes part-time - it is unlikely that they will receive a VPF that makes any significant contribution to the overall equipment cost since the cost of shipping a used print is relatively small. This is the paradox with the whole VPF mechanism: those that need it least get most, and those that need it most get least.

It is clear from discussions with distribution that the money they are willing to devote to the exhibition sector via the VPF is no more than they would spend on 35mm anyway. In other words, they are not devoting any extra funds to the project. This is arguably an unequal approach and one might make the point that the technology change is a requirement being pushed rather than pulled. Major distributors, thus, might be be under an obligation to ensure that ALL cinemas receive equal treatment.

12. To which extent should distributors contribute to the costs of digital equipment?

Distributors and exhibitors are each other's customers; they each have other sets of customers (producers on the one hand, the public on the other); they also have other suppliers: in the case of the distributors these suppliers include film labs and shipping companies; in the case of exhibitors these suppliers include the makers of popcorn, carrot cake, espresso machines and beer pumps. Do the distributors and exhibitors seek each other's help in relation to these other suppliers? As a general proposition, the distributor should charge the exhibitor money for the goods and services he or she supplies to the exhibitor and vice versa. A VPF deal is really only a guarantee for the exhibitor of the money required to cover the leasing or purchasing of the equipment. It is also a commitment by the distributor to supply films to the exhibitor. The problem with the commitment by the distributor is that this can easily become a block-booking or film-bundling arrangement which many member states have made illegal under competition law. So it would be far better if the distributor was not liable for the cost of digitising the cinema, but rather that the terms entered into between the distributor and the exhibitor reflected the new conditions in which costs are being borne and benefits being enjoyed. So a VPF deal which enables the distributor to share with the exhibitor the savings achieved through digitisation, and which the exhibitor can apply to the obtaining of new equipment, is very efficient. A VPF deal which involves a precommitment by an exhibitor to screen films as yet unseen for a pre-defined period, is inefficient. But a deal which compels a distributor to pass over to the exhibitor revenues related to tickets that have not been sold is also inefficient. Of course, this problem is academic in the case of firms that are both suppliers of films and suppliers of screens (such as Medusa or Nordisk, Pathé or Lusomundo) but, since, in practice, there are no cinemas that are completely tied to one distributor (with the possible

exception of Imax cinemas), and no distributors which only supply their own cinemas, this issue does have to be confronted. And the answer to the question is: insofar as distributors are in a position to contribute to the costs on terms which are not distortive or discriminatory.

13. To which extent would a scheme facilitating the access of exhibitors to credit or supporting their financing costs be relevant?

For a significant number of exhibitors, it would be highly relevant.

14. How can the complementarity of a possible EU scheme with national/regional support schemes be ensured?

This issue is broached in the answer to question 10. It is necessary for member states and regions, in discussion with and the help of the Commission, on the one hand, and industry and other stakeholders (e.g. banks and private investors) on the other, to come up with optimum arrangements for digitisation. It is also necessary for the Commission to come up with an approach to which the various DGs which have a stake in this matter, presumably led by DG Digital, contribute. Only in this way can complementarity be achieved.

Annexes

If you wish to include documents in addition to the questions you have answered in the form, please include them as attachments in your e-mail reply.

Please remember to note the question number corresponding to the document you include.

Please save and send this form to
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ANNEX: Other issues caused in the document produced by the Commission on opportunities and challenges for European Cinema in the Digital Era.

The introductory document presented by the Commission with the questionnaire makes many statements and assertions - to do with many links in the cinema value chain - which the questionnaire does not address. In our view, the approach to be taken to digitisation needs to take into account the wider objectives of public policy, for example, media literacy, social cohesion, the strengthening of community identities, on the one hand; and dialogues between communities, on the other.

The relationship between cinema and other arts also needs to be explored: the UK has particularly impressive experience of how digital cinemas can become a crucial ingredient in the strategies for bring opera and theatre to audiences outside of the metropolis and without the means to attend the Royal Opera House or the National Theatre; and this is only the start of exchanges and interactions between cultural institutions; 2012 will show the important of cinema (and of cinemas) to sharing in Britain and throughout the world of the Olympic experience.

The consultation, concentrating narrowly on the digitisation of cinemas rather than more generally on the shape of audiovisual policy in a digital world, is an important first step. As the process of finalising Commission audiovisual policy and the Digital cinema Communication takes shape, the UK Film Council looks forward to further opportunities to contribute to the discussion, for example about unlocking our audiovisual heritage, developing and taking advantage of online communities, the role of film festivals and the contribution of cinema to the advancement of the European agenda underpinning The Treaty of the European Union. We will be contributing to the questions to which we believe the Commission should offer an answer, especially regarding the stance taken by DG Competition not only on state aids but also anti-trust.