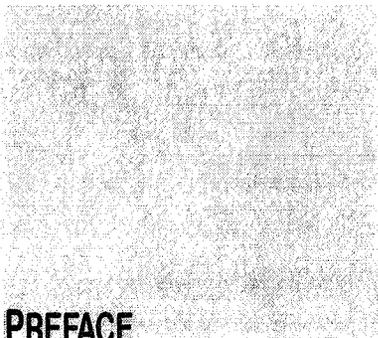


**REPORT
BY THE THINK-TANK
ON THE
AUDIOVISUAL POLICY
IN THE EUROPEAN UNION**

MARCH 1994



PREFACE

This report was prepared by the audiovisual Think-tank set up by the Commission last November as part of the preparations for its Green Paper 'Strategy options to strengthen the European programme industry in the context of the audiovisual policy of the European Union'.

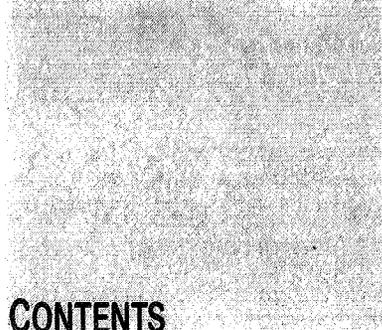
It was felt appropriate that contributions from representatives of European professional organizations, those involved in the administration of the MEDIA programme,¹ Member State authorities and any other interested organizations, selected individual professionals with recognized status in the programme industry should also be given the opportunity to make their views known through their personal contributions to the analyses of the issues involved and their recommendations for strategic solutions.

This Think-tank, chaired by António Pedro Vasconcelos (film and television producer, former coordinator of the National Secretariat for Audiovisual Production in Lisbon) was composed of David Puttnam (film producer, director of Anglia TV and Enigma productions), Michèle Cotta (journalist and television producer with France 2, former president of 'la Haute Autorité de l'Audio-visuel' and past head of news at TFI), Peter Fleischmann (film director, founder of the European Association of Film Directors, director of Hallelujah films) and Enrique Balmaseda Arias-Davila (lawyer, former legal adviser to Spanish television and past director-general of the Institute of Film Arts in Madrid).

The expertise of Gaetano Stucchi (RAI) in the field of new technologies also provided valuable input.

¹ Council Decision of 21.12.1990 concerning the implementation of the action programme to develop the European audiovisual industry (MEDIA) (1991-95); Doc. 90/685/EC published in OJ L 380, 31.12.1990, p. 37-44.

The resulting Think-tank report, which it now seems appropriate to make widely available, contains a wealth of analysis and proposals. It does, however, only reflect the opinions of the authors and is in no way an officially approved Commission document.



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LETTER BY THE
EUROPEAN COMMISSIONER
IN CHARGE OF
AUDIOVISUAL SECTOR
TO THE CHAIRMAN
OF THE THINK-TANK

Dear friend,

You are no doubt aware of the importance the Commission and I myself attach to the development of Community policy in the audiovisual sector. At a time when technological developments are making new types of communication possible, I am thoroughly convinced that the sector should be rethinking its future and the Commission should step up its support measures.

At the meeting of ministers in Mons on 4 and 5 October last year, I informed the ministers of the 12 Member States of my intention to present to Parliament and the Council a Green Paper on the audiovisual sector in order to stimulate debate on various options for the future.

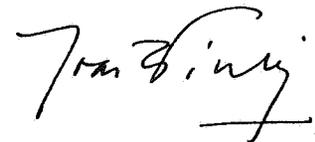
It is in this context that I am inviting you to chair the Think-tank the Commission is setting up, in order to ensure the involvement of several internationally renowned figures in the sector.

The Think-tank will bring together a small group of individuals who, such as yourself, have a certain authority in this sector. Its job will be to come up with suggestions for guidelines for audiovisual policy in line with the conclusions reached at Mons and in the context of preparing the ground for the Green Paper on the audiovisual sector with a view to the Conference that is to follow its publication. Its deliberations should lead to the production of a report, which is to be the basis of the Commission's Green Paper. In addition, each member will be called on to chair a thematic group at the Conference itself.

In order to facilitate the Think-tank's proceedings, which are to be conducted between 1 November 1993 and 30 May 1994, it

will come under the MEDIA Business School, since this is the structure in the Community programme most involved in carrying out forward-looking research on audiovisual matters. Among the other members of the Think-tank will be David Puttnam and Enrique Balmaseda. The rapporteur will be Gregory Paulger, Head of DG X's Audiovisual Policy Unit.

I look forward to working together with you.

A handwritten signature in black ink, appearing to read 'João de Deus Pinheiro', with a stylized flourish at the end.

João de Deus Pinheiro

LETTER BY THE
CHAIRMAN OF THE
THINK-TANK TO THE
EUROPEAN COMMISSIONER
IN CHARGE OF THE
AUDIOVISUAL
JOÃO DE DEUS PINHEIRO

Brussels, 3 March 1994

Dear Commissioner,

I am pleased to submit to you the report of the Think-tank, which you were good enough to ask me to chair.

As chairman, I would first of all like to underline the considerable efforts made by the members of the Think-tank, not only in replying to your call within very tight deadlines but also to overcome their inevitable and healthy divergencies on many issues. I was able to appreciate the efforts they made and I am grateful to them.

Indeed, with different professional and national backgrounds, it seemed at times difficult, if not impossible, for all the members to reach agreement as much on the issues at stake as on the recommendations for action. At all events, the seriousness of the situation, the urgent need to supply answers and the necessity for strong political support for the effort our industry must make to overcome its colossal deficit and its lack of competitiveness lead each of us to stress the consensus items rather than those which remain problematical.

Therefore, although all the members of the Think-tank have agreed on the text I am pleased to submit to you, this does not mean that all the doubts in each of our minds have been lifted as regards both the diagnosis and recommendations.

Moreover, as you yourself will see, we do not pretend to provide definitive answers to all the questions, nor ready-made solutions to all the problems. We would not presume to do so, even if we had had the time and the means.

I am, however, convinced, and I believe the others share this view, that what is important is to find the right questions and to put them in the appropriate manner.

A lot of ground remains to be covered at the conference you have decided to convene in the wake of the publication of the Commission's Green Paper. It will then be up to the practitioners and their representative bodies, the politicians and, I would even say, public opinion to take a position.

Lastly, on behalf of my colleagues, I would like to thank you for the trust you have placed in us, and which we have endeavoured to deserve.

Yours sincerely



António-Pedro Vasconcelos

I — INTRODUCTION

(THE POST-GATT ERA)

The GATT negotiations highlighted the strategic importance of the audiovisual sector. What has become just as obvious is that the only two players that have remained in the competition are the United States of America and the European Union.

For a few weeks, politicians and public opinion were mobilized for a passionate debate where the rhetoric often hid the real stakes. The Americans wanted to ensure continued domination of the European market, which is today vital for the growth of a sector that is their second-largest source of earnings from exports. To do this, the Americans were bent on eliminating, or at least putting a freeze on, the fragile structure of European regulatory and aid systems, which were especially not to be extended to the new mediums of cable and satellite.

The Europeans, on the other hand, were determined to remain totally free to regulate and support the audiovisual sector in all its aspects and in all its areas.

And yet, the Americans spoke in the name of free competition (a system that in many countries has become distorted) and demanded the liberalization of a market that they had, in the mean time (as T. Guback explains very well¹), 'shaped to ensure it would play in their favour' while their market remains practically closed to imports.

Europe, in contrast, staunchly defending its cultural identity, gave reason to believe that the audiovisual sector was not of major economic importance and especially could not be considered a common activity, regulated by ruthless market rules: 'cinema is not a product like the others'.

This subtlety, unquestionably right, was nevertheless the historical source of a lot of misunderstanding. André Malraux, ending his prophetic 'Sketch of cinema psychology', said, 'Moreover, cinema is an industry.'

¹ Guback, T. *Non-market factors in the international distribution of American films*. Guback's text is a decisive contribution to understanding the often overlooked importance of constant support from the American Administration for their film and television industry and especially the way in which their diplomacy has always backed the effort of the MPAA (Motion Pictures Association of America) to ensure domination of the European and world markets.

Until the 1960s, this double nature of films — work and product — did not pose any serious problems in Europe for those who made them: popular art, European cinema was concentrated in two or three major production centres, the prestige of film stars crossed borders, films enjoyed the public's favour, receipts largely covered production costs and investors did well.

This was a time, not so long ago, when cinema was still practically alone on the audiovisual market, before the explosion of video and the deregulation of the hertzian waves which brought in its wake a whole multitude of private stations, and also before the proliferation of satellite and cable and the announcement of digital compression.

Having at the same time reached its full artistic maturity, with its best directors (American and European, but also from other continents like India and Japan) controlling the forms of film narration, cinema could be said to have become finally that total art, that universal language — the ‘seventh art’, which the visionary Canudo spoke about at the beginning of the century.

This ‘victory’ of art over industrial constraints, artists over businessmen,² encouraged new generations of directors everywhere in Europe to fight for the definitive ‘liberation’ of cinema from what they believed to be market constraints. Later we see how and why this small revolution took place and to what extent it contributed to making Europe, in the audiovisual field, a continent broken up into several small islands isolated from one another, without the ability either to finance themselves or to face the invading domination of the American products that they thought they were fighting.

An artistic activity, probably, to the extent that its consumption is not material but spiritual (factory, but of dreams), cinema, like the whole of audiovisual production, nevertheless obeys the laws that regulate the entire industrial production. Even if it manufactures prototypes, the film and audiovisual industry must find the means in the market to finance them.

Forgetting this obvious fact, Europe over these past few years has chosen what could be called an environmental approach to its film and television production, acting as if it was a ‘species on the verge of extinction’ that had to be protected from industrial predators.

It is not surprising, therefore, that intervention by the States and the Community in the audiovisual sector too often favoured this attitude, which today enables the Americans to accuse us so easily of protectionism. Yet quotas, specifications, subsidies and taxes have failed to stop the inexorable advance of American products on our markets, which in 15 years have risen from 35 to 80% on average in cinemas while European products today only account for 1% of the American market.³

In the USA, after the crisis of the 1960s, marked by the upheaval of industrial and business structures — due especially to the advent of television — as well as corporatist demands and the

² There will never be enough said about the historical importance of copyright — which still does not recognize directors as the author of the film (the director’s work being considered as ‘work made for hire’) — in the consolidation of the American industrial system and which has been for the producer one of the most powerful means of control over his product and for the banks a solid guarantee that the industrial spirit prevails over any vague artistic desire on the part of the director.

This battle, which has been going on since the 1920s, has not to date succeeded in changing the system, despite the recent canonization by Hollywood of its great directors (with the grand tributes the Academy made to Alfred Hitchcock, Billy Wilder, John Huston, Frank Capra and many others). It is being waged today at the head of the Director’s Guilds by people as important as Spielberg and Lucas and has the support of the Associations of European Directors. It should be added, in any case, that the problem of American directors having control over their work has almost disappeared. A director, in the European sense of the word, like Martin Scorsese admits that he has never had any problems with his producer. It would, moreover, be interesting to one day tell the story of this battle of the great American directors to ensure control over their works: Manckiewicz, Preston Sturges and Richard Brooks winning the battle to have the right to write the screenplays to their films themselves; John Ford going to shoot westerns in Monument Valley, far from the watchful eye of the producer, and only filming the shots absolutely necessary for editing; Preminger filming sequence shots,

proliferation of independent producers, worsened by the disappearance of the last generation of pioneers and the crisis of confidence suffered by the nation after the traumatic defeat of Viet Nam, the Americans regained their vitality.

They were once again on the offensive, with the strategy of blockbusters, the rapid integration of new marketing channels (video and television) and an increased concentration of the major companies throughout the world, while Europe devoted its energies to building a kind of Maginot line increasingly incapable of containing the advance of the Hollywood war machine.

And now on the eve of the end of the century, with Europe groping around for a response to the technological challenge of high definition, the Americans surprise us with a leap forward. Stressing the development of research on the digital transposition of images and developing interactive technology, they are capable of covering the planet with their images through means that make obsolete the traditional forms of their consumption.

Even if films continue to be their leading product and cinemas the privileged place on which the other markets depend, the combination of television, computer technology and telecommunications is going to totally change the forms and concept of entertainment as well as the traditional organization of its operations, investment priorities and especially the relationship between the consumer and the product.

Paradoxically, from an economic point of view, the model of the cinema theatre, that is to say the model of the direct exchange (projection-ticket), remains profitable in the new reorganization of telecommunications. All the most prominent market trends in the development of the telematic and television product offering and in audiovisual distribution show that at the centre of the system lies the direct choice of the public, its desires and buying power, its needs and the available money and time to satisfy them.

Rather than the institutional or advertising resources on which television has lived for a long time, what counts is individual spending, which tends to be growing and totally taking over the financing of the audiovisual industry. This shows to what extent the industry is once again dependent on the choice of the public, meaning the individual, which some call the consumer and which we prefer to call the citizen.

This is the new challenge. It has been calculated that in the medium term (according to figures in the Commission's White Paper on growth, competitiveness and employment) household spending on audiovisual products is going to double. The problem is determining whether this rise in consumption is going to further worsen our deficit, that is to say whether it is going to mean more profits for American products or, on the contrary, be an opportunity for us to get back in touch with the public.

which prevented any manipulation by the producer; Hitchcock starring on the same level as the actors ('actors are like cattle'); Hawks including his signature in the credit titles and becoming himself producer etc. Demands today from the directors of the American Guild are especially on the 'moral right' that enables directors to consider themselves the authors of their works and thus to forbid any abusive intervention on their work once the copy has been established, which becomes a problem of major importance, especially with the endless possibilities of manipulation created by new technologies. In this sense, it is important to quote an extract from the speech by a producer-director as prestigious as George Lucas ('Senate hearing on Bern Treaty'): 'People who alter or destroy works of art and our cultural heritage for profit or as an exercise of power are barbarians, and if the laws of the United States continue to condone this behaviour, history will surely classify us as a barbaric society. ... The corporations, which hold many of the copyrights, are usable entities. They are bought and sold, and corporate officers change on a regular basis. ... Supporting the moral rights clause is good business. ... Artists need a sense that the work they are doing is meaningful and that what they are doing will last, complete with all the subtle nuances they have struggled so hard to achieve.'

³ If we do not take into account British films which account for about 2% of the American market, but which are often financed with American money or American films shot in the United Kingdom.

Only we have the answer, which is to modernize our distribution structures, on which will depend, as stated below, whether we have 'more market for our products and more products for the market'. For this, we must first begin by creating solid companies structured according to the dimension and future energy of the European market, adopting from the start a transnational and multimedia strategy.

This restructuring of distribution networks is of capital importance, as important as the investment to be made directly in the production of new titles, which will constitute the basis for the machine to start up again and for new players to appear.

It is in the dysfunctioning of this interdependence that the key to our deficit has resided for so long. Creating a new distribution network is also going to establish new kinds of demand, because this network will be obliged to invest in projects that are going to feed it. In turn, the optimization of consumption that will result from this, in terms of time and money, may also open up new frontiers to the audiovisual market: more resources, more enterprises, more European industry.

This is an optimistic vision. It is in keeping, moreover, with the conclusions of the White Paper. This market, which today employs 1 800 000 people in software alone, can increase its resources if we simply stop coming up with so many excuses. That is what the Commission seems to do: 'If we begin with the principle that we have a good chance of increasing our market share, if we devote the necessary efforts to it, it is not absurd to hope that the sector of audiovisual services can provide employment, directly or indirectly, to 4 000 000 people.'⁴

But to do that we must not limit ourselves to gaining on paper what others are gaining on the ground. Our systems of regulation, including the 'television without frontiers' Directive which is to date the only tool at Community level, must be expanded and improved with the sole aim that justifies them: helping create a competitive industry where the European viewer recognizes himself and which opens other markets to us.

If we want to go on talking forever about the American strategy, we must also accuse ourselves of a lack of strategy.

The situation has not miraculously changed after the positive outcome of the GATT negotiations. Europe has only won the first round, the Uruguay Round.

This first improvement nevertheless marks a decisive moment for Europe in the awareness of the strategic importance of the audiovisual sector. But if this awakening is to contribute to developing a competitive industry, the trade balance between our two con-

⁴ Commission White Paper 'Growth, competitiveness, employment — The challenges and ways forward into the 21st century', 5 December 1993.

tinents must first be restored, which implies being able to overcome quite a few contradictions and misunderstandings.

The Americans must be reminded that liberalism is not synonymous with the law of the strongest and that it is precisely because of strong protection from competition that their industry has developed so well there.

Europeans must perhaps be reminded that Europe was only great when it was able to speak for the largest number: Cervantes like Shakespeare, Molière like Mozart and Verdi like Picasso were able to make their national geniuses universal. That is the great challenge facing our creators today. Europe must find its universalist vocation again. Like the Americans, if we want to reach a world audience, we must first recover our own public. If it were only a question of protecting our film culture, soon all we would have left would be the cinemas.

For Europe, recapturing access to its own market is a right that could be called natural. But Europe cannot wait for it to be sent from heaven. It has to move from a position of cultural resistance to one of industrial offensive if our culture is indeed to survive.

In a nutshell, it is not a question of protecting ourselves from the market but protecting the market.

Must we break down the barriers and let the market alone take care of restoring the balance and bring competition into play? Certainly not. We have seen elsewhere and in other areas the catastrophic results of this shock therapy.

What has become obvious after the Uruguay Round victory is that defending Europe's cultural identity, forged over the centuries by the rich mosaic of its many languages but whose common trait has always been universality, is, in the case of the audiovisual sector, inseparable from recapturing the European market and therefore its audience. This implies consolidating an industry capable of meeting and even anticipating demand, an industry that has the political support and sufficient financial means to become competitive on world markets.

In Europe, over the past 15 years, only the audiovisual sector of all the large industrial sectors has not acquired a transnational outlook.

And yet Europe has talent, a market and sufficient money to create this industry. But today, for lack of confidence and strategy, all these assets are of less benefit to it than to the USA.

Analysing and understanding how this situation has been possible and proposing the means to change it is the objective of this report.⁵

⁵ The purpose of this report is not to paint a comprehensive and detailed picture of the situation of the audiovisual industry in each country and the EU as a whole. For this, publications such as the one by IDATE (*Marché mondial du cinéma et de l'audiovisuel*), CERICA (*Statistiques du cinéma en Europe*), London Economics (*ACE market modules*) as well as the information sheets published regularly by Screen Digest, among many others, are largely sufficient, even if they do not always coincide.

The sole purpose of this report is to outline the major trends in the industry and audiovisual policy in Europe, and to focus the debate on the question confronting all those trying to find the answer: 'How can the European Union create a programme-making industry that is in keeping with its market, its resources and its ambitions and that meets and anticipates the demand of the public in order to become competitive on the international market?'

António-Pedro Vasconcelos

II — DIAGNOSIS OF THE SITUATION

A — GLOBAL APPROACH

1. ECONOMIC DIMENSION AND IMPACT ON EMPLOYMENT TRENDS

The European Union is the greatest developed audiovisual market in the world in terms of consumers and the second in terms of value. As reported in the Commission's White Paper on growth, competitiveness and employment, the audiovisual market of the EU today, including the production and distribution of programmes (software) and hardware, is estimated at ECU 257 billion. The programmes industry represents 54% of that global market. US industry exports to Europe have increased surprisingly in the last 10 years, from ECU 330 million in 1984 to ECU 3 600 million in 1992. In 1991, 60% of US audiovisual programme exports came to the European Union and the EU trade deficit with the USA stands at around ECU 3 500 million per year.

In the European Union the demand for programmes has risen from 200 000 hours in 1981 to 650 000 in 1992 (a consequence of the increase in the number of television channels: 40 in 1981 and more than 100 today). The demand for audiovisual productions in the EU will go up from ECU 23 billion today to ECU 45 billion by the end of this century; the number of channels will rise from

120 to over 500 and the number of programme-hours from 650 000 to 3 500 000.

At least 1.8 million people today are employed in the EU audiovisual sector and it is estimated that a further two million jobs could be created in the next 10 years if Europe makes maximum use of the growth potential of its domestic market and of the outside European markets. Most of these jobs will demand high levels of skill.

2. SOCIOCULTURAL IMPORTANCE

It is estimated that people in industrialized countries dedicate an average of three to four hours per day, to watching television. In the immediate future audiovisual technology will also be fundamental to kinds of teaching, education and occupational training sectors.

'Humanity will to a large extent be educated by audiovisual means. Audiovisual practice will invade everything in the coming decades, but this does not mean it will have to be worse; this depends on how we do it. In all events, I do not think that any of the cultures in our continents, whether large or small, will be able to develop normally unless their roots are nurtured in the European context.' These are the words of a European, the Czech intellectual, Antonín Lihen, which summarize to perfection — it is impossible to say more with

3. SECTOR OF CLEAR PRIORITY AND STRATEGIC INTEREST AT EU LEVEL

The declaration of priority and strategic interest at EU level of a given sector normally requires the combination of three requirements: the defence of general interest targets; the impossibility of reaching them from mere market play; and the targets that cannot be reached by the sole action of the Member States.

The audiovisual sector has enormous potential to generate wealth and create jobs, as well as being essential to Europe's cultural life.

The European audiovisual industry cannot at present compete under conditions of equality with the world industry. To leave it in the hands of the market would mean purely and simply condemning it to disappear rapidly.

The targets which are sought cannot be obtained either from the mere action of the Member States because, as we will see later, the central targets to be achieved are precisely to promote the development of the domestic audiovisual market of the EU and to promote the integration in Europe of the national audiovisual industries.

The declaration of priority and strategic interest at EU level however, cannot lie in mere words. On the contrary, it requires a coherent reflection of this 'strategic priority' in the political action and in the assignment of public resources which are temporarily needed to reach the common-interest targets that have previously been determined.

4. DECLINE OF THE EUROPEAN AUDIOVISUAL INDUSTRY: STATE OF THE SITUATION AND TENDENCIES

The overall volume of European audiovisual production is high: public television alone produces more than 120 000 hours of programmes per year. The basic problem is that the large majority of these are fundamentally local in terms of appeal and distribution. Because of this, and especially because of the absence of transnational distribution networks, European audiovisual production is confined to its own national markets and the single EU market only operates effectively for the non-European, specifically US industry.

Paradoxically, in the last 15 years, the European audiovisual industry has been the only one among all the major industries which has retreated to national markets rather than becoming more international in its orientation.

Over the last 10 years, European films have lost 50% of the European film market in favour of the US industry. In 1968, box-office takings for US films in Europe were 35% whereas European takings represented 60%. At the end of the 1970s this percentage was split 45% for the US industry and 50% for the European industry. Today the share of the American film industry in the EU is an 80% average — France is the only significant exception — and scarcely 20% for the European cinema. This hegemony of the US industry is even more apparent in European countries which have a weak audiovisual production capacity.

The decline in regular film-goers in Europe has only affected European films. The number of regular film-goers in Europe in the last 15 years is down from 1 200 million to

550 million. US audiences, however, have remained quite stable at around 450 million, while European audiences have fallen in this same period from 600 million to 100 million.

If we consider that the average number of cinema attendances in the USA is 4 per year, whereas in the EU it is 1.7, we can conclude that if there is a market to be recovered, it is the market for European films. A reactivated European industry might leave the European market for American films unaffected.

The weakness of transnational distribution within Europe is evident from the data shown in Graphs 1, 2 and 3.

The following conclusions can be drawn from the above and also the data contained in the tables that follow:

- (i) European audiovisual production is basically local production;
- (ii) transnational dissemination of European audiovisual production is extremely weak and the trend is downwards.

5. MAIN REASONS ON WHICH THIS DECLINE IS BASED

There are without doubt many reasons which have provoked this situation. Among them, the actual reality of the cultural and linguistic diversity of our continent. This diversity is an extraordinary source of wealth which must always be preserved. The non-European industry, however, clearly shows us to what extent the worldwide dissemination of audiovisual works, or rather certain audiovisual works, has no cultural or linguistic frontiers.

(A) AUDIOVISUAL POLICY

The audiovisual policy in Europe was, and still is, structured on a national and regional basis. Over the last 10 years the problems and challenges, even fundamentally transnational ones, have been confronted from national or regional interests and perspectives.

Consequently in Europe, national or regional demands — that is to say local ones — have more or less been satisfied by the respective local industries. However, Europe has abandoned the markets and the demands of the European transnational audiences which the non-European industry has been able to occupy almost without competition from the European industry.

Although this was certainly not the intention, the audiovisual policies that were implemented in the last decade at European level have particularly favoured hardware and had very little favourable effect on productive activities, the programmes industry or software.

In recent years action has started to be developed at EU level — the Directive on television without frontiers, harmonization of copyright, the MEDIA programme, the Action Plan and, at

Council of Europe level, the Convention on Transfrontier Television and the Eurimages programme. These programmes should be favourably assessed, regardless of any reorientations which may be introduced in the future.

Policies of national or regional scope will continue to be necessary, but, as the recent GATT negotiations have shown, the fundamental problems of the audiovisual industry cannot be approached in an isolated way at State level.

(B) MARKET

Over the last 10 years, it has been thought that the European audiovisual industry was going to benefit automatically from the extraordinary increase in demand for audiovisual productions as a result of the disappearance of the State monopolies for television services and the opening of markets to the private sector. This proved not to be the case. The European audiovisual production industry was not in a condition to compete with the transnational markets, mainly because it lacked — and still lacks — suitable marketing and international distribution structures.

The multiplication of the number of channels has increased production costs and the price of broadcasting fees of the most attractive programmes. It has fragmented audiences and reduced advertising income and this has provoked a reduction in radio broadcasters' production budgets. The search for maximum audiences by all television broadcasters, whether public or private, has steered radio broadcasting purchases and production policies towards low-cost national products and towards US productions which, because of their amortization in costs, first in the US home market and then in the international markets, offer better cost/audience relations.

In the audiovisual sector, as in all sectors of industry, it is not enough to have good products. They must also be marketed. We say 'also' but the correct word would really be 'specially', because the distribution networks in the audiovisual sector play a fundamental role not only in the promotion and marketing of the product, but in its financing, in the diversification of risks, in promoting economies of scale and in maintaining a balance between supply and demand.

Transnational distribution networks play an essential and irreplaceable role in the economy of the audiovisual industry, to the extent that it can be said that the construction of a European international distribution network is an absolute precondition to reaching solid and sustained growth in the European audiovisual industry.

(C) EXTRA-EUROPEAN COMPETITION

Finally, the European audiovisual industry is today subject — and it will be even more so in future — to competition from the non-European industry, and more specifically from the US industry. The latter is an industry which, throughout the last 15 years has followed a strategy which is diametrically opposed to the European strategy: production with global ambitions; an extremely powerful and well-organized international distribution structure; and firm support by the US public powers for their audiovisual production industry.

(D) IN SHORT

The weaknesses of the distribution networks and political strategies for a pan-European level have provoked a deep decline in the audiovisual industry of our continent and have prevented the industry from benefiting, over the past 10 years, from the extraordinary expansion of the European market. A coherent political strategy and a worldwide distribution structure have allowed the non-European industries, especially the American industry, to be the main beneficiaries of this 'first expansion wave' of the audiovisual markets. The same thing will happen; with the 'second expansion wave' unless adequate measures are taken to avoid it, except that in the latter case the consequences will be far worse, perhaps even lethal, for the future of the audiovisual industry in our continent.

6. SERIOUSNESS OF THE SITUATION FROM A FUTURE OUTLOOK

It is impossible to give a precise definition of the future of the audiovisual sector. However there are certain contributing factors: internationalization of markets, increase in outside European competition; and the impossibility of amortizing production costs, except for low-quality productions, in the tight European national markets.

In response to these challenges, there is the current European reality: audiovisual production which is mainly local, with local promotion policies; and almost no international distribution and marketing networks; and the need to compete with a non-European industry which is extraordinarily strong and well organized.

If the strict reality of the European audiovisual industry is analysed without prejudice, only one diagnosis is possible: the future outlook is extremely serious.

We must remember what is at stake: it is not the right to play video games, but, apart from extraordinary economic power and employment growth potential which may or may not capitalize to the benefit of European initiatives, what is really at stake, we repeat, is the access to information, to culture and knowledge of the Europeans, as well as communication between European people (an essential condition to reach a solid European Union).

B — CHRONOLOGY OF THE CRISIS

'The European market has been among the fastest growing in the world with a current market growth rate of 6% a year in real terms, that is being sustained even in today's recessionary climate. The US has benefited most from growth in Europe, increasing its sales of programming in Europe from USD 330 million in 1984 to USD 3.6 billion in 1992. In 1991, 77% of American exports of audiovisual programmes went to Europe, of which nearly 60% to the EC, this being the second-largest US industrial sector in export terms, while the European Union's annual deficit with the US in audiovisual trade amounts to about USD 3.5 billion.'

White Paper 'Growth, competitiveness and employment — The challenges and ways forward into the 21st century'.

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The current picture of Europe's audiovisual industry in the 12 countries of the European Union¹ is, as seen earlier, that of a situation that can be considered catastrophic: structural weaknesses make it too vulnerable to face the new challenges.

It can be characterized by a certain number of trends and symptoms that have accumulated in more or less inexorable fashion these past few years and that should first be identified if we are then to try and understand it and, more importantly to change it.

¹ Our analysis can nevertheless be applied, for the most part, to the other European countries, particularly the EFTA countries, which essentially have the same characteristics.

1. IN 10 YEARS EUROPEAN FILMS HAVE LOST 50% OF THE CINEMA THEATRE MARKET AND TWO THIRDS OF THE AUDIENCE

In the mid-1960s, an average 35% of the box-office films in continental Europe² were American while 60% were European (the remaining 5% corresponding to the other film industries). In the late 1970s, this percentage stood at 44% for the USA and 55% for Europe. Today, in most of the 12 EU countries over 80% of the films shown are American, and in some of these countries that figure exceeds 90% (Graphs 1, 2 and 3).

Therefore, in 10 years European films lost 50% of their market share in European cinemas, but they also lost two thirds of their public. If this trend is projected to the year 2000, there will be practically no more European films on our screens, which means that the European market threatens to be a copy of the one in the USA (95% American films compared with 3% European, 2% of which are English).³

² We do not have precise data for the United Kingdom, not only because we do not know the distribution of receipts between American and British films, but also because most British films are in reality financed by an American agent or are American films shot in the UK.

2. THERE IS AN INCREASED TENDENCY OF EUROPEAN FILMS BEING CONFINED TO THEIR NATIONAL MARKETS

This already terrifying percentage does not tell it all. While the American films that come out everywhere and at the same time in Europe are practically the same, only about 20% of European films (therefore 4% of the total) are shown beyond their national borders, and only a very few of these European films are distributed throughout Europe, let alone the world.

Also, if the market share of American films is increasing, it is not because the number of viewers has increased but fundamentally because the number of viewers of European films has plunged. Since 1980, the audience for American films has practically remained the same (it has gone from 425 million to 420 million) while the audience for European films has fallen from 475 million to 120 million.

3. THE SINGLE MARKET ONLY EXISTS FOR AMERICAN FILMS

The first conclusion that must be arrived at is that the European market is increasingly leaning towards a sort of bipolarization (American films, on the one hand, national films on the other), a bipolarization that television and especially video only intensify, and that there is less and less a common market for European films: the single market only works for American films.

³ The figures as well as the tables and graphs of this chapter, except when specifically mentioned, were specially provided by Michel Gyory of Ceric (Centre européen de recherche et d'information sur le cinéma et l'audiovisuel) for this report.

The argument that the mosaic of languages and cultures forming Europe prevent any attempt to achieve a uniform public therefore becomes an excuse. With the exception of the United Kingdom and Ireland, in all the other countries of the EU, American films are shown either dubbed (which represents about 85% of the Continent) or subtitled, placing them in the same situation as all the other non-national films, where the language of the film is also foreign.

Moreover, the fact that American products encounter the same success in all European countries, as well as in the rest of the world, formally refutes this assertion. While it is true that Coca-Cola and McDonalds have succeeded in standardizing the taste of new generations, it is also true that champagne and spaghetti are a part not only of Europe's but the whole world's gastronomic heritage.

4. THE FALL IN ATTENDANCE IN EUROPE HAS ONLY AFFECTED EUROPEAN FILMS

The second conclusion is that the drop in cinema attendance (which has fallen in 10 years from 900 million viewers to 550 million) is exclusively due to the loss of audience for European films, that is to say for non-American and non-national films (Graphs 4a, 4b, 4c, 5 and 6).

But if one considers that Europeans go to the cinema 1.7 times a year while Americans go on average four times a year, it can be concluded that if there is an audience to be recovered, it is precisely the audience for European films, without affecting a public that can be considered faithful to American films. This means that if with a recovery of the European industry the Americans risk losing market shares in percentage, they will probably not be affected in their sales turnover.⁴

5. THE COUNTRIES WITH A SMALLER PRODUCTION CAPACITY ARE MORE VULNERABLE TO AMERICAN DOMINATION

The fact that we observe that in most countries 80% of the EU market is taken by the Americans, whereas the Europeans have only managed to keep 20% of their market, hides another reality, much more dramatic and which must be taken into account. If in the countries that have succeeded in keeping an audiovisual industry that resists, as is the case of France (where a very effective system of aid enables the recycling of money from the market for the industry),

⁴ This point is extremely important for it not to be used as an argument in the negotiations with the Americans that will inevitably follow the Uruguay Round. Indeed, recovering the audience that is wanted for European cinema will not necessarily be to the detriment of the Americans' sales turnover in Europe but quite simply their share of the market. On the contrary, if Europe can hope that cinema-goers will see a film four times a year, like the Americans, and that the European market is fairly divided up by our two film-making industries, the Americans will benefit in turn.

It is known, moreover, that the prosperity of European cinema has always benefited the Americans, not only because it enables retaining a group of healthy cinemas, but also because the success of European cinema has in the past enabled American cinema to reach a level of quality and sophistication that it is today losing (also because of the cultural interbreeding that the exodus of European film-makers to the USA has accentuated).

rican films do not account for more than 55% of the market share, in countries with a low production capacity (or which have a large production like Germany and Spain but where the national cinema no longer has an audience) the figures for the division of the market are disquieting.

This is the case of Portugal, Ireland and Greece where the average percentage of non-American films does not exceed 5% and the case of Germany and Spain where it does not reach 10%.

This means that wherever national production is weaker or has become detached from its audience, domination of the market by the films of the major American film studios becomes stronger.

The first consequence is that these markets, becoming increasingly impenetrable to the products of the other European countries, end up affecting, indirectly, the industry of the large countries, even those that are more capable of resisting the American hegemony and that have always been the engines and mirror of European production. Today, as in the case of the 'small' countries, it becomes increasingly difficult to make a French or Italian film profitable on the European market as a whole, with the consequence that its dependence on public financing increases.

6. IN 15 YEARS EUROPEAN FILMS HAVE LARGELY BECOME MONEYLOSERS

The 1980s were marked in Europe's main producer countries by a considerable increase in investment in the production of films. Between 1980 and 1992, the sums invested increased 4.5 times in France and quadrupled in Italy. Meanwhile, during this period attendance fell sharply, primarily to the detriment of European film-

makers, and since 1985 in France and 1986 in Italy, investment in production has exceeded the total gross receipts earned by the national films in national cinemas. The gap has grown considerably over time, to the point that in France the amount of investments in production has exceeded that of total cinema receipts since 1991 (Graphs 7 and 8). While this comparison is solely based on national earnings (which are — with TV earnings for films that have not been financed by a station — the main source of income for a large number of films), it is also necessary to take into account the fact that only a fraction of the cinema receipts goes to production (in general 10 to 20% depending on the country; 25 to 30% in Italy).

7. THE BLOSSOMING OF NATIONAL, AND EVEN REGIONAL, FILM INDUSTRIES AROUND THE LATE 1960s FURTHER DISPERSED PRODUCTION CENTRES, UNTIL THEN CONCENTRATED AROUND THREE MAJOR STUDIOS: PINEWOOD, BILLANCOURT AND CINECITTÀ

In the name of the right of cultural and linguistic minorities to express their identity, Europe, around the end of the 1960s, stepped up the centrifugal trend of an industry whose economic rationale called for concentration. This demand, where political motivations were predominant (e.g. the famous Guevarrist theory that Godard applied to cinema: 'there should be one, two, three Viet Nams') contributed to the enthusiastic springing-up of a multitude of national, indeed regional, film industries where directors were rarely able to overcome in dynamic fashion the contradiction between the entrenchment of the testimony and the universality of the message, that is to say between the location of the subject and the necessary transnationality of the audiences.

Without a market capable of recouping the costs of increasingly personal films, most governments increased subsidies to cover the loss of market. The distorting effect of these kinds of policies is that instead of giving directors the incentive to seek as large an audience as possible, they encouraged them to remain exclusive.

European production became dispersed on several small islands which in many cases only communicated with one another through a multitude of festivals, which in turn fed a multitude of critics who thus closed the small circle of insiders who complacently replaced the paying public.

This system has for a long time 'favoured the emergence of self-justifying ideologies according to which only unsaleable films would be entitled to the stamp of high quality'.⁵

⁵ Hans Gerd Prodoehl, expert for the government of the *Land* of North Rhine-Westphalia, in 'Film-making policy and aid to the film industry in Germany: Diagnosis of a crisis and defence for a change of parameters'. Prodoehl's study on what he calls (quoting Wolf Donner) 'the woes of German cinema' is a merciless analysis of the atomization of aid systems in his country through the policies of the *Länder* and their catastrophic results on the situation of the film industry in Germany.

8. THE SCATTERING OF PRODUCTION LED TO THE ATOMIZATION OF DISTRIBUTION, CONTRARY TO WHAT OCCURED IN THE USA

The American Administration's political support of the MPAA⁶ and the insensitivity, indeed the lack of concern of most European governments, and even of the Commission, to ensure the rigorous enforcement of competition laws, enabled the major American film studios to group together in the mean time in Europe. This was the case of UIP in some countries,⁷ but it is also the case of other specific groupings with strong horizontal and vertical integration such as exists in Portugal, Italy, Greece, the United Kingdom and the Netherlands.⁸

⁶ T. Guback, in *Non-market factors in the international distribution of American films* provides an impressive quantity of elements that prove the commitment of the American Administration, with the Western governments after the Second World War, to support their industry. It should not be forgotten either that the MPAA was precisely created on 5 June 1945 under the auspices of the Webb-Promerene Export Trade Act of 1918, which enabled it to avoid any legal action for anticompetitive practices, provided that its activities were strictly limited to exporting.

⁷ UIP (United International Pictures) is a company operating under Dutch law that groups together three major American film studios (Universal, Paramount and MGM) and that operates throughout the world except in the USA, Canada and Puerto Rico. UIP was authorized by the Commission on 12 July 1989, taking effect nevertheless on 27 July 1988, and granted a derogation to Article 85 of the Treaty of Rome a derogation that expired on 26 July 1993 and whose extension the Commission has not yet announced.

⁸ Étude sur la politique de concurrence et de distribution des films dans l'Union Européenne, by SCALE.

The result of this concentration strategy, linked to the worldwide presence of the major studios, has been the gradual weakening of independent distribution in Europe and also the increasingly greater difficulty for cinema operators to keep their programming freedom. Block booking and blind bidding⁹ accompany the covering of the European continent with blockbusters¹⁰ whose timed release is agreed between the major studios.

⁹ Block booking is a very common practice that is done in explicit or disguised fashion by the major US companies and that has been going on for a long time: it consists in making conditional the availability of copies of some of the most successful titles (generally blockbusters) on the programming of a group of other titles whose market value may be less certain.

Blind bidding consists in programming films that the theatre operator has not seen beforehand, thus having to trust the prestige of the film's stars and the good results already achieved on the American market.

In both cases, it is precisely the strength of the catalogues, due to the annual concentration of the major studios' titles, which allows these anticompetitive practices, which at the same time are very reassuring for the distributors who represent the US companies and for the operators who depend on them.

¹⁰ Blockbusters are large-budget films in terms of production and promotion, designed from the start by the major studios to be successes and thus to serve as engines for their catalogues.

It was in the mid-1970s that films like *Jaws* and *Star wars* put Hollywood back on its feet, beginning a series of super productions which each year beat the record of receipts held for nearly 40 years by *Gone with the wind*.

The word blockbuster is nevertheless almost as old as cinema itself: it was Griffith who, inspired by an Italian film *Cabiria* made *The birth of a nation* in 1915 and *Intolerance* in 1916 which can be considered the first blockbusters in the history of American cinema.

Since then, and each time the industry has had difficulties, especially since the development of television, Hollywood has continually tried to respond to the crisis with super productions that have not always been successful. A memorable example of this was *Cleopatra* whose production by 20th Century Fox lasted four years and gobbled up USD 42 million, an investment that the film's commercialization has still not recouped to this day. It was not until the generation of Lucas and

These blockbusters rely on heavy investment in promotion (which in some cases approaches production costs). This promotion, which is at world level, begins well before thousands of copies invade the continent, making it increasingly difficult, if not impossible, for most European films to find the best cinemas and the best dates, or the best contractual conditions for their release. An example is that of the United Kingdom where about 45% of American films are released simultaneously in over 100 cinemas.

The scattering of distribution (which also accompanies that of production, based in most instances on a case-by-case policy) considerably undermines the Europeans' ability to impose products on the public. Whereas there are seven major American film studios (Disney/Buena Vista, Paramount, Universal, Columbia/Tristar, Warner, Fox and MGM), which therefore programme their films simultaneously for the entire world, there are 1 049 active distributors in the 12 countries of the EU, plus those of the EFTA countries.¹¹ It must be added that, contrary to the major American film studios, all these distributors have remained national.

Spielberg that, through colossal investments in promotion and the perfecting of marketing techniques, combined with the covering of the planet with thousands of copies, the blockbusters have become a very sure indispensable element in the strategy of the major studios.

¹¹ MEDIA-Salles — *European cinema yearbook: A statistical analysis* (August 1993). This figure does not include the Greek, Icelandic, Irish and Luxembourg distributors (that can be estimated to be about 10). Moreover, if we do not include the major American companies directly established or represented by national distributors in each country, and of which there are on average five, it can be said that there are about 950 so-called 'independent' distributors in the 18 European countries referred to.

9. THE DROP IN ATTENDANCE AND THE STRATEGY OF THE MAJOR FILM STUDIOS HAVE LED TO A GROWING CONCENTRATION OF ATTENDANCE ON A REDUCED NUMBER OF TITLES

The result of this is that a growing number of films are not profitable, while a growing percentage of receipts is concentrated in a small number of titles, most of them American. Thus, it is observed in France (Europe's most successful national film industry) that the 10 highest earners in 1975 were nine French titles and one American title. In 1992, the 10 biggest box-office takers were two French titles, seven American titles and one English title, whereas in 1991 the top-10 hits were American films. In addition, whereas 18 French films were on the list of the 27 titles with more than one million viewers in 1975, there were only 6 (out of 28) in 1992. As for American films, where attendance exceeded the one-million mark, there were 6 in 1975 and 19 in 1992.

This trend is accompanied by a redistribution of earnings to the detriment of European films whose share in receipts has dropped dramatically in all European countries (Graph 1).

Furthermore, this phenomenon of concentration of receipts, which has repercussions on the distribution and production sectors, results, as shown above, in the bipolarization of certain European markets (see, for example, the Netherlands — Graph 3) and constitutes a major obstacle to the circulation of European films in Europe.

10. THIS PHENOMENON OF CONCENTRATION OF ATTENDANCE LEADS IN TURN TO A REDUCTION IN THE FILM SUPPLY

Because the market was designed to serve the interests of the large integrated groups with a strong production and distribution capacity, i.e. the major American film studios, while European production and distribution structures were not suited for this new organization of the market, European cinema operators became more dependent on the major American distributors, the only ones capable of steadily providing these theatre owners with the quantity of films necessary to operate at a profit. In virtually all countries, even those with large national distribution structures, these structures depend to a large extent on the American films that they distribute, as is the case, for example, with Gaumont in France, which distributes Disney/Buena Vista films.

In Europe, the atomization of production and distribution structures excludes virtually all European production companies from the game of double compensation which constitutes the foundation of the balance and prosperity of the major US studios. A production company whose film is not a box-office hit generally is not able to offset the loss suffered with profits from another film, whereas films that are not successful at the cinema do not sell at a high price to the television stations and rarely come out in video format. In addition, even European films that are a success in theatres do not have the same results with video as do American films which have had comparable or even less favourable box-office results.

11. IN ADDITION TO THE HORIZONTAL CONCENTRATION OF DISTRIBUTION (GROUPING OF MAJOR US STUDIOS), THE VERTICAL CONCENTRATION OF ACTIVITY (PURCHASE OF CINEMAS BY THE MAJOR STUDIOS), FORBIDDEN IN THE USA IN THE NAME OF COMPETITION, IS ALLOWED IN EUROPE

The emptying-out of cinemas caused by numerous factors — the most important being the development of television and video — and the deterioration of the fabric of cinemas threatened, with the drop in attendance, to affect the American film industry too, which had always relied in Europe on the popularity of the large national film industries (in which American film companies had invested for a long time, taking advantage of local systems of aid), especially in France, Italy and the United Kingdom, to ensure the prestige and prosperity of film entertainment.

The definitive capture of the European market by the Americans, beginning in the 1980s, can therefore be explained to a large extent by the general crisis in cinema attendance in Europe which, even if it especially affected European films, invited the major studios (one could even say, obliged them) to augment their power in Europe by investing in the construction of multiplex cinemas (see the case of the United Kingdom where attendance has doubled) to stop the crisis of cinemas which was endangering their own earnings.

12. THE ABSENCE OF A EUROPEAN DISTRIBUTION NETWORK DOOMS EUROPEAN FILMS TO AN INCREASINGLY DOMESTIC CAREER

After this decisive takeover of distribution and management by the Americans, Europe now finds itself facing a contradiction for which apparently there is no solution. The cinemas no longer want European films, because they generally no longer have what draws audiences to American films: solid stories, popular stars, production values, full-blown promotion. But it is also because European films no longer have the same easy access to cinema theatres that they are less and less able to compete with American products.

Tom Hohen sums up the problem when he says, 'It's a chicken and egg problem. Only a large distributor can offer substantial finances to make large-budget movies with mass-appeal, but a major European distributor can only emerge if there are plenty of European films with mass-appeal.'¹²

13. THE CAREER OF EUROPEAN FILMS IS INCREASINGLY SACRIFICED TO THE INTERESTS OF THE MAJOR AMERICAN DISTRIBUTORS

The crippling of independent distribution, except in the large countries where powerful groups exist, has made access to the cinemas very difficult, if not impossible, for European films (i.e. those from a country other than the one where the distributor is established); and when these films manage to find a distributor (often in 'Art and Essay' distribution channels), it is difficult for them to find the best theatres and best dates.

¹² Coopers & Lybrand. *The distribution game: Can Europe even score?*

There have been cases when a European film, even if successful, has been taken off the billing to make room for an American film. This was the case of *Indochine*, for example, whose projection was halted in a large cinema in Madrid after two very successful weeks to make room for an American film that was a flop, forcing the theatre operator to reschedule it a few weeks later.¹³

14. EUROPEAN DISTRIBUTORS HARDLY INVEST ANY MORE IN THE PRODUCTION OF EUROPEAN FILMS

This atomization and the ensuing weakening of national distribution structures, when they do not depend directly on the major US companies, combined with the explosion of the video market and the wholesale offering of films on countless television stations (since the 1980s, the two together account for 70% of the earnings of American films) have led to disinvestment by distributors in local production and even more so in products from other European countries.

There has mainly been a widespread disappearance of distributor 'credit' or a reduction to derisory percentages confined to a few strong films, whereas until the 1980s they were decisive for the financial deal of productions.

As an example, distributor credit, which in France accounted for about 30% of the financing of the French film industry in 1980, today barely represents 4% on average and is exclusively concentrated on a few titles.¹⁴

¹³ 'La distribution en salles des films de cinéma au sein de l'Union européenne' (First impressions). Study by Unifrance for MBS and SCALE (working process: February 1994).

¹⁴ Cluzel, Jean-Paul and Cerutti, Guillaume. 'Mission de réflexion et de propositions sur le cinéma français', generally referred to as the Cluzel report (December 1992).

On the other hand, it is rather symptomatic that today most films put box-office receipts as a 'token entry' in their budget.

15. THE DISAPPEARANCE OF A EUROPEAN STAR SYSTEM IS THE MAJOR CAUSE AND CONSEQUENCE OF EUROPEAN CINEMA'S UNPOPULARITY.

It should be added that distributor credit was given on the basis of a 'solid' script and especially the name of the stars. For example, a film like *Ruffian* by José Giovanni was given FF 15 million worth of distributor credit based on the name of Lino Ventura for a budget of FF 40 million.¹⁵

This leads us to another dramatic observation: there are no pan-European distribution structures in the face of the power of the major US companies and also in the face of growing internationalization of the multimedia marketing channels, enjoyed almost exclusively today by the American products. This condemns European films to further retreat to their national markets and, as we have seen, to depend more and more on public aid and also television financing (often public too).

The first consequence is the disappearance of European stars, who until the late 1970s were decisive not only for the financial arrangement of films in their country but also to ensure their distribution on most European markets and even in the USA. Stars like Sofia Loren, Alain Delon, Romy Schneider, Jean-Paul Belmondo, Catherine Deneuve, Marcello Mastroianni, Jeanne Moreau and a whole host of others were at the time as well known, if not more so, than a lot of American stars, whereas today no

¹⁵ José Giovanni, in 'Sunlight ou ... lumière' (copy of the debates organized by ARP during the Beaune Conference of 1992).

European actor (except for Gérard Depardieu, or Jeremy Irons, who the public confuses with an American actor) is capable of mobilizing significant investment upstream by distributors.

And even the directors, themselves stars in the 1960s, no longer attract European finance, except in a few cases (Almodovar, Bertolucci, Frears, Wenders).

16. THE LEVEL OF EUROPEAN FILM EXPORTS IS AT AN ALL-TIME LOW

The shrinking audience for European cinema, which is also reflected in video, and the retreat of films and TV products to their national markets, has in turn led to a gradual decline in exports. Today the market share held by American products in European countries stands at over 80%, with the exception of France, while European products account for a mere 1% of the American market (or 2% in the case of British films.) At the end of the 1960s American films held about 35% of the European market while European films, in their best years, gained a 7 or 8% share of the US market.

In addition, the fall in popularity of European stars, closely linked to the small circulation of films inside Europe, also makes their penetration of the American market difficult. Although never significant, this represented a steady audience in the 1950s and 1960s which European cinema failed to exploit.

For example, *Ana* with Sylvana Mangano in 1951 and *Et dieu créa la femme* with Brigitte Bardot in 1956, the films that launched the two new European sex symbols, had careers in the USA (in dubbed version) that today would be unthinkable. Lattuada's film remained 14 months at the box office, taking in USD 4 million, the same amount that Vadim's film made five years later, despite the X rating that doomed it to the 'hard' circuit.

17. THE STORY DRAIN AFTER THE TALENT DRAIN TO THE USA WEAKENS FILM AND TELEVISION PRODUCTION

The drain of European talent (actors, directors, photo directors, etc.) is not a recent phenomenon. It is part of the story of the relations between the two continents and has been a decisive contribution to the universalization of Hollywood cinema.

What was not new nevertheless became too common a practice in the 1980s. It is what could be called the 'story drain', that is to say the purchase by the Americans of scripts of films shot in Europe which had difficulty entering the US market because of the industry's resistance to dubbing, which generally doomed them to the limited network of original versions.

That is why the Americans prefer to buy the stories (the soul of the film) and make new versions themselves with stars known to the public and then distribute them all over the world through their powerful distribution networks. This phenomenon, which is always one-way, obviously has negative consequences on the economy of the European film industry.

Ten remakes were made of French films in the 1940s, 14 were made in the 1980s.¹⁶

18. EUROPEAN INVESTMENT IN AMERICAN CINEMA GREW FROM THE LATE 1980s

Today there is a new and rather symptomatic phenomenon: European producers are deciding to shoot their films directly in English, the only way, they believe, of reaching the American market while at the same time benefiting from the advantage of the language as a label of quality with the European and world audience. This is the case of *l'Amant* by Jean-Jacques Annaud or *Damage* by Luis Malle.

Other European groups go even further and invest directly in American cinema. This is the case of Crédit Lyonnais which has inherited MGM and in which the French State wants to inject FF 12 billion. It is also the case of Francis Bouygues's Ciby 2000, Studio-Canal+, Polygram (subsidiary of Philips), Kirch's Neue Constantin, Berlusconi's de la Penta, and the Berliner Bank which, through its subsidiary in London, invests USD 100 million every year in American films.

The lesson to be drawn from this imbalance of power is that American investments in Europe are concentrated on distribution networks (cinema and television), thus creating outlets for their programmes while European investments in the USA are geared towards production and thus contribute to fuelling the crisis of our programme-making industry.

19. THE ABSENCE OF A DISTRIBUTION NETWORK FOR EUROPEAN FILMS PUTS A HALT TO ANY EFFORT TO CREATE AN INDUSTRY

This gradual weakening of the European film industry, which like the cinemas remains the engine and mirror of the entire programme-making industry, has resulted in its increasing dependence on public funds whose role is more to cover the market deficit than to create conditions to integrate it.

¹⁶ Source: *Film Français*.

Who would have thought that *Some like it hot*, the masterpiece by Billy Wilder, a German exiled in the USA in the 1930s, was in reality the adaptation of a film by Richard Pottier *Fanfare d'amour* shot in 1935? This enables us to qualify somewhat our bitter observation: it must be admitted that while Europe often has good stories, it does not always have the best scripts.

Until now, support for production has mobilized virtually all available funding, without EU Member States and especially the Community thinking about intervening in the market to create conditions for a real circulation of European films. This would imply, on the one hand, a very firm attitude towards compliance with competition laws, and on the other hand, the creation of incentives to create a world distribution network for European films, a *sine qua non* condition to make an industry viable.¹⁷

Unlike the Europeans, the Americans have long recognized that the hazard of an industry making one-off prototypes can be minimized by concentrating production on powerful companies which enjoy real economies of scale. Such companies can acquire the critical mass necessary to build worldwide distribution networks and accumulate valuable catalogues.

¹⁷ In April 1968, in the 'Symposium on the Ways and Means of a Common Policy for the Film Industry in the Common Market organized by the Institute of Sociology of the Free University of Brussels in conjunction with the European Commission, and at a time when the European Economic Community only comprised six States, Jean-Claude Batz presented a communication where he developed the idea, visionary for the time, that there had to be a leap 'from the national scale to the European scale, a correlative change in our objectives, that is to say to focus our efforts now on organizing markets and developing structures.'

We cannot resist quoting more lengthy extracts from the text by Jean-Claude Batz, since they appear so much like a premonition today:

'The distribution structure has been forgotten and disregarded by national policies. Distribution is the "big missing element" in the governments' film promotion systems. This omission is less surprising than it seems at first glance. It is explained by the fact that distribution makes no obvious sense and does not truly fulfil its role unless it is structured on an international basis, or at least on a multinational territorial basis.' [This explains why] 'the financial intervention of governments has been confined to supporting production activities, short-lived by nature, and has refrained from seeking to organize markets or develop permanent distribution structures. What was the

20. EUROPEAN SUCCESSES DO NOT BENEFIT THE INDUSTRY AS A WHOLE

The increasingly rare successes that manage to overcome these limitations and achieve international distribution within Europe tend only to benefit their own producers and directors. They do not contribute to a more secure industry capable of taking risks in further production or distribution.

Once again, the exceptions only confirm the rule and if in some countries, particularly France, integrated groups are beginning to form with a coherent production philosophy, they never exceed the size of their national markets where, paradoxically, they sometimes find themselves in a dominant, or even monopolistic, position.

consequence? Well, when the decline in the cinema-going public began some 10 years ago in Europe, to erode the economic bases of the industry, when the attendance crisis worsened — European cinema lost some 45% of its audience over the past 10 years — European distribution companies, too weak, too fragmented, too closely limited to the regional framework, these companies therefore found themselves prevented from supporting the line of financial needs of production.'

... 'Already for several years [the large American companies] had been downsizing their own production activity to focus on the financing and distribution of films which it paid for from independent producers who played the role of contractors for their account.'

... 'As for the structures specific to European distribution, eroded by the crisis, they now continue to break apart under the action of American competition.'

... 'What is the meaning of this change? Between the audience of our planet and the various national productions of films ... gradually we are seeing the development of an international distribution and financing structure under American control and acquiring a world hegemonic power according to the snowball cumulative-growth process.'

... 'The European Community provides the territorial base on which an autonomous

21. THE SYSTEMS OF AID HAVE TURNED OUT TO BE POWERLESS IN STOPPING THE CRISIS

National assistance funds, never having touched distribution channels, have, for the most part, turned out to be powerless in stopping the crisis.

Selective aid, based in general on considerations of an artistic nature, introduces an element of judgment outside the market which tends to protect the producer's risk instead of encouraging him ('there are producers who make money from films that are financial losers'¹⁸).

Automatic aid, even if it rewards success, does not deal with the absence of a European distribution network able to intervene upstream in the production of films. Automatic aid acts downstream (we could at least try to adjust this type of aid, distributing the benefits of success between the producer, distributor and the cinema operator).

network of distribution of European films could rely, assuring in turn the stability of national productions and the authenticity of their works. This base, especially if it were one day to be extended to Great Britain and some of the countries of the Free Trade Area, reaches the critical size enabling the growth of companies adapted to the new international competition. Gradually, a European distribution network could then gain a foothold in foreign markets and engage in a cycle of cumulative growth.'

... 'It is recommended, now that the markets are being partitioned and assuming the continental dimension, that priority in State intervention go to fostering the development of a multinational network of film distribution, which should and could be the cornerstone of a European film industry.'

This was written in 1968, apparently when European cinema was doing well, when it still had a majority of our markets and when the United Kingdom and Spain, among others, were not members of the European Community!

It can be added as a matter of curiosity that Jean-Claude Batz is usually the producer of André Delvaux films.

¹⁸ Dimitri Balachoff, Permanent Secretary of the European Academy of Cinema and Television (letter to António-Pedro Vasconcelos).

22. DESPITE THE UNPRECEDENTED LEVELS OF AID, THE CRISIS OF EUROPE'S FILM INDUSTRY WORSENS DAY BY DAY

In spite of the aid (Hans Gerd Prodoehl even goes so far as to say, referring to the crisis of German cinema, 'precisely because of it'), the situation of European cinema (and the audiovisual sector, in general) is worsening every year.

In a report commissioned by the government of the German *Land* of North Rhine-Westphalia, Prodoehl paints a catastrophic picture of the German film industry and puts his finger on the structural reasons for this crisis: a system of aid atomized by the different funds of the 16 *Länder*, 'where the economic imperatives defined by the management and attendance of cinemas no longer play an adjusting role indicating in what direction to take action but constitute a foreign factor, a source of irritation'.

The result is that, between 1985 and 1991 nearly half of German films did not make it to the box office; 90% of the films had an attendance of less than 130 000; in 1998, out of a total of 1 994 production companies, only 76 had participated in the production of a film released in the cinemas, i.e. 3.8%; and most of the distributors in Germany employ on average 3.7 people (and this figure includes the four largest subsidiaries of the major US companies).

23. THE ATOMIZATION OF EUROPEAN CINEMA IS CONTRARY TO THE CREATION OF THE SINGLE MARKET

The situation of the film industry in Germany can be transposed for the most part in the EU, with the *Länder* being replaced by countries.

It is worth quoting another paragraph from the Prodoehl report which beautifully sums up the negative effects of the atomization of Europe's television and cinema industry:

'Film has a peculiar economic aspect: its production costs are largely independent of the possible proceeds from the sale, they do not increase in proportion to the scale of distribution. That is why, once the level of profitability is reached (the break-even point), profitability increases in exponential fashion with the increase in sales turnover. This economic peculiarity explains why the national and international film market will always remain the domain of the major distributors. In the film industry, more than in other economic sectors, the rule is that the power in the market and therefore cultural hegemony are variables of the quantity and dimension. Whoever only has an atomized parcel with which to act will constantly be at the service of the others.'

24. THE EXPLOSION OF VIDEO HAS INTENSIFIED AMERICAN DOMINATION

The 1980s witnessed an explosion of the video market, which has today become the leading source of income for the major American companies in the world market: 52% of the volume of total earnings (cinema, video, television).

The combined effect of the drop in cinema attendance for European films and the disparity of power

between the numerous small European distributors and the major American distributors, which enables the latter to have powerful catalogues (whereas European films, as seen earlier, are generally distributed by different small distributors and national publishers), has meant that the explosion of video has had repercussions on the crisis of the cinemas and instead of increasing film receipts has further worsened the deficit of European cinema.

Finally, the box-office success of films and the strength of their promotion have a decisive leverage effect for the hiring and sale of videos (and later for TV audiences) which exponentially increase the profitability of American films: today, video receipts for American films account for 47% of exports whereas box-office receipts do not exceed 32%.

25. THE LIBERALIZATION OF TELEVISION IN EUROPE HAS WORSENERED THE DEPENDENCE OF THE STATIONS ON AMERICAN PRODUCTION

Contrary to what occurred in the USA, where three powerful networks and a market of syndications in the beginning established a market logic for audiovisual production, in Europe, television was created in the shadow of the national public services, dependent on broadcasting fees.

With the introduction of advertising in the economy of the public stations (with the exception of the BBC) and the demand for the liberalization of terrestrial broadcasting, a private sector, more often than not fragile, grew and in turn weakened the public stations and prevented the establishment of a real continental market for European products.

Bernard Miyet very clearly explained the origin and effects of this phenomenon:

'The public stations initially blocked the rights of programmes that they owned, in order to bar access to the new private competitors. The latter were consequently faced with the double handicap that burdened any newcomer to the market: the absence of a pre-existing fabric of independent producers and scarce financial means.

To face the need to fill growing time slots with programmes, all the operators turned to Hollywood, which was the only one with catalogues capable of satisfying this demand. Blocked by the stations already established, adapted to the sole needs of these stations, frozen by the absence of distribution structures, European programmes were not able to take advantage, of this trend.¹⁹

This phenomenon was accompanied by a massive consumption of American products (films, and also series, television films, situation comedies and soap operas) which, in the case of films, benefited from promotion in cinemas and, in the case of television products, from prices that in certain instances could be considered dumping: with their cost already recouped in the USA, the American products were sold to the stations often in batches and at absolutely unbeatable prices.²⁰

¹⁹ Bernard Miyet, in 'Étude for the SEA' (Sociétés d'études sur l'audiovisuel), specially prepared for this report.

We believe that it is interesting to quote Bernard Miyet again on a problem that is almost never brought up — the problem of frequencies: 'The granting of broadcasting licences or the assignment of frequencies is still the responsibility of the authorities of each country, which naturally tend to favour purely national interests, despite the apparent legal equal opportunity for any national of the European Union. Because of this, is it a pure coincidence if the major private operators are controlled by French entities in France, German ones in Germany, Italian ones in Italy or English ones in Great Britain?'

... 'In this respect, it can be supposed that if a broadcaster controlled stations in several countries, he could be more easily tempted to take a risk on making programmes intended from the start for several markets Probably already difficult to implement in an environment that would be totally deregulated, one can imagine the additional handicaps of the institutionalized fragmentation of European markets and the regulatory constraints intended to protect the purely national creation and production.'

26. COMPETITION BETWEEN THE STATIONS CONTRIBUTED TO INTENSIFYING THE BIPOLARIZATION EFFECT

The liberalization of terrestrial broadcasting without protecting the resources needed to maintain strong public services (which was justified by the need to ensure pluralism), therefore led the public services to a competitive logic which reinforced, on the one hand, the retreat to national strategies, and on the other hand, their dependence on American products.

The rise in the number of broadcasters (and also the number of broadcasting hours), while increasing the demand for programmes, also increased production and broadcasting costs (with often fierce competition between broadcasters for the best stars and programmes). But this increase in costs was not offset by higher advertising revenue, which resulted in lower production budgets for the broadcasters (public and private).

²⁰ In Portugal in 1991, the RTP, which runs the two public service stations, bought a batch of 500 films from the UIP representative (the Lusomundo company), under the pretext of buying titles before the arrival on the market of two private stations. It must be added that the UIP representative took advantage of this to get rid of his entire collection of titles, most of them of poor quality, under the cover of a few very attractive titles like *ET*, for example.

Moreover, the search for a maximum audience oriented the broadcasters' production and purchase policy either to national products or to American products whose cost/audience performances are better (since costs are already recouped on their domestic market) and easier to obtain (because of a concentration of rights and catalogues) than the performances of non-national European products.

27. THE COMBINED EFFECT OF SATELLITE AND CABLE WITH NEW BROADCASTING TECHNOLOGIES THREATENS TO MAKE THE PENETRATION OF AMERICAN PRODUCTS UNCONTROLLABLE

The slow but steady introduction of satellite and cable in Europe has increased the supply of American products; and the new forms of consumption of television programmes (pay-television, pay-per-view, video-on-demand) threaten to intensify American domination in the consumption of households.

While it is possible to impose quotas of European products in the catalogues of broadcasters of video-on-demand, the consumer cannot be prevented from seeing mostly or even exclusively American products.

Once again, the weak performance of European films, the atomization of catalogues, and the absence of a significant number of dubbed films (dubbed versions account for about 85% of the receipts of American films in continental Europe) deny them the possibility of fully benefiting from these new forms of consumption.

And yet, here too, Europe has an enviable but totally under utilized potential. Between 1929 when sound films began and today, it is estimated that the 12 countries of the European Union combined produced about 30 000 films, which is quite likely more than the number of films produced in the USA.

28. THE TELEVISION WITHOUT FRONTIERS DIRECTIVE RISKS BEING INEFFECTIVE IF IT IS NOT DEFINED IN MORE SPECIFIC TERMS AND REINFORCED

Born of a compromise between the desire of certain countries to liberalize the European audiovisual area and a concern for regulation on the part of countries afraid that free trade would only serve to increase the massive invasion of American programmes on European channels, the television without frontiers (TWF) Directive, adopted in 1989, has had different effects depending on whether the various governments transposed it in their national laws and enforced it in practice with a certain amount of rigour.

Leaving too much room to discriminatory interpretations, such as the definition of a work, the choice of time slots, and even the judgment on the possibility of fully enforcing it (the expression 'whenever possible' invites non-compliance with Articles 4 and 5, especially for new broadcasters), the Directive does not explicitly foresee its application to stations that broadcast by cable and satellite to theme stations or to those that will use digital technology and new delivery systems (pay-television, pay-per-view, video-on-demand).

Finally, despite positive results for production in countries like France where legislation has defined and reinforced its regulatory systems,

the fact that quotas for European products can be entirely filled by national products has reinforced the trend of bipolarization (American products/national products) which, as has been repeated so many times, remains one of the most negative symptoms of the change in the audiovisual market in the EU.

29. EUROPEAN PROGRAMMES AND FUNDS HAVE ALSO BEEN POWERLESS TO STOP THE CRISIS

Beginning in 1987, both the Commission and the Council of Europe began to worry about the dramatic loss of competitiveness of European products and the consequent domination of the market (cinema, video and television) by American products.²¹

In 1987, the MEDIA programme was created in its pilot phase, followed in 1990 by the approval of a five-year programme: MEDIA-95.

In 1988, in Rhodes, President Mitterrand launched the idea of an audiovisual Eureka which, like the technological Eureka, was to provide new impetus to a real competitive programme-making industry on the world market. From this idea came the Audiovisual Conference which was held in Paris in 1989.

²¹ It should nevertheless be recalled that in 1962 the Commission had already prepared a memorandum relative to the Community action programme for the second phase (1962-65) where it was proclaimed that 'a common policy would be adopted for the film industry with constructive solutions at the Community level'.

Meanwhile, in April of the same year, the Council of Europe created a European co-production fund, counting on the voluntary participation of the different member countries which today number 24: Eurimages.

In 1993, an action plan to support the creation of high-definition television programmes and new 16/9 screens was approved and allocated ECU 228 million in funding. These are, to date, with the TWF Directive, the only large-scale European initiatives in the audiovisual field.

Nevertheless, even if one considers that the MEDIA programme was barred from intervening directly in production;²² that its annual budget (ECU 40 million) is too limited to have any significant effect on a USD 4-billion market; that Eureka-audiovisual has remained at the level of project labelling; and that after much hesitation to adopt the European HD-Mac standard, Europe practically abandoned research in this area to rally to the American strategy of developing the technology of image-transmission digitalization: it has to be acknowledged that all these projects have done nothing but gloss over the crisis when they were supposed to deal with it. They have only 'cared for the sick person when they were supposed to heal him'.

As for the Eurimages fund created in 1989 by the Council of Europe, its aim was to make up for the impossibility for MEDIA to intervene directly in production. Yet this initiative, despite its very positive encouragement for alliances between European producers, has not been able to solve the crucial problem of the movement of films inside Europe, aid for co-production not being conditional on a guaranteed minimum, ensuring the release of films at least in the countries of the co-production.

The fact that most of the films supported by Eurimages have disappeared without trace and that the recovery of loans has been all but impossible means that a full analysis of its role must be undertaken if it is to contribute to a recovery of European film-making in the future.

²² It seems useful to recall the political context in which the MEDIA programme came about as well as the obstacles and pitfalls encountered by its development in order to draw the necessary lessons. The goal is first to warn the Governments of the Member States, then the Commission itself, and finally the professional circles, to avoid repeating errors — born of political circumstances — which would sign away the proposals made in the present report.

Actually, the programme is the result of political failure: the rejection in 1985 by the Council of Culture Ministers of a proposal by the Commission to create a Community fund to support co-production. (Refused by Germany, Denmark and the United Kingdom, each acting for different reasons, the idea and structure of this fund were to be taken up by France in the framework of an intergovernmental negotiation and give birth to Eurimages.) Nevertheless, in the course of the discussion, some Ministers, particularly Martin Bangemann, then German Minister for the Economy, suggested that they could be open to Commission proposals, in particular to encourage the movement of works and to favour multilingualism.

For the Commission, the limits were drawn, if it wanted to begin a policy of support for the programme-making industry:

(i) no direct aid for production; therefore action remained upstream and downstream and on the environment of production;

(ii) no European support fund; therefore autonomous structures, providing incentives to a series of actions deemed priority by the professionals.

This latter option could have laid the bases of the structuring of a European distribution network, but that was not the choice of the professionals, who came together for numerous sectoral meetings, during a consultation phase launched in 1987 by the Commission, by virtue of its right of initiative.

This consultation phase was therefore going to lead to a series of pilot experiments, with relatively limited financial means, but still making it possible to experiment on a small scale with the solutions recommended by the professionals.

In the minds of the MEDIA promoters, it was only after this pilot phase (which for each project was to last at least three years) that conclusions could be drawn and between six and ten priority actions recommended, with adequate means, assessed.

But the movement was accelerated in 1989 for two reasons: the Audiovisual Conference, organized in Paris upon the proposal of President Mitterrand to define an audiovisual Eureka based on the technological Eureka, overwhelmingly came out in favour of the MEDIA programme, indicating that it simply needed to be given more financial means.

The other reason had to do with the position of the UK and French Governments.

They shared the view that at the budgetary level reached in 1989 by MEDIA (ECU 10.5 million), it could no longer fall under the Commission's right of initiative but required a legal base. This resulted in 1990 in the institutional negotiation to move on to the so-called main phase of MEDIA and to launch a five-year programme.

Because the Council's unanimity was necessary to establish such a programme, the Commission was compelled to increase the number of lines of action to satisfy the specific demands of each of the Member States.

It is in this way that political pressure led to the adoption of specific measures, even before a global strategy was clearly defined. It also led the programme to repeat, because of the atomization of the projects, each having in the end insufficient financial means, the fragmentation that negatively characterizes the economy of Europe's audiovisual sector.

The merit of MEDIA, hindered by a small and fragmented budget, will have been to take stock — sometimes in a shallow manner — of a certain number of problems, to initiate pragmatic solutions, create networks of relations between professionals of the 12 countries, identify actors likely to operate at European level and help in this sense begin changing mentalities. Whatever the programme's future, it will have been the basis of a growing awareness and mobilization indispensable for Europe.

30. THE SYMPTOMS OF THE CRISIS WILL CONTINUE TO WORSEN

All our programmes, funds and regulations have failed to deal with the disease that afflicts Europe's audiovisual industries. We seem to be unable to meet the challenge of changing market structures and of new technology due to:

- (i) the commercial deficit of European products due to the combined effect of their inability to gain access to cinemas, especially transnational, and to their loss of popularity, which in turn has led to a fall in cinema attendance with consequent knock-on effects in video and television;

- (ii) the increased trend towards bipolarization between American products and national products, which has intensified the autarkical spirit of European production;
- (iii) the fragmentation of initiatives, catalogues, markets and decision-making centres;
- (iv) the absence of integrated pan-European groups sufficiently powerful to be competitive on the world market (absence of critical mass and economies of scale), particularly because of the non-existence of a world network of distribution for European products.

31. IN SHORT

'... Another reason for the weakness of European producers was the fragmentation of the large European market into much smaller national markets, which eliminated the potential for European market-product specialization.

Ironically, market fragmentation was encouraged by national policies that discouraged cooperation between companies from different European nations while at the same time encouraging them to cooperate with American firms. As a result, US companies were able to operate in most of the major European countries, capturing benefits of scale that were denied to their European competitors.'

(Laura D'Andrea Tyson, President of the Council of Economic Consultants under the Clinton Administration, on 'Managing trade and competition in the semiconductor industry', 1992.)

III — A STRATEGIC TRANSFORMATION

Any action to improve the dramatic situation that has been described must obey a very precise objective and a clearly defined strategy on which all initiatives will be based.

The objective is that of creating an audiovisual industry in Europe that projects its image in the world, embracing the largest possible audience, which means creating a self-sustaining and competitive industry in an international market, acting in the new framework of the digital and interactive revolution.

The strategy must first take into account the structural imbalance between Europe and the USA which translates into an unsustainable trade deficit between our two audiovisual powers. It must also take into account the provisional outcome of the Uruguay Round.

In order to rebalance these relations and be able to negotiate with strength with the Americans to gradually reduce, or even eliminate, the structural obstacles and advantages on both sides, it will have to be made clear from the start that protection measures (quotas, financial and tax assistance, taxes, specifications, regulations, etc.) are not only necessary but legitimate.

*'The audiovisual sector is the most powerful instrument of culture of our century.
It emerges from the discussions of the Audiovisual Ministers of the European Community the unanimous conviction that Europe must be able to support and develop the creation of the audiovisual industry.'*

Conclusions of the Presidency
(Mons, 5 October 1993)

But another aspect to be kept in mind is that if these are not accompanied very quickly by incentive measures for the creation of pan-European distribution companies and products capable of taking advantage of the single market, the former will risk creating a fortress which is empty on the inside.

As long ago as 1978, René Bonnell reminded us that 'the impossibility of breaking with the protectionist model reinforces the Malthusian behaviour of the profession and increases its economic weakness'.¹

If the competitive side of European production is not strengthened to meet the challenge and sustain ambition, protection measures will only serve to weaken it, because protected from the market, it will lose its vitality and even its ability to resist.

That is why we say that we must move from a policy of resistance to a policy of success.

The final goal of any policy must be to arrive at a stage where the market, is self-sustaining to the extent that it meets the demand of the widest possible audience.

The role of the public authorities would then be, as in the USA, exclusively a regulatory, stimulating and promotional one. As Vice-President Gore said so well: [the role of the State is to] 'promote and protect competition'.

We must give ourselves time to achieve this.

But in the mean time, we will have to live with what we have. It is not going to be possible overnight to invent a number of films and other programmes capable of drawing the crowds into European cinemas or retaining the attention of every kind of television and video audience.

Nor can we create overnight stars we do not have, stories we have not scripted, or producers with the means to regain the taste for risk. But we must begin to think about rewarding success.

That is why, in defining a new policy, we must be able to answer the question which is at the heart of the strategic transformation we propose: how is this transition to be managed, that is to say how do we go from a subsidized economy to a self-sufficient economy?

Let us state an obvious truth: no profound change will be made by laws alone. But without any laws there will be no change.

This means that the political role of the Commission, which has to mobilize the politicians, public

¹ René Bonnell in *Le cinéma exploité* p. 282 (ed. Ramsay/poche/cinéma).

opinion and the professionals is essential. It must create the legal and institutional frameworks to restore the confidence that generates the energy and stimulates investment, which in turn restores confidence.

It is essential that the creators themselves believe that a stronger industry and a wealthier market are not a threat. They mean more opportunities and better working conditions, not the contrary.

We have lived too long with the idea that the director was not only the centre of the creation but also the only creator and the only judge of his own talent. We have forgotten that cinema is also an art of collaboration where a lot of elements contribute to the film's success. It is vital that in cinema, as in the other audiovisual industries, creative producers, inventive scriptwriters and actors with star-potential take back their place and importance in the industry as a whole.

European directors won the right a long time ago to be recognized as the authors of the film, like musicians, painters and writers. It is a victory that the authors on the other side of the Atlantic envy.

But we must at the same time give up the idea that money is the enemy of art and that the need to 'make receipts', i.e. to reach the public, is a shameful obstacle to the freedom of authors.² Racine could not be suspected of betraying his muse when he wrote in his preface to *Bérénice*, 'The main rule is to please and to touch'.

² In a dialogue between Manoel de Oliveira and Jean-Luc Godard, published in *Libération* of 4 and 5 September 1993, we can read these extracts: J.-L. G.: 'Do you know the definition that Jules Renard gave of the critic? "The critic is a soldier in an army put to rout, who deserts and goes over to the enemy. And who is the enemy? The audience." ... I think that films are made for one or two people.' M. O.: 'But that's enough'. J.L. G.: 'Exactly'.

The Commission must therefore design instruments to act.

Europe must invest strongly in training — a war is not won with old generals. But it is of no use teaching the trade to new generations if there are no opportunities to practise it.

It is of no use to encourage the creation of a worldwide distribution network for European films if at the same time a major effort is not made to enforce competition laws that are today often ignored by the major American companies (or by their national representatives) on our continent without us thinking about intervening, or we fail to invest in cinemas so that the only way to keep film entertainment alive in Europe is for the Americans to build comfortable and high-performing multiplex cinemas.

Our actions must therefore be coordinated in the same way that protection measures must be defined with incentive measures under the umbrella of strong and determined institutional and political interventions.

At present the protection measures, which worry the Americans, are centred on the TWF Directive. It must be improved, made more flexible and effective, taking into account the necessary coordination between national interests and Community policy, between the needs of broadcasters and those of independent producers.

All this implies, legislative and regulatory action, firm and flexible monitoring, an ability to adapt to the technological revolutions that very quickly are going to change the organization of the audiovisual sector and its methods of consumption. The American Federal Communications Commission (FCC) offers us a clear example.

But at the same time, incentive measures must change too.

Firstly, they must gradually lose their feature of subsidies: a type of support, which has dominated the last 20 years, at national and Community levels and has made us lazy and powerless. Today, even the most prestigious directors like Wim Wenders have understood this: 'In Europe we have fallen more and more into a kind of "subsidy lethargy", whose symptoms are frequently artistic self-indulgence, indifference towards the audience or disregard of economic laws.'³

Secondly, they must reinforce more and more their European nature. This does not mean that the EU policy is going to replace the policies of individual States which have a crucial role in defending language and cultural identity. Governments are free to choose their own policy for the development of the audiovisual industry. They can decide to support an industry based on the specific needs of their country or their regions while at the same time encouraging the access of their creators to the single market.

³ Wim Wenders, in *Felix* (January 1994).

The Community policy is not aimed either at uprooting artists or creating European products which, with the increased number of co-producers, become a hotchpotch of initiatives and cultures, devoid of originality.

On the contrary, if the originality and ambition of these projects is to be retained for the producers and directors, it is imperative that they have adequate means to finance them. And this financing can only come from energizing a European, indeed a world, market which, through a successful distribution network, enables marketing our products and making them profitable: the stories can remain local, but not the audiences.

Finally, we must, as Giuseppe Richeri states so well, 'go from a logic of the product to a logic of the market'.⁴ This means that the financial aid and other Community incentives, instead of intervening on a case-by-case basis, i.e. film by film, product by product, must seek to stimulate the creation and consolidation of powerful and integrated companies which, through the quantity of their products and the extent of their territorial and multimedia presence can become in time the major energizers of the audiovisual industry which Europe needs.

The European funds necessary for the development of such a strategic industry which today accounts for 1.8 million jobs in the EU (and with the potential of accounting for at least twice as much), must be considered a profitable investment and not as subsidies to cover an eternal deficit.

These funds must therefore promote financial responsibility while at the same time creating more favourable conditions for risk-taking: tax advantages, system of loan guarantees, low-interest loans so as to enable companies to increase the volume of production and the spectrum of the market that they occupy.

For this — and this is our central recommendation — it is imperative to help create a distribution network for European products that provides new and better opportunities for our creators.

Bernardo Bertolucci said it better than anyone: 'One of our first major targets should be the identification and creation of a European distribution [system], which could allow room for our many different cultural experiences.'⁵

⁴ Giuseppe Richeri, in answer to the questionnaire. (see Annex 1)

⁵ Bernardo Bertolucci in *A dose of reality — The State of European Cinema* (published by the European Film Academy and Screen International).

IV — RECOMMENDATIONS

A — STRATEGY AND COORDINATION

A strong coordination drive from the centre will be indispensable in order to successfully implement the strategy outlined in this report.

The European Commissioner with responsibility for audiovisual policy and his administration, Directorate-General X, are uniquely placed to fulfil this coordinating role.

The reinforcement of their power and resources in all software-related areas would permit the effective implementation of the policy recommendations which will be contained in the forthcoming Green Paper. It will also allow the other Directorates involved in the policy (Internal Market, External Trade Relations, International Relations, new Technologies, Industrial Policy, Regional Development, Competition, etc.) to enhance the impact of their own action in this field. The success of a new audiovisual policy will rely largely on the ability of the Commission to coordinate all action into a coherent whole.

Coordination could extend successfully to relationships with the Council of Europe (as encouraged in the Maastricht Treaty) and EFTA countries (which are signatories of the European Economic Area Treaty), and, in particular, with the audiovisual support mechanisms already in existence in those countries (such as the Nordisk fund in Scandinavia).

Also, in order to take full advantage of the new opportunities that the technological revolution will bring, the coordination must be extended to bodies such as the European Structural Funds, the European Investment Bank and others. They too can help seize the chance that the development of new audiovisual services allied with telecommunications will bring in reducing chronic unemployment, revitalizing areas hit by industrial obsolescence and add to the rejuvenation of inner cities and the tourist trade.

The EBRD (European Bank for Reconstruction and Development), which plays a vital role in cooperation with the countries in East and Central Europe, should also play its part in the new policy.

B — THE LEGAL AND REGULATORY FRAMEWORK

The overall objective is to devise incentive measures to create a new market-place for audiovisual products and new audiovisual products for the market-place as the indispensable tenets of a strong audiovisual industry able to withstand competitive pressures. In order to attain this, however, we must raise the issue of what would be the most appropriate regulation and legislation in support of those objectives.

A climate of trust favourable to new investments cannot be created if the legal framework is both unclear and unfair. The ideal framework should be flexible enough to permanently accommodate new developments in the environment. In order to be fully effective, it should also be accompanied by monitoring and policing measures.

It is therefore of crucial importance, as preliminary to action, to define the role and responsibilities of DG X.

Stefano Rolando says: 'The growing economic complexity of the sector makes it necessary to harmonize regulation. Without it, laws, regulations and the

*'[The Think-tank] will have the task of making recommendations on audiovisual policy guidelines, in keeping with the Mons conclusions and in the context of the preparation of the Green Paper on audiovisual policy and the audiovisual conferences that will follow its publication.'*¹

João de Deus Pinheiro

European Commissioner in charge of DG X

4.11.1993

¹ Letter addressed to the members of the Think-tank.

authorities which supervise and implement them, will remain national. This means there will be no legitimacy for a Europe-wide initiative.²

Let us start by analysing the functioning and current relevance of the one regulatory instrument under DG supervision — the 'television without frontiers' Directive.

1. THE 'TELEVISION WITHOUT FRONTIERS' DIRECTIVE

The EU Commission has started a review of the Directive and though its conclusions are not known at the time of writing,³ some critical comments can be made based on the experience to date. We could then propose some adjustments and clarifications as well as an extension of the scope of the Directive.

We propose to cover the following issues:

- Implementation criteria;
- Programming quotas;
- Definition of audiovisual 'work';

² Stefano Rolando, Head of Communication with the President of the Council of the Italian Government in answer to the questionnaire (see Annex I).

Like many other people with whom we spoke, Stefano Rolando suggests that 'the time has come to form the "operational" arm of the European institutions, at the service of this renovated policy', a tool responsible not only for legal matters but also for analyses of the international market and for assistance and financing projects. This tool, he suggests, could be a European Audiovisual and Communication Agency, whose modalities of implementation and operating should be studied.

Even if the suggestion seems to have its supporters, we do not believe it appropriate here to propose the instrument or the instruments which the Commission will provide to apply its new policy. We think that it is more useful to clearly define the areas of action and the concrete measures that it must adopt to succeed in its programme.

- Enlarging the scope of implementation;
- Applicable law;
- Definition of 'European works';
- Monitoring;
- Chain of exploitation.

As a preliminary, it must be emphasized that the Directive currently constitutes one of the key elements of EU audiovisual policy, particularly with regard to quotas.

The review of the Directive is taking place against the background of the recent conclusion of the Uruguay Round. In the GATT context, Europe managed to preserve its freedom to regulate the audiovisual sector in view of the changes in the market-place.

Governments and professionals alike are fully aware that, in order to adequately address the threats to the audiovisual industry, other initiatives must be taken, in parallel with regulatory ones, such as 'television without frontiers'.

³ Considering the often vague and not very binding nature of the Directive, it is to be wondered whether a real evaluation will be possible.

Moreover, it is quite improbable that it will be possible to determine, in the case where there has been compliance with the Directive (and this depends a lot on how each country has transposed it in its legislation and the specifications imposed on the different broadcasters), whether any success of Articles 4 and 5 is due to its merits or to the spontaneous demand of the market.

New services will burst on to the scene and new markets will be created. These changes will render traditional forms of regulation, particularly quotas, very difficult if not downright impossible to apply. Increasingly, the consumer will be in control of his own choice: the future of the combined audiovisual and telecommunications industries will therefore hinge on their ability to offer programmes at competitive rates carried by efficient services.

We must therefore look at in how far the Directive is compatible with these objectives.

(A) IMPLEMENTATION CRITERIA

The regulatory objective of the Directive is frequently undermined by the ambiguities of the drafting: where, for instance, it reads 'wherever practicable', Member States have tended to interpret that as a derogation rather than a constraint, because of a lack of definition as to method or proper strategic guidance on implementation.

(B) DEFINITION OF 'WORK'

The absence of a definition of 'work' in the Directive has allowed broadcasters to fulfil their quota mostly by using low-cost programmes with no shelf-life. They could therefore attract both the public and advertisers, while focusing their acquisition of drama products on US imports, at prices more competitive than that of European drama.

This model has reinforced the existing polarization between US and national products, in a pattern which resembles that of cinema exhibition. This evolution has had two negative consequences:

- (i) the focus on acquiring US drama has devalued the offer of European drama and consequently the purchase prices for programmes bought by one Member State from another have decreased;
- (ii) European programming has been focused — particularly in the smaller countries — on works with no shelf-life: because these works have no secondary value in ancillary or foreign markets, this focus has contributed to the undercapitalization of the industry.

Furthermore, a preference for talk shows and studio-based programmes (which do not compete head-on with US imports)⁴ penalizes those broadcasters in Member States where they have been obliged by regulation to support the creation of home-grown drama.

This effect is more pronounced in the smaller countries which have less capacity than the larger countries to fulfil their European quota with shelf-life works. They are therefore obliged to buy 'European' (despite the fact that acquisition prices are not competitive and that European imports generally perform less well with the audience), or to bypass the objectives of the Directive by programming more home-grown programmes with no shelf-life.

⁴ Often these studio programmes (game shows, contests, talk shows) are adaptations of American productions whose licence the broadcasters buy and which have the advantage of already having been tested on the American market.

We believe, therefore, that the definition of 'work' must be tightened. The definition should put the emphasis on works with shelf-life (i.e. those, like some documentary drama, which retain a 'value-added' or which promote cinema, TV production or European culture in general.

We stress that the distinction between these types of work implies no value judgment on our part as to the relative merits of drama and documentaries versus studio-based programming. The latter plays a vital role in building up audience loyalty and attracting advertisers. They are therefore essential to the financial strength of a channel: however, we are convinced that the Directive, no matter how stringently it is applied, will only have a marginal impact on this type of programming.

What is at stake with the Directive is our collective ability to strengthen a European programme industry, to make it competitive against the USA and Japan and to help it regain control over its own internal marketplace. To achieve this, Europe has no other solution but to develop a critical mass of programmes with secondary resale value. Only then will it be able to take full advantage of the explosion in demand that interactivity and other technological innovations will generate at the consumer end.

(C) THE QUOTAS

There are three problems surrounding the issue:

- (i) The concept of the quota must be refined and specified in relation to schedules.

A broadcaster's schedule is divided into periods to which different values are attached, according to the potential audience, and the value attached by advertisers to specific audiences.

Our first recommendation is that it is absolutely necessary to define the quotas in relation to those time periods in the daily schedules. The quota would be wasted entirely if it simply allowed broadcasters to show American drama during the prime-time and to dump European material into the more marginal segments of the schedule.

- (ii) The notion of 'European work' must also be redefined in relation to the quota to account for the need for national content.

We have just seen how the ambiguity of the Directive in another area accentuates the polarization between US and European programmes (the latter often being dominated by low-cost programming with no shelf-life.)

In the same way, we must define, within the quota system, a quota for national works and one for non-national works, in order to strike the right balance: it will strengthen the European programme industry by stimulating the circulation of programmes across national borders, within the European Union.

However, a tighter definition of the 'work' in relation to the quota will generate an automatic discrimination against smaller countries, unless this effect is specifically addressed: those countries may find it difficult otherwise to fulfil their national quota, because of their more limited resources.

This represents a structural imbalance by contrast with the larger countries which have no difficulty in fulfilling their European quota with home-grown programming. The Directive therefore already discriminates against countries where the offer of local programmes is more limited; should the Directive be applied more rigorously, broadcasters in the smaller countries would be forced to import more programmes from the larger countries in order to comply.

Faced with no alternative other than to increase their acquisitions of European works with shelf-life, the economic equilibrium of those smaller countries' broadcasters may be compromised, unless a set of safeguards is adopted in parallel.

Without such safeguards, back-catalogues of European programmes with prices which are often incompatible with the purchasing power of those smaller countries' broadcasters will be less competitive than US imports and low-cost domestic programmes with no shelf-life.

At present, bearing in mind that programme costs are still mostly amortized at national level, the smaller countries are not profitable for European sellers: prices paid often barely cover the cost of sales. By contrast, US owners of large back-catalogues can sell programmes profitably to those markets, even at what one might consider, in effect, to be dumping prices.

It is essential therefore that compensatory measures be implemented during a transition phase, to help the smaller countries face the market situation and adhere to the quotas.

Another possible solution would be to consider the European majority proportion quota not as a function of the total volume of hours broadcast (most works with no shelf-life are made nationally), but as a function of the hours of shelf-life works scheduled by the broadcaster.

Whatever the solution, complementary measures of industrial development must accompany the Directive. These measures should aim to generate a demand for European works with shelf-life at prices which can compete with those of US imports.

Creating new opportunities for the production and circulation of works with audience appeal is the only way to make the Directive substantial and consistent in the long run.

- (iii) At present, broadcasters have a choice between an investment quota or a quota of broadcasting hours in rela-

tion to programmes made by independent producers. This option should be turned into two complementary obligations, progressively emphasizing the obligation to invest in the production or pre-purchase of European works. This is a safer formula than a quota based on broadcasting hours, which is far more difficult to apply and control with new technologies, particularly video-on-demand.

It would also be advisable to play on the principle of a quota of national works and a quota of non-national works to encourage broadcasters to invest (as co-production or pre-purchase) in non-national European work.

The obligation to focus a proportion of the quota on non-national works would demonstrate to decision-makers in Member States the advantages of opening their financial support mechanisms to productions originating from outside their country: they need to understand that by relinquishing some of their exclusive privilege, they will in turn gain access to a vast EU market.

Investment in non-national projects will have a beneficial effect on the costs of national production and will increase the competitiveness of national producers.

(D) ENLARGING THE SCOPE OF IMPLEMENTATION OF THE DIRECTIVE (TO ENCOMPASS NEW SERVICES)

The issue of applying the Directive to new broadcasting services must be addressed.

It is a complex problem, which cannot be covered exhaustively here. Two factors should be considered:

- (i) investment obligations are easier to monitor and apply than broadcasting quotas;
- (ii) new services must be assessed in relation to where their resources come from (licence fee, advertising, subscription, etc.) and the profile of the broadcaster (specialist or general entertainment).

(E) APPLICABLE LAW

The Directive establishes the principle that the law of the Member State in which the broadcaster is established is the only one applicable.

This principle distorts the situation: broadcasters established in countries which take a lenient approach to the Directive have competitive advantages over those which operate from countries with a more stringent approach and cultural policies (for instance, France forbids the broadcasting of films on Saturdays).

This distortion is particularly damaging in the context of our worsening trade deficit with the USA and the dumping practices of some of the US distributors, which makes their product as much as 10 times less expensive to acquire than home-grown European programming.

It contradicts the objective of reinforcing the European industry as a competitive force in both Europe and the rest of the world.

Another negative effect is that it allows broadcasters to transfer their operations to a Member State where regulation is less demanding, to reach viewers outside that Member State.

The current definition of applicable law does not take into account the issue of cable relay, a growth area of great significance; nor does it address the issue of the electronic 'superhighway'. A legal vacuum is being created which leaves Europe vulnerable and unable to regulate either the market or the technological, economic and social evolution of the audiovisual sector.

The Directive must be clarified. Control and penalty procedures must be established at national level to help level the regulatory playing field between Member States, thereby reducing the attractiveness for broadcasters of relocating to Member States with the most 'favourable' rules. The Directive should also be supported by a system allowing the Member State in which the broadcast is received to take a case to arbitration at Union level, in cases where there is a flagrant breach of regulatory obligations. The arbitration procedure should be able to lead to policing measures, including the temporary cancellation of a licence to broadcast.

(F) DEFINITION OF 'EUROPEAN WORKS'

There is no point in enforcing compliance with the quota if European works are not defined with precision. The points system used by the Council of Europe within the Convention on Tripartite Co-productions could serve as the basis for this definition. Alternatively, the definition could be based on the number of jobs, with the creative ones having to be filled mostly by European nationals (a limited number of derogations would be permitted).

The most important consideration is that the definition of 'European works' should not be subject to different interpretations. It must be clear and unequivocal. The investor must rest assured that he will be able to rely on financial support and incentives prior to the investment decision being made.

(G) MONITORING

It should not be necessary to emphasize the importance of monitoring the Directive. Efficient enforcement mechanisms should be established, with a range of penalties and fines available to the relevant authorities.

The role of the Commission in this instance should be reinforced. Equally, national authorities should be able to quickly mobilize the Commission or local tribunals as soon as breaches of compliance have been detected which can be proven to have a distorting effect on the market.

(H) CHAIN OF EXPLOITATION ('WINDOWS')

The traditional order in the chain of exploitation of audiovisual software is going through radical change. Soon, the market will be dictating new modes of exploitation.

The imposition of a chronological order of use in the Directive stemmed from the lack of coherence in the production and distribution sectors in Europe: rights on programmes are scattered across many territories and different media. This situation explains why a regulated chronology of uses exists in Article 7.

However, new modes of exploitation will upset this traditional chronology and the concentration of rights in the hands of one holder — which is the solution we wish to promote — will demand complete freedom in this area.⁵

As long as it is in the Directive, Article 7 must be interpreted as meaning that revenues generated by exploitation should be maximized and not as an abstract discipline which may again be detrimental to the industry.

2. TRANSPARENCIES AND GUARANTEES

The monitoring of the Directive and the framework required to ensure its enforcement will be similar to the regulation of industrial and commercial policy in other areas of industry: it must ensure the kind of transparency which helps free access to the market-place by all the players concerned.

⁵ Consumer rights must nevertheless be taken into account with regard to certain local cinemas that are less profitable and for which distributors do not take the time to send copies, a practice that can be an infringement of competition laws, because they prefer to launch the product faster on the video market.

Such transparency demands a permanent market analysis mechanism: this role may be fulfilled adequately by the Eureka Observatory. However, it must become operational very soon so as to be able to harmonize data and provide credible information to operators in the industry.

A public register of audiovisual and cinema works should also be set up, as should an EU-wide mechanism for the monitoring of cinema box-office ticket sales — a monitoring exercise which will also largely benefit the US majors.

3. REGULATING THE MARKET-PLACE

For the audiovisual industry to conquer its own market anew — as is mentioned in the introduction — it must be able to consolidate and respond to demand and even to anticipate it. In order to do so, it must be sufficiently well financed. This is the only way it will maintain a competitive edge.

This objective implies — as we explain later — devising incentives for the formation of powerful and integrated businesses able to sustain a permanent production slate and guarantee widespread multimedia distribution.

In encouraging the emergence of such large companies, the Commission must ensure that they operate on a pan-European basis rather than being allowed to build up monopoly power in a single national market.

The Commission will also have to regulate other aspects of the *modus operandi* of those consortia: the field of activity of those companies must be defined. In the current transition, the Commission must reconcile the creation of larger pan-European operators with the strict application of EU competition rules.

Problems may chiefly arise where vertical integration between production, distribution and multimedia exploitation is occurring. Can the historic decision by the US Supreme Court in 1948 to prevent the US studios from owning cinema chains be applied to Europe's current situation? In fact, it would be counter-productive to deny the new consortia we wish to create from also having film exhibition interests. What is needed therefore are booking rules based on the strict application of competition law in order to avoid the generalization of US majors' practices such as tie-ins, block booking and restricted access to prints.

In considering the integration between production and broadcasting (many advocate a separation of interests), we must also take into account the different historical circumstances in which television started in the USA and Europe.⁶

⁶ The American example is often cited as the model of separation between broadcaster and producer and as the example to be followed in Europe, without taking into account the specific historical and economic aspects of this decision. In addition to the private nature of the American networks and the dimension of their market, this measure was aimed to compensate the major companies for the ban imposed on them to have cinemas, instead enabling them to produce for television.

Contrary to the USA European television started life as a series of national public service monopolies.

It is important to establish a charter defining the relationship between independent producers and terrestrial broadcasters. A minimum investment obligation by broadcasters in independent programmes should be implemented (15% of turnover is the target recommended by some; in the UK, there is a quota of 25% of broadcast hours, excluding news and news-related current affairs).

At the same time, the preservation of some public service tradition in Europe means that some in-house broadcasting productions should be maintained. These productions, particularly the higher cost prestige drama (BBC or RAI are two examples of such fine traditions), are today in a strong position in back-catalogues.

All these adjustments must not be made to the detriment of competition law. One of the weaker points of European policy over the past years has been the tendency with which those laws have been applied, particularly to the film distribution sector and its relationship with exhibitors. (We refer here in particular to the derogation to Article 85 of the Treaty of Rome which allowed the formation of UIP.) Such complacency has led, particularly in smaller countries, to the atrophy of the independent production and distribution sectors, with catastrophic effects on the supply of national films to local audiences.

This latter point is a delicate, albeit highly important one. The Commission would therefore be well advised to commission extensive research in this field, in order to inform its policy choices.

C — A MARKET FOR PRODUCTS AND PRODUCTS FOR MARKETS

We arrive finally at what can be considered the central point of our recommendations: the creation of a fund operating like a low-interest rate lending system to help establish pan-European distribution consortia.

Such an approach would not be new in Europe. This type of loan has already been granted to the former mining regions, for example, to help restructure their economy and has been for a long time now an effective instrument of European policy to stimulate private investment in the sector, at levels several times higher than the value of the loan, which must be reimbursed over a period of eight years.

1. A MORE EFFECTIVE MARKET FOR OUR PRODUCTS

We believe that the Commission should give serious and urgent consideration to a scheme offering publicly-funded soft-loan support to pan-European distribution consortia.

Key features of this scheme would be:

- (i) a small number of consortia would be chosen by competitive bid;
- (ii) each consortium could be made up of existing distributors or new entrants to the field;
- (iii) they would have access to soft-loan finance in order to promote the Europe-wide distribution of European products (films, television and all forms of software) and to seek new markets outside Europe;
- (iv) they would be expected to raise the overwhelming bulk of their capital on the open market;
- (v) loan agreements would last for 10 years.

(A) HOW WOULD THE SCHEME WORK?

The agreements we propose would be made with consortia on the basis of competitive tenders, judged on a rigorous appraisal of business plans.

Application for loans would be open to all existing distributors, exhibitors, production companies and television companies, as well as groups from any other market sector, although the expectation would be that groups representing an already established range of interests in the market would be most likely to form a consortium to bid for one of the agreements, bringing with them their existing catalogues of European and non-European products. This 'consortium' approach would allow existing distribution and production companies, no matter how small, to pool resources and expertise as part of larger and more effective pan-European groups. One of the greatest benefits of this arrangement would be the accumulation of growing and varied catalogues

which, over a period of 10 years, would help to create in Europe the kind of financial security currently enjoyed and exploited by the major US studios. Application rules would require consortia to be multimedia and multimember, making it impossible for any consortium to be dominated by one existing company or group, however powerful. It will, of course, be important to ensure that the relatively small specialist distributors who are vital to the continued vitality and variety of European film-making are safeguarded by whatever regulatory regime becomes appropriate and, in this connection, we anticipate that the Eurimages programme will have an important, ongoing role to play. The distribution consortia which we propose would at last bring the power of secure finance and high-quality management to the service of independent producers in Europe.

Non-European holdings might be limited to 20 to 30% of each consortium.

Bidders for the loans would have to submit detailed business plans demonstrating how they would use the publicly-funded loan capital to generate additional private capital on the commercial market. The business plans would also need to set out clearly the means by which bidders proposed to increase the distribution of European products in European and global markets. We return to this point in our section below entitled 'The cost of implementing this strategy'. Successful bidders would be offered 10-year loan agreements subject to regulation by a body with powers to periodically review and, if necessary, terminate the loan

agreement before the expiry of the 10-year period. A proportion of the loan fund might only be made available subject to the bidder's performance during a probationary period.

Rather than a single agreement, several might be drawn up, thereby creating the benefit of competition between consortia without losing the advantage of each of them having the capital and management to be a significant force within the European and world markets.

A further advantage in limiting the number of agreements would be that while individual consortia might be expected to build up specialization in particular markets or geographical areas they would all be required to be genuinely pan-European in their operation.

(B) WHAT WOULD IT DO?

The fundamental requirement placed upon successful bidders would be:

- (i) to promote and enhance genuinely Europe-wide distribution of films, television programmes and software, and
- (ii) to promote the more effective marketing and distribution of films and other audiovisual products in non-European markets.

The fund would enable and encourage European producers to plan — and budget for — their productions from an early stage with transnational markets in mind, affording them a viable means of raising their ambitions beyond merely national markets. Conditions of loans could be altered, perhaps, for example by giving preference to drama over non-fiction work. We recognize that it would not be commercially realistic, in any sense, to promote all products in all markets. Nevertheless, the thrust of the distribution system, and the conditions imposed on the loan fund, would tend to maximize pan-European distribution. A proportion of the fund should be identified for investment in the exhibition sector, perhaps by making soft loans available with repayment benefits tied to the proportion of European products played.

Loan capital might also be made available for the development of, and training in, new technologies if they were relevant to improving distribution.

It would be reasonable to expect that by the end of the 10-year period substantial and potentially valuable catalogues would have been built up by each consortium and that the distributors would have achieved sufficient 'critical mass' to trade commercially without the benefit of further public support.

Repayment of the loan might be effected by offering an equity interest in the consortium (effectively a share of the library of programmes and rights), by refinancing the consortium, by conversion into preference shares in the consortium or by other means.⁷

(C) WHAT BENEFITS WOULD IT BRING?

The creation of substantial and valuable pan-European catalogues

More European products with more international appeal

The opportunity to develop a more competitive edge in major markets such as the USA

More funding available for dubbing and international marketing of European products

More varied and competitive programming for independent cinemas

⁷ The multiplying effect of credit guarantees is known. They make the real entrepreneurs responsible — something the European audiovisual sector vitally needs — and encourage private capital to become involved in the financing of audiovisual productions. EMG is involved precisely in this area, but until now the lack of financial credibility of the European audiovisual industry, especially cinema, has not enabled it to attract the necessary contributions to have the required means that would enable it to have a real impact on the industry.

In any event, it is the start of an instrument on which the new strategy can be based.

A portion of the loan fund being specifically reserved to underwrite the refurbishment of European cinemas on commercially attractive terms

More re-origination of products for interactive use, giving software creators larger markets and lower unit costs while protecting existing moral rights.

2. BETTER PRODUCTS FOR OUR MARKET

Such a distribution system should be complemented by a system of direct production support operating with a maximum degree of subsidiarity and would complement our European-level distribution proposals and make a positive contribution to the regeneration of a truly diverse and creative industry.

Key features of this scheme would be:

- (i) it would be levy-based — in effect the industry recycling part of its revenue;
- (ii) it would be operated with a maximum degree of subsidiarity;
- (iii) it would allow production companies to develop projects adequately, or even to consider a whole 'slate' of projects;
- (iv) it would encourage production both for national and niche markets, and production with international and multimedia distribution ambitions.

(A) HOW WOULD THE SCHEME WORK?

The basis of the system would be the raising of production and development capital by means of a levy on every sector of the audiovisual industry, in effect recycling part of the industry's revenues as future capital. Most European countries already have, or have had in the past, such an approach in a more or less sophisticated form. Our proposal would have the effect of developing and extending it, particularly to the new media, making it the recognized basis of support for all European audiovisual production.

It would be the responsibility of each government, in cooperation with its domestic industry, to resolve the means by which its share of the European total should be met, what its domestic priorities should be and its method of allocation. As already noted, we recognize that in the shift from cultural protection to a more market-oriented approach there will be casualties and national governments will quite properly want to manage that transition in a way most beneficial to their own industry.

Our proposed distribution system creates an opportunity for national policies to become more commercially-oriented and its success would, to some extent, depend on national governments sharing and emphasizing this approach. Our proposals are unlikely to be effective if the underlying thrust of national support policies pulls in the opposite direction to commercial policies implemented at European level.

Our choice of a levy system is deliberate. In the emerging environment of interactive communications, the technologies of encryption and dissemination

upon which pay-television, video-on-demand and all forms of interactivity are based will rely principally on billing systems in which individual consumers pay for what they use from the broadest possible spectrum of choice. Such a new market environment lends itself naturally, and efficiently, to the implementation of a levy system.

Levies are an essentially positive spur to continuity of production and employment since:

- (i) they build on success: the greater the revenue, the greater the capital available;
- (ii) they are flexible: money can be drawn from every sector and ploughed back into every sector, promoting a more balanced industry in which production, distribution, exhibition, training, research and development can all be accorded a place. In addition, shifts in the balance of total revenue can be organized to reflect changes in the operation of the market.

(B) WHAT WOULD IT DO?

Our concern is that this support system, in conjunction with our distribution proposals, should help to create a more balanced strategy for the whole audiovisual industry. It would be important to decide whether to complement investment by the distribution consortia in the exhibition sector with a proportion of the revenue raised for production support. Nationally allocated funds might be of particular benefit to smaller independent exhibitors.

It would also be important to set aside a proportion of the revenue for investment in infrastructure, especially training and research. If, as the European Commission's White Paper on growth, com-

petitiveness and employment argues, there is the prospect of up to two million new jobs in the audiovisual sector in the next 10 years, then significant investment in training will be crucial, as we argue in our section on training below.

The balance of the revenue raised would then be put into 'production credits', the bulk of which might be specifically allocated for production in the language or languages of the country itself, whilst the balance could be specifically allocated to encourage commercial European joint ventures.⁸ We firmly believe that the majority of creative production will, and should, remain nationally and culturally specific. The point is that the more our production support system can improve the quality of such products, the more will be available for the distribution system to confidently promote in transnational and global markets.

We would also argue that a significant proportion of these production credits, perhaps 10%, should be specifically allocated for investment in relatively high-risk projects — innovative and experimental work, or projects being developed by young and untried talent. Such an approach would greatly enhance the cultural and creative energy of the European industry overall.

⁸ We have decided to make a clear distinction here between 'Community production' and co-production. We believe that all productions in which different European partners who are EU nationals participate should now be considered Community productions, and the expression co-production should be retained for productions in which partners from outside the EU participate.

(C) WHAT BENEFITS WOULD IT BRING?

Such a system would begin to combine the virtues of large-scale industrial strength with the flexibility to allow, indeed encourage, individual States to develop particular and complementary strategies for their audiovisual industries.

The system of production credits would mean that any production company of any nationality would be entitled to receive a *pari-passu* share of subsequent earnings arising from that production, to be spent solely on European production, however defined. Such production credits could include an adequate element of development costs, allowing production companies a longer-term view of their future with a level of overhead permitting them to plan projects, or even a slate of projects, over an extended period of time. Combined with an imaginative system of tax write-offs and other fiscal incentives, this would help to create a radically different climate for many European production companies. At present too many of them are overdependent on only one project at a time, leaving them trapped in a cycle of erratic cash-flow and short-term planning horizons.

European television makes an ever-increasing contribution to cinema, by means of direct support for film production (often statutorily sustained) and by acting as purchaser and exhibitor of film products. This contribution should be celebrated and developed. We think it is logical and positively beneficial that television companies investing in production would be as eligible as any other producer. It would need to be decided whether non-fiction projects should be funded on a par with fiction, but it is essential that documentary and animation

producers should be fully eligible for support. (The submission to the Think-tank made by the MEDIA project for the creative documentary suggests that support for non-fiction documentary work would be an important element of a balanced programme to sustain European television's range.)

Investment channelled in this way and on this scale should eventually help in the establishment of strong, vertically integrated production and distribution companies, with production centred in the EU and with the EU targeted as their home market, although of course finance could, and should, be attracted from anywhere in the world, not just within the EU.

(D) THE COST OF IMPLEMENTING THIS STRATEGY

- *Distribution support*

Finance for the distribution element of the strategy would necessarily have to be made available at the level of the EU and overseen by a regulatory body operating at EU level. If the distribution network is to provide viable competition in the market, the consortia which we propose, when fully developed, would need to be capitalized at a level of about ECU 1 billion each.

We would urge the Commission to initiate a feasibility study with appropriate financial institutions to determine the likely gearing effect between the publicly available loan capital and capital attracted through the commercial market. Assuming this would be of the order of three to one, then, when fully operational (a process that might take some years and would inevitably be linked to the success of the production support system), a small energetic group of pan-European distributors might be expected to require something close to ECU 1 billion in soft loans from the EU. At the end of the 10-year period, the total amount of the loan would be recoverable either in cash, as a share of the equity in the licensed companies, or as a share in the very considerable library of rights and films which would have been accumulated. The expectation should be that at the end of the 10 years this accumulated library, together with the expertise acquired, and the stimulation of new European production and sales should have created the critical mass necessary to allow the system to become entirely self-financing.

- *Production support*

The other arm of our proposed scheme is direct production support, made available within individual Member States, although a significant proportion of such support might find its way into transnational joint ventures. We propose that this scheme, too, should have an assured life of 10 years — a sufficient period of time in which to change the nature of the production industry in Europe. We propose a target for the whole of the EU of ECU 1 billion a year, recognizing that this figure would take time to achieve and would be dependent on the commitment of national governments to support their domestic industry. To put this

figure in perspective, it would more or less double the level of public support, direct and indirect, currently going into production. Given the growth potential of the sector, it is reasonable to assume that some national governments would want to set more ambitious targets of their own. Indeed, on a *pro rata* basis, the French system of incentives and support is already running at a considerably higher rate. Each Member State would be expected to raise a proportion of that ECU 1 billion related to its share of the European audiovisual market. To base the figure on market share rather than existing production strength would have the advantage of generating money for territories in which little or no production currently takes place.

Elsewhere in this report we suggest that the production support system might be used for a variety of production-related purposes but it is worth noting that, devoted entirely to production, the sum of ECU 1 billion could greatly increase the number of commercially significant feature films made in Europe. In addition, it could finance the production of about 1 000 hours of high-quality television drama.

This would generate the equivalent of 8 000 to 10 000 full-time jobs, producing a net benefit to the national exchequers of Europe of about ECU 100 million — all of this before taking into account the significantly greater levels of indirect employment that would be generated.

The essential feature of such a twin-track system must be its ability to create commercially attractive avenues for the industry itself to exploit rather than cumbersome and elaborate mechanisms of defence and control.

We see the production support element of the scheme as the industry healing itself, directing part of its own revenues to improve production, exhibition, training and marketing. We see the distribution mechanism as part of a larger structural reorientation of the European economy which should not be the direct responsibility of the industry itself but should be supported through general taxation. Of course, the support for distribution, being in the form of loan capital, will be recoverable and ultimately of no cost to the public exchequer.

With a commitment of ECU 1 billion of publicly-funded investment in distribution (stimulating commercial investment of many times that value) and of about ECU 1 billion a year in production support when the system is fully developed, such a programme would bring significant benefits to Europe.

By far the most significant of these benefits in terms of the overall European economy would be the creation of a large and growing number of skilled jobs.

Other benefits would include:

- (i) a reduction in the rapidly growing USD 3.5 billion audiovisual trade deficit with the USA;
- (ii) the opening-up of world markets to European software; and
- (iii) the stimulation of a more dynamic audiovisual market within Europe.

Identifying the exact level of investment appropriate to this strategy could necessarily involve an almost endless debate. What is, however, beyond debate is that:

- (i) the growth potential of the audiovisual sector is unparalleled by any other European industry of a comparable size;
- (ii) the sums referred to in this report are the likely minimum required if Europe is to adequately compete in the global market-place;
- (iii) when these sums are subjected to an objective cost-benefit analysis based on either employment or economic potential, it becomes clear that such an investment probably represents the very best opportunity that Europe presently has to offer;
- (iv) the bulk of the investment will be in the creation of commercial copyrights (analogous to real estate and, as such, of a quantifiable and ongoing value);
- (v) the strategic purpose of the soft loans is to provide a rallying point around which dynamic European communications companies and financial institutions can at last find a means of investing in Europe's future.

To put this support programme in perspective, it is worth noting that the present value of the still-emerging European pay-television market alone is considerably greater than ECU 2 billion. With our collective experience in the industry we are emphatically agreed that only an initiative on at least this scale can begin to turn the tide for Europe. The economies of scale that pertain in the audiovisual industry inevitably make anything less mere tinkering.

3. SUPPORT FOR CINEMAS

Even if in the future cinemas represent only a small part of the industry's earnings, they will continue to be of importance far beyond their immediate commercial value. Cinemas will continue to remain for a long time the real showcase of the product on which the success of the other media forms depends, in the same way that feature films continue to be the locomotive that drives the whole industry.

Indeed, not only does 35-mm film continue to be the only truly world standard of audiovisual production accepted on all markets and has a remarkable capacity for information (1 picture frame = 4 500 lines), but films are what still shape the collective imagination and will go on doing so perhaps for a long time.

Everyone saw how declining cinema attendance led to the deterioration of the conditions of projection and comfort in cinemas and their closure at an unbelievable rate in the 1980s.

Everyone also saw how the major American companies decided to invest in the construction of new multiplex cinemas providing high standards of comfort and projection as the only way to avoid a fur-

ther fall in attendance, which in turn reinforced their power in Europe.

This situation leads us to propose that particular attention be given to the problem of cinemas, by starting up an ambitious programme to support theatre management linked to the distribution of European films, and this in parallel to forms of incentive to create pan-European networks and to encourage production as proposed above.

This programme can act on three levels:

- (a) regulatory,
- (b) financial,
- (c) promotional.

(a) At the regulatory level, the French system could be extended to European television stations. This system consists in limiting the number of films broadcast annually and confining these films to certain days of the week and certain hours.

(b) At the financial level, participation in lowering rental rates, in particular for non-national European films, could also be considered, while direct or indirect support measures such as fiscal benefits or lower lending rates could help with the modernization of cinemas and the construction of multiplexes, in conjunction with programmes to develop less-favoured regions.

This financial aid should be closely tied to the condition of showing a certain number of European films.

(c) Finally, at the promotional level, an effort should be made, especially by the public stations (national or European), to promote European films. Support should go to programmes on European production intended to make stars more popular (actors, and also directors and other creative elements of the production) as well as to a substantial reduction in the cost of trailers for European films.

4. THE NEW MEDIA FORMS

The multimedia world is often described as the product of a technological revolution. The real revolution however will lie not in the technology itself but in its rate of application in the market and in the imaginative development of software in all its forms. This report seeks to make clear our belief that the strategic shift in our industry must focus not on technology but on the product we make, not on the hardware but on the software and the means by which it is distributed and, most important of all, on the only truly essential capital asset needed in the creation of software — human talent.

The market for innovative software is great and growing. The possession of substantial catalogues, the ability to operate flexibly in different media and different markets — to use the unique qualities of multimedia to the full — will be the hallmark of successful competitors in the market. In this apparently free-flowing universe it may seem that our concern with distribution as a key component is old-fashioned and misplaced. On the contrary, we are conscious of the fact that in the new media environment 'distribution' will mean less and less the physical distribution of film and videotape and will become more and more a question of

disseminating electronic impulses in a myriad of interactive configurations through a variety of cable and wireless systems.

What is clear is that the regulation and ownership of encryption, dissemination and billing technology will be a crucial factor in the success or failure of the industry.

The European Union will need to give serious and urgent consideration to safeguarding open access, on the one hand, whilst simultaneously preventing the abuse of the near monopoly powers which such 'electronic gate-keepers' are likely to possess. Almost by definition, these gate-keepers will transcend national boundaries, making it imperative that any form of regulation is effective at European rather than merely national level.

Europe is already falling behind the USA in developing a full multimedia, interactive environment. US software manufacturers enjoy a far larger domestic market for their products in this area than is the case in Europe. The commitment of the Clinton Administration to the creation of a national information infrastructure and to the unified regulation of broadband operators, removing regulatory duplication and ensuring non-discriminatory access for service providers and consumers, demands an urgent response from Europe.

In addition to the economic consequences, the cultural and social consequences of open access would be immense. As US Vice-President Al Gore recently said, 'This is not a matter of guaranteeing the right to play video-games. It is a matter of guaranteeing access to essential services.' We cannot allow Europe to become a society divided between those with the economic power to be 'information-haves' and those who become 'information-have nots'. In the interactive environment it may be that entertainment is merely the tip of the iceberg. The possibilities that already exist for data-access, public information, advertising and retailing are great.

However, it is particularly in areas such as education, training and public information that the imaginative development of an open access policy would have a significant and potentially profitable impact.

Schools, news services, local communities, minority groups and public service information agencies will create new markets, not only for transmitted programming but for every form of software, including electronic publishing, CD-I and CD-ROM. We need bold public policies to facilitate the process. The opportunity for enhancing European cultural and social values makes this a matter of particular significance for European producers, including print-media companies who are already attracted to the cross-media opportunities which digitization offers them. We think it important that future consideration of cross-media regulation within the EU should bear this in mind.

One thing is abundantly clear — if European producers do not fill the market, others will. In the USA, for example, the rapidly growing base of installed hardware for CD-ROM is creating a large market for software, with some 1 000 titles published in 1993. The conditions are already in place for a repeat of what has become a familiar pattern with film and television production; namely the size, homogeneity and vitality of the US domestic market allows US producers to amortize their production costs at home and therefore compete on cost with devastating effect overseas. Only by maximizing opportunities can Europe offer adequate competition to the American industry.

The investment necessary to fully exploit these opportunities will be enormous. For example, British Telecom estimate that to create a full broadband fibre network (currently the most likely means of offering full and genuine interactivity and on-demand services), would cost ECU 18 billion for the UK alone. Information on such a system will be by means of electronic servers, in effect very large computers or networks of computers, and it will be a matter of great concern if the majority of such servers are located outside the EU. Such systems cannot be commercially viable on a national scale. They will require, at the minimum, a truly European approach.

The scale of investment required, and the nature of the technology, mean that it only makes sense to understand the whole field of new media in international and European, rather than national or regional terms, whether we come to it as producers, consumers, advertisers or regulators. Already the industry is organizing itself into powerful, international and even global groups. We believe that the EU must give serious consideration to speeding up the process of liberalization, creating open and non-discriminatory access to networks for all users, ensuring fair and open competition in the provision and supply of equipment, programming, services and delivery, offering full interconnection between networks. Such an approach, boldly pursued, would maximize the market for products while minimizing the cost to consumers. It could, in other words, work to the benefit both of consumers and producers, although we recognize that the European Commission may decide, in the interests of social justice, that some support systems would be necessary to guarantee equal benefits to the poorer and disadvantaged regions of the Union.

5. NEW SUPPLY, NEW DEMAND: THE IMPORTANCE OF CATALOGUES

Mass communication, it seems, is now a thing of the past. The current trend is now one of personalizing the television supply and very individualized product mixes. It is in this way that distribution can reach the most remote potential viewer. It is in this way too that consumption is optimized as are therefore the procedures for selling and commercializing audiovisual products. The television supply will have to start seeking new formats. Instead of looking for a product that is a mass success on a national market, there will be a move towards

extreme fragmentation/restructuring of the market and therefore towards specialized products aimed at well-identified audience niches on several national markets whose consumption will be difficult to avoid.

From the point of view of the businessman, the profit-and-cost ratio becomes more satisfactory, if not maximized.

The high level of personalization and dialogue between supply and consumption leads to the idea of interactivity. The viewer can determine what he wants to consume. The individual act of consuming thus ends up structuring the supply itself and therefore determining production at least to some extent.

The notion of productive consumption thus includes in its strategy the creation of supply, with the consumer choosing what he wants, and how and when he wants it, among the almost endless possibilities of an almost unlimited catalogue.

In this way, the overall number of television consumers is increased.

The major catalogues of audiovisual products

By analysing the audiovisual sector from the point of view of technological innovations, it is even easier to understand the challenges awaiting the European audiovisual industry.

New technologies are one of the main factors that determine, in the short-to-medium term, the strategic importance of title production. In the general market situation that we have attempted to foresee for the next few years, the winner is without any doubt the information provider or the programme provider. Among the audiovisual companies, only those with extensive catalogues will be successful.

Naturally, this implies knowing how to actively use the 'historic catalogue' and to invest continually in the redistribution of already existing products, in precisely the same way as the traditional publisher 'on paper'.

In Europe, there are no large catalogues, except for a few specialized publishers such as Rainer Moritz and the public television services such as RAI, BBC, ARD-ZDF, France Télévision, TVE, etc. All the other large companies — in general private companies — stockpile titles that they buy on the other markets, and especially from the major American firms which remain in this way in a dominant position on our continent and at world level.

This is a major problem that must be dealt with as quickly as possible if this immense capital which is the European audiovisual heritage is not to be lost.

In the case of television, the banks of this heritage are exceptionally rich. Considering their quality,

diversity, content and number of hours, they are probably the richest at world level, because for years all European public television stations had a very active policy of producing their own programmes of all kinds (fiction, news, art, sciences and humanities, sports, music, variety entertainment, documentaries, etc.) to the point that European TV production banks are estimated at about 1 500 000 hours.

As for the cinema, European production represents from the beginning of sound films about 30 000 feature films, whereas it is estimated that American production does not reach this figure.

This heritage remains for the most part unknown, since it has rarely been shown outside national borders.

Yet this immense wealth has many drawbacks. Not only are there no catalogues (once again we are faced with a dispersal of titles, copyrights and negatives among several countries and among several beneficiaries of copyrights), but the quality of the medium of most of the TV products makes them short-lived (contrary to what has occurred in the USA where since the 1950s, 70% of prime-time production has been shot in 35 mm). And finally, most titles do not have dubbed versions, because, as observed, the European products that go beyond their borders are increasingly rare and are generally shown in 'art-house' cinemas, which makes it difficult to obtain maximum use from them in the new circuits.

To this must be added the lack of works of a truly international nature, considering the quantity of exclusively national products made these past few years. The mainly low-budget shows that have been produced recently in Europe, compared with the high-value productions which account for most of the American production, reduce their market value.

In contrast, what European products have going for them are the number, variety and also the fact that they have been used so little.

But another danger is awaiting these potential catalogues. The profits from what can be an extraordinary source of wealth risks being capitalized by non-European companies. And this for the following three reasons:

- (i) lack of European companies with marketing structures and the necessary resources to compete with non-European companies for the acquisition of rights to use Europe's audiovisual heritage for international markets. In other words, one of the main risks for the European audiovisual market is that non-European competition not only reinforces its capture of European markets through productions of non-European origin, but it also commercializes and uses the most profitable banks of the heritage of European audiovisual production;
- (ii) control by non-European companies of the main distribution and production networks of pre-recorded audiovisual mediums;
- (iii) problems related to the legal system of intellectual property and copyright.

It seems to us therefore that implementation of specific actions with the aim of saving and maximizing the potential of Europe's audiovisual heritage is extremely urgent. These actions include:

- (i) creating an integrated network and updating inventories of Europe's audiovisual heritage, indicating the holders of intellectual property rights;
- (ii) promoting concerted action to jointly utilize catalogues of audiovisual banks;
- (iii) tax advantages to favour the conservation and recovery of Europe's audiovisual heritage;
- (iv) classifying the European audiovisual heritage, or at least works of special interest, as part of the historical or artistic heritage, so that their protection can benefit from aid or fiscal benefits. These works can thus constitute an exceptional capital asset which may be reproduced and used in new catalogues, as is the case today with the classics of literature, music and painting. Limiting the expatriation of originals of audiovisual works of an obvious cultural interest should also be considered;
- (v) implementing specific vocational training programmes involving two aspects: conservation and restoration of the audiovisual heritage and optimization of its use and profitability;
- (vi) implementing a specific programme in this area for Central and Eastern Europe.

6. COPYRIGHT AND OTHER INTELLECTUAL PROPERTY RIGHTS

Recognizing and protecting copyright, both moral and patrimonial, as well as the other intellectual property rights, constitute one of the main contributions of European civilization, this being an essential tool to social progress and an incentive for artistic and intellectual creativity.

Effective protection of these rights and the encouragement of a powerful audiovisual industry capable of producing and distributing work which reflects European culture on a universal scale are complementary rather than contradictory goals.

It is a well-known fact that the development of satellite broadcasting and cable transmission on a transnational scale had to overcome serious problems of a legal nature, particularly in Europe. These problems had to do with copyright, or in particular the non-existence of a legal organization of these broadcasting systems on a transnational scale, and with the various ways to tackle the matter through national legislation.

The development of new audiovisual technologies can lead to a similar phenomenon, thus worsening the situation of competition from the industry outside Europe which will be greater than in the past. In short, if problems of a legal nature prevent the distribution of Europe's audiovisual heritage via the new media forms, it is the non-European competition that is going to reap the primary benefit, namely the American competitors.

Probably most of the problems resulting from the application of new technologies will be resolved according to the general principles laid down by the international conventions and legislation on copyright already adopted by the EU and the Member States. Nevertheless, it will probably be necessary or at least appropriate to adapt, on the European scale and with regard to the impact of the new technologies, not only legislation but also the contractual or conventional practices and uses (e.g. the management of rights by collective establishments) which are currently structured on a national scale according to the traditional systems of audiovisual creation, production and broadcasting.

Our objective should be to encourage the distribution of Europe's audiovisual heritage via the new technologies in accordance with the fundamental principles of European legal traditions.

7. TRAINING

The most evident paradox confronting the European audiovisual industry concerns the quality and quantity of its workforce which can be summed up as 'too many and not enough'; — too many talented technicians with skills and working practices which have been marginalized or simply bypassed by the pace of technological change, and too few writers, directors and producers with a sound instinct for the needs of the market-place.

Throughout this century superb skills have been developed in Europe, in fact some 50% of all post-war Oscars have been won by European artists and technicians. However, with the decline and fragmentation of Europe's film and television industry, this traditional skills base is looking seriously inadequate, certainly in respect of its ability to respond to the opportunities afforded by the new technologies and the very different market-place they open up.

In this connection, we believe the European Commission should consider ways of bringing together film and television schools in the EU with representatives from industry to jointly plan ways in which the schools might better serve an industry with such rapidly changing needs.

The key to a demand-led industry of the sort we advocate in this report is a constant supply of creative and sensitive professionals with access to training opportunities throughout their working careers. The broader the talent base within the industry, the more cost-effective and efficient it becomes; good training has as great an impact on costs as it has on quality and, of course, on the job satisfaction of those who benefit from the training. If the European market creates the

potential for at least a million new jobs in the audiovisual sector in the foreseeable future, then we must recognize that the training implications are vast. A commitment to growth cannot be taken seriously without a comparable commitment to training. In our proposals for production support we suggest that a significant proportion of our proposed support package be set aside specifically for training.

8. EDUCATIONAL OPPORTUNITY

In a peculiar sense, Europe has allowed itself to become fixated by its apparent failure to compete with the USA in the relatively restricted province of the feature film. We all too easily ignore the fact that European television (thanks in part to regulatory protection) remains in relatively good health. Common sense dictates that when competing in a growing market the weaker force should attempt to outthink and outmanoeuvre the opposition rather than attempt to compete head-on in the very area where the discrepancy is greatest.

With this in mind, the global future for the audiovisual industry contains several sectors which are remarkably underdeveloped yet contain a potential for growth which could come to dwarf the feature film industry. It is worth noting that video-games alone already constitute a bigger grossing industry than feature films.

If Europe's education systems decided to take the possibilities of audiovisual technology seriously as a teaching tool they could, almost overnight, create an internal market of enormous size, with the potential to establish a world lead in one of the largest and most reliable growth industries of all. Interactivity offers the prospect of personally tailored teaching by means of on-line data services and by means of CD-I and CD-ROM to any students, at home as well as at school, however remote their geographical location and however advanced or obscure their interest. The possibilities this creates to revolutionize learning, and teaching, are almost incalculable.

In a Europe in which regional identity and regional culture is felt to be under some threat partly because of the globalization of the audiovisual market, the possibilities of using the strength and sophistication of that market to enhance cultural diversity and wealth should not be ignored.

9. EXTERNAL MARKETS: THE IMPORTANCE OF PROMOTION

Just as the expression co-production must be retained exclusively for works where non-European producers participate, the word export should not be used unless a European product goes beyond the borders of the single market.

This distinction is not simply of a political nature; it must also have an operative aspect.

A distinction will now have to be made between three types of markets:

- (i) the internal market;
- (ii) the rest of the European market in the geographical and historical sense, i.e. all the EFTA countries and those of Central and Eastern Europe;
- (iii) the external markets, from the richest to the poorest.

To each of these markets must correspond a different strategy.

The role and position of the Central and East European countries, for example, which are part of the same cultural sphere as ours, must be given particular attention.

The collapse of the Iron Curtain has enlarged the potential of the European market. But it has also weakened the production and distribution structures in these countries. The situation being seen today inside our borders is being repeated there on a greater scale.

For example, the number of viewers in Bulgaria plunged from 2 174 000 in 1990 to about 235 000 in 1992. Another example is the former Czechoslovakia, where the bipolarization found in countries of the EU is even stronger. In 1991-92, of the 10 films that earned the most, six were Czech-made, of which two were at the top of the box-office list, and four came from the USA. But a closer look reveals that of the 40 leading films, 34 were American films compared with the same Czech films. And of the 100 top box-office films, there were only six European films (four Italian and two French films, including *Nikita* which was in 100th position).

Another example is that of Hungary where, of the 190 films

distributed there in 1991, 96 were American, 63 European and 25 national. Nevertheless, the attendance figures for these films gave the following results: 84.8% for the American films; 10.5% for European films and 2.2% for Hungarian films. As for box-office receipts, American films accounted for 90%.⁹

These figures, lifted from the scarce data available, paint a sufficiently vivid picture of the capture of these markets by American products. Further in this report, we will look at a very important aspect in a market occupation strategy whose commercial value is derisory. In the countries of Central and Eastern Europe, 'distributors have access to American subproductions for ridiculous sums. These come from pirated copies bought for USD 2 000 in Hong Kong or sold at a cut-rate by American exporters themselves for less than USD 10 000'.

Despite the rampant piracy in these countries, Europe will therefore have to think strategically about occupying these markets too. This is what Giuseppe Richeri quite rightly underlines in the text quoted above when he draws attention to the 'importance of occupying systematically all the accessible market spaces with one's own products, taking into account the economic value of each market but also its geographical value. The United States has adapted the selling prices of its products according to the buying power of each buyer, with the aim of being present on each market,

⁹ Source: 'Données générales sur l'Europe de l'est', a document prepared by the SEA containing proposals from Euro Média (EMG) and Société d'investissement dans l'audiovisuel (SEI) for a Community intervention in the countries of Central and Eastern Europe.

however rich or poor, and cashing in on what each situation had to offer'.

That is what Richeri calls 'a strategy of encirclement: if the American market remains impenetrable for a certain time, efforts will go to consolidating positions on the "easiest" markets, even if less profitable'.¹⁰

This aspect is too important to be overlooked. There will therefore have to be a voluntarist policy to help European producers and distributors export their products to the countries of Central and Eastern Europe (which at the moment only France seems to do) combined with a cooperation plan for these countries, taking advantage, as stated earlier, of the PHARE and TACIS programmes, in order not only to occupy their markets but also to help their film-making industries to become integrated in the community of Europe which is their natural, cultural and historical area. Their infrastructures, experiences and talents as well as their immense catalogues and archives truly deserve this effort of solidarity, which in the future will have a considerable market value.

¹⁰ Giuseppe Richeri (member of the governing board of the Institute of the Economy of Medias of Milan and professor at Unesco with the Autonomous University of Barcelona) draws our attention to the fact that the Americans 'have always adapted the selling prices of their products according to the buying power of each broadcaster, with the aim of being present on each market, however rich or poor, and to cash in on what each situation has to offer: they therefore sold an episode of *Dallas* at the same time in Italy for USD 50 000 and in Albania for USD 150' (answer to the questionnaire).

In contrast, capturing the US market is perhaps the greatest challenge facing the European industry. It is not sufficient to say that this immense market is closed to European products under the simple pretext that American audiences do not like dubbing or subtitles. It is certainly a structural advantage due to the one language of their market. But it is our belief that developing a strong audiovisual industry in Europe will sooner or later open the doors of their markets.

In both the case of the USA and the case of the countries of Central and Eastern Europe, a heavy investment in dubbing is necessary, even if it requires different (we could even say opposite) strategies, if we are to reach a popular audience. With respect to this, it would be useful to recall, on the one hand, that about 85% of the box-office attendance for American films in Europe (with the exception of the United Kingdom and Ireland) corresponds to dubbed versions,¹¹ and on the other hand, that in the 1950s and 1960s, some European films and stars were enormously successful in the USA.

¹¹ Regarding this, two important points should be underlined.

1. The Americans have always been very careful and spent a lot for the dubbing of their films. For the most important ones, European directors sometimes are responsible for the dubbing and, in all countries, there are actors under exclusive contract to dub the main stars.

2. In contrast, in most of the countries of Central and Eastern Europe, dubbing (?) is often by an off-voice, often a lone male voice. Sometimes for important films, they use a female and male voice. Multivoice dubbing is expensive: about ECU 3 000 (source: general data on Eastern Europe). This means that an effort to finance quality dubbed versions for some of these countries, for films with a strong commercial potential, could make European cinema popular and open these markets.

This leads us to underscore the importance of promotion in a strategy to capture markets. A fine example of this is the lobbying force which represents the powerful MPAA. It could be seen in action recently during the GATT negotiations.

The European industry must therefore think about organizing itself also in corporate and lobbying terms. An association of European producers, receiving strong backing and playing the role that the major American companies play, could serve as an instrument for the promotion of European production throughout the world, which Europe needs to establish its image and impose its products.

10. THE ROLE OF PUBLIC SERVICE BROADCASTING

In the rapidly changing audiovisual environment national public service broadcasters, until recently the dominant force in European television and radio, feel under threat as potentially underfinanced and marginalized players. In comparison with the new commercial cable and satellite operators their future as conventional terrestrial broadcasters seems bleak. However, it is perhaps too easy to be alarmist. If we look to the USA, we see a market in which, despite relatively long-established cable and satellite systems, the big terrestrial networks retain the major share of the audience (55%) and it is equally clear that national terrestrial networks, many of them operated by public service broadcasters, will be a vital part of the European audiovisual environment for many years to come.

We see the continued health of the public sector as vital to the range, diversity and quality of the broadcasting environment as a whole. We consider there are two fundamental issues which must be addressed in the immediate future if that prospect is to be fulfilled.

Firstly, the broadcasting market is becoming increasingly international in terms of audiences, marketing and finance. In the same way that commercial operators see their future in international alliances and networks, so the public service broadcasters of Europe must give urgent consideration to pooling their resources and coordinating their strengths at European level.

Secondly, as is stated at a number of points in this report, entertainment is only one, albeit crucial, part of the emerging audiovisual world. The possibilities for public service broadcasters to develop new and imaginative forms of genuinely public service in terms of information, news, education and leisure interests, and to reach new audiences through satellite and cable channels, are vast. However, they must be allowed a more entrepreneurial stance and adequate access to finance if there are to realize such opportunities. In this connection it is worth noting that many of the public service broadcasters have substantial and valuable catalogues which are inadequately exploited either directly in the commercial market, or as an attractive inducement to alliances with other producers and distributors.

11. NATIONAL AND EUROPEAN SYSTEMS OF AID

(A) NATIONAL SYSTEMS OF AID

Throughout this report it has been seen how too often national systems of aid have perverted their objectives and wasted their resources. Instead of promoting the image of their countries and their regions, public funds have instead shut up their production in a cultural logic that has accentuated its autarkical aspect, depriving them of any possibilities of contributing to their underlying objectives.

The result of this was that their best creators had to go into exile in other neighbouring markets or left directly for the USA. Those who remained more often than not had to content themselves with mediocre careers where any talent was not always used to its full. As Prodoehl said, in the study quoted above, when referring to the policy of the *Länder* but that can very easily be transposed on a national scale, 'a policy of aid for cinema designed and practised on a regional level according to self-interested calculations must necessarily remain inefficient and powerless in face of structures and problems that have an international dimension.'

In this perspective, the proper functioning of the principle of subsidiarity should be ensured in order to avoid the often perverse effects of irrecoverable subsidies in the case of aid to the industry.¹²

As stated earlier, each State will be responsible for making its choices and determining the amount of national aid that it plans to devote to discover and cultivate new talent, to support the production that it wants to favour to assert its national or regional identity or to fulfil objectives that are particular and specific to it.

But it will have everything to gain if a large part of its efforts focuses on participating in the creation of real European companies that will be able to help create a world network of multimedia distribution that ensures the widest dissemination for the different national products.

The States will thus contribute to renewing the inspiration of the European creation, preserving its roots which will ensure the originality.

¹² Until now, the principle of subsidiarity has been reduced to the status of a positive norm. The governments have used this too often to take the authority to decide in their own favour and to limit the Commission's scope of intervention.

A global strategy for the audiovisual sector requires a more complex and more dynamic concept of this principle. It must no longer be limited to defining roles but also to defining the division of tasks.

If, from the point of view of positive law, the principle of subsidiarity acts on the roles, the definition of strategic objectives implies a definition of the programming tasks and priorities, in contrast to this positive and neutral concept.

This principle must especially be used in a dynamic manner to continue programming objectives and be an instrument to optimize the division of functions rather than a passive cost of the division of labour.

The pooled European public aid must also adopt renewed forms and mechanisms that favour a real market economy and that are adapted to the nature and size of the pan-European networks. These include tax incentives, soft loans or credit guarantees with financial backers (banks, capital-risk funds, etc.) covering a reasonable share of the investors' risks.¹³

(B) THE EUROPEAN PROGRAMMES AND FUNDS

In addition to the TWF Directive, Europe has three other instruments for its audiovisual policy: the MEDIA programme and the Action Plan, which are initiatives of the Commission, and the Council of Europe's Eurimages fund.

If there is real political will, the rapid development of programmes like Eurimages and MEDIA to accompany the necessary strategic changes should not raise major objections.

- *The Eurimages fund*

In the case of Eurimages, if the goal to be achieved is to support productions that should reach the market, it seems reasonable to foresee the replacement of the rule of three co-producers with the possibility of one or even two of the partners being distributors covering different territories. The percentage of aid that would be granted to him or them (50% of the 'credit' for example) would co-finance the production but in the form of a 'guaranteed minimum', security for the supported film's projection in cinemas.

In addition to the advantage of ensuring from the beginning the distribution of films on several markets (which is not the case today), this logic would enable the producers to retain as much as possible the originality and ambition of their projects, resorting to European financing without necessarily having to go through the cumbersome agreements of co-productions — which pushes up the cost price of the products and increases the division of rights. It is indispensable for the producer and the director (who together form an inseparable whole) to be able to choose freely the people with whom they want to work, regardless of their country of origin, instead of being obliged to take them there where the logic specific to the co-production imposes them.

- *The MEDIA programme*

Likewise, the MEDIA programme would have to clearly decide whether it wants to remain the 'ambulance programme' or whether it wants to assert its role as an instrument of industrial policy, without that requiring the long procedure of amending the decision of the Council of Ministers.

The programme could then go beyond its centre of gravity towards the creation of pan-European networks of distribution and commercialization capable of intervening upstream in production. It could also accentuate a trend, already demonstrated by several of its projects, of giving priority to the structural reinforcement of companies and the conditions of their rational management so as to favour on their part a more integrated activity, instead of productions on a case-by-case basis.

¹³ See footnote 7.

Strategically, MEDIA could prepare the ground for the implementation of the new policy that should be devised now to coordinate the actions of the existing 19 projects in the sense of the new strategy proposed. It would in this way be the ideal instrument 'to manage the transition'.

In particular, greater attention could go to reinforcing semi-banking practices by specifying in a more demanding manner the conditions for the repayment of loans and advances on receipts, using also in a more systematic manner credit guarantees. These reduce available funds while making the beneficiary of the guarantee responsible in a more effective manner and involving the private financial sector more in the financing of audiovisual productions.

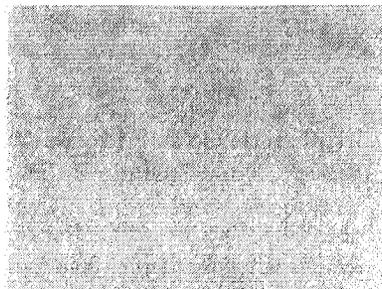
As for training actions, they could take into greater account the 'value-added' to the industrial activity of the beneficiaries.

- *The Action Plan*

Finally, there is, at the European level, a third programme of aid for the audiovisual sector that has a higher budget than the first two mentioned: ECU 228 million. This is the Action Plan for the Introduction of Advanced Television launched in 1993.

It is of course too early to assess its impact. Nevertheless, it can already be noted that it has enabled breaking the political taboo which existed for a long time and which said that the Community must not directly provide aid for the production of programmes.

It will also be noted that the objectives that justified this direct intervention by the Community are essentially of an industrial nature. It remains to be hoped that the aid of the Action Plan will actually be used in order to help ensure the continuation of European catalogues by significantly supporting the production of 'stock' programmes and not only the production of 'flow' programmes which are necessarily more transient.



V — FINAL REMARKS

(On the eve of the first centennial of cinematography)

Cinema was born in Europe 100 years ago. In the course of this century, our countries put their creative talent and capacity of invention to the service of the motion picture industry. Currently, with 350 million inhabitants, the European Union has the largest audiovisual market in the world in terms of consumers and ranks second in terms of sales turnover. If we add that it is a market whose consumption, between hardware and software, according to the projections of the White Paper is going to double by the end of the century, increasing from ECU 23 billion to ECU 45 billion, one can see the size of what is at stake if these two words are successfully combined: Europe and audiovisual.

Yet our film production is in crisis, our television stations in a state of confusion and our telecommunications companies are complaining that they cannot begin competing as they would like with an expanding world market. How could this apparently paradoxical situation have come about? And, what is even more important, how can it be remedied?

The authors of this report, professionals working directly or indirectly in the European film and television industries, were asked by Commissioner João de Deus Pinheiro to 'make recommendations on the audiovisual policy guidelines ... that can foster the debate on a few options for the future'.

We agree on one point: it is our firm belief that the European policy that has been followed has not succeeded in detaching itself sufficiently from national policies that have tended to place more emphasis on supply rather than demand, on producers' requirements and not enough on what the consumer wants, instead of adopting, as was proclaimed in 1962 in a memorandum on the Community action programme for the second phase, 'a common policy containing constructive solutions at the Community level'.

Our industry has become defensive and inward looking whereas it should have shown itself confident, innovative and open. If we learn to consider it as an investment vital for the future — both from the economic and cultural point of view — it can become a gratifying source of success.

We have taken as the subject of analysis the audiovisual industries as a whole. We are convinced that it is only by adopting this global approach that we will be able to find solutions adapted to the new challenges. It has become obvious over the past few years and according to the experience of other markets, that in terms of industrial logic and consumer demand, the film must adapt and integrate the power of television, and in turn, television must adapt and integrate the power of the telecommunications and computer industries.

In this report, we have tried to establish a global strategy in order to better link these new components in the future. For this, the art of images and sounds must no longer be exclusively linked to the cinema, in the same way that the film is no longer exclusively linked to the cinema theatre. For this, we must see the creation of powerful companies, based in Europe and no longer isolated inside their national borders, capable of integrating the various components at the level of production and marketing, the only way for them to be able to adapt with success to the formidable revolutions looming on the horizon.

Without this European dimension that is lacking, our millions of small companies will be at the mercy of the major upheavals that are to come: weak and fragmented, they

will not be able to meet the planetary challenge of communication.

We are proposing here a series of measures to be implemented in the course of the next 10 years to arrive at a strategic transformation of the European industry. The dimension of the investment required is considerable, but the consequences will be even more so. What is at stake is the potential value of a dynamic industry capable of providing a new range of services and creating a large number of highly qualified jobs on a continent that is suffering from profound structural unemployment. What is also at stake is one of the most powerful means to reinforce our cultural identity, made up of a rich linguistic variety. We believe that this unique combination of economic and cultural imperatives makes the audiovisual sector one of the most important of our time. We believe that the free expression of European talent and its energy can bring about the rebirth of an industry whose market potential will make it a world leader and enhance the immense diversity of European culture.

We sustain the view in this report that our industry must undergo a strategic transformation to make it more competitive and above all more attentive to consumer expectations. But we also believe that the European Commission also needs to change its approach to the audiovisual industries, giving more attention to the changes needed at the fiscal, legislative and regulatory level to encourage its development. We are conveying in this report our observations on the present and future role of DG X in this respect, but we recognize that by asking us to analyse the entire audiovisual sector, and particularly its potential for the creation of new jobs, the

Commission recognizes, following the White Paper, that it is also aware of the need for this strategic transformation.

The decision to prepare a Green Paper on the audiovisual sector which will serve as a basis for widespread consultation of European professionals and agents, coming after the GATT negotiations and the Mons declaration, gives us hope.

In spite of this, we note that despite its importance as a major industry which is capable of employing two million people in the European Union until the year 2000 — and which according to the White Paper can easily double this figure 'provided that growth translates into jobs in Europe and not into financial transfer from Europe to other continents' — the audiovisual sector has until now only deserved very little attention in terms of public sector investment policies.

Analysed nevertheless in the light of costs and benefits and particularly in terms of impact, it offers a lot more possibilities than other industries, such as agriculture or automobiles, and it has a much greater potential for growth. Furthermore, our sector is undergoing rapid structural changes and being reoriented at both the commercial level and at the level of research, and even more important at the level of vocational training and retraining of its manpower.

We have therefore assigned ourselves the task of suggesting ways for the European audiovisual industry to go from a policy of resistance to a policy of success. And according to this analysis, it becomes clear that:

- (i) the nature, kind and quality of production will change in the new world of multimedia; and
- (ii) the means of distribution will change too.

In the immediate future, two strategies are needed. These are:

- (i) to make more commercially successful products and in particular, with a power of pan-European and international attraction;
- (ii) to facilitate their distribution.

A two-dimension proposal, the result of our debates, is necessary: a system of incentives for the creation of distribution networks which, in practice would help put more European productions on the market, a system that would go hand in hand with a system of direct support for production to help put new products on the market. Our intention is to respond to a vital need of any industry: more market for our products and more products for our markets.

One of the great weaknesses of film and television production in Europe results, as already stated repeatedly, from the fact that of the 500 films produced each year only a small percentage is competitive on the European market and virtually does not exist outside Europe. Nevertheless, with its 350 million inhabitants, Europe is the largest market in the industrialized world. An industry that succeeds in generating a production going beyond national borders and

reaching at least 350 million viewers transforms the dimension of its own economy. Further, in a market currently dominated by American productions, the consequences at the cultural level would be immense: if today only the American products have succeeded — and that is the greatest paradox — in bringing together the European audience (with cinema, it can be said that if Europe has a common film culture, it is that of American films), one can imagine to what extent the audiovisual sector could become the ideal instrument to consolidate the process of European integration.

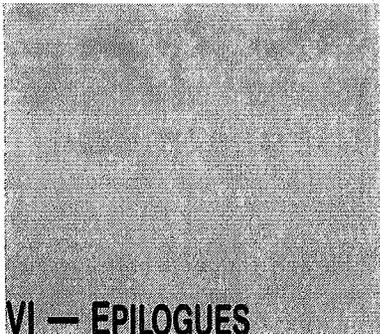
In a year's time, more precisely on 28 December 1995, cinema will be celebrating its first centennial. It was in Paris that the Lumière brothers for the first time showed an amazed audience the reproduction of the moving world.

This invention, which they called 'cinematography', and which they predicted would be short-lived, has become a century later, with the folly of a Méliès or a Griffith, the most wonderful machine man has ever invented to tell stories. It has made generations dream for a century on all continents.

Between that day long ago and the world of today where interactivity and 'virtual reality' make possible all Utopias, it is nevertheless the same desire that presides over the manufacture of images: to tell stories, to take what is imaginary for reality.

Europe has excelled in this for centuries, but today it looks like it has lost its energy and ability to create myths and share them.

The first centennial of cinema has a challenge for us: it is up to us to decide whether we are sadly going to relegate it to the museum or whether, on the contrary, we are going to celebrate the rebirth of an art that, though it has changed means, has not change its nature.



VI — EPILOGUES

MICHÈLE COTTA

In a brief presentation below are a few ideas which I believe are the most important in the inquiry that we conducted into the future of the audiovisual industry and the circulation of works in Europe. These ideas are all found in the joint text that we prepared. The differences between us are apparently subtle.

1. Television and cinema are industries, even if the directors, creators, the ideas people, their trade unions and their defence groupings do not want to take this dimension of the problem into account.

The fact remains that while this aspect is given priority in the USA, Australia and South America and while Europe refuses to accept this elementary phenomenon, Europe is losing out and perhaps faster than it thinks.

2. Aid for the film industry and production is not a substitute for everything. It does not give talent to a creator who has none. And it sometimes leads to the opposite goal sought, namely by keeping some producers artificially alive or by increasing the shortcomings of a local film or television production, without universality and therefore incapable of reaching a transnational audience. It has sometimes encouraged a dispersal of production, the self-centredness of creators and an atomization of distribution, thus creating or reinforcing an additional difficulty of circulation.

3. What I believe is most important in the TWF Directive is to organize the effect of any profits from the different channels (general, specific, coded, hertzian, cable or satellite as well as future pay-per-view or video-on-demand channels) on production. For this, it seems necessary to define a minimum proportion of the station's sales turnover, or, if one prefers, the station's programming budget, for investment in production. Compared with these vital and necessary obligations of fresh production, it seems to me that setting broadcasting quotas is no longer relevant, although it may be preferable to leave them for an interim period.

In my view, instead of bending over backwards to enforce a regulation which the broadcasters go out of their way to disobey, the

different regulatory authorities in Europe should mainly concern themselves with compelling the different operators to produce.

The problem of prime-time television would virtually be solved if this were done. The broadcasters would quite naturally programme during the most important viewing hours the productions that have cost them the most. This is the case in France where production obligations have in a way played the role of regulating prime time.

4. Generally speaking, I believe that our text examines the problems posed by audiovisual production and its distribution in Europe, which is normal because that is what our group of experts was asked to do. But these problems are never, or almost never, addressed from the viewpoint of the broadcaster. Yet broadcasters are the ones responsible for preparing the programmes, balancing budgets, managing countless production and programming constraints, and they do all this with a view to satisfying television viewers, which is after all their main purpose. Were an audiovisual conference to be organized between the report and the publication of the Green Paper, it would not be a bad idea to find out the point of view of some of these broadcasters without considering that they are against regulation.

ENRIQUE BALMASEDA

In addition to personal talent, the history of European culture is the result of the balance between the market or free competition and encouragement by the State.

That the non-European audiovisual industry has a dominant position in the transnational distribution sector in this continent, and throughout the world, is indisputable. And a dominant position implicitly carries the risk of that dominant position being abused. The European Commission and the Member States should certainly pay special attention and vigilance to the defence of competition in the audiovisual sector. However, defining the specific cases of action and conduct that should be prohibited is the job of the organizations or bodies that are legally responsible for that purpose, and I therefore do not consider myself qualified to give general opinions that might prejudice actions or conduct contrary to free competition by specific sectors or companies.

At the same time, much of the best in the history of cinema throughout the world is the result of cooperation between the filmmakers and industries on both sides of the Atlantic; it produces the interrelation between their different cultures. Recovering and strengthening that long and fruitful tradition should be a priority objective for the immediate future. But the European Union and its Member States must not under any circumstances reject one of the most unmistakable European signs of identity; making available without imposing external limitations the public resources and means necessary to encourage equality of opportunity in terms of access to culture and education for all their citizens, in order to en-

courage social integration and communication between their peoples, and, at this historic time, to consolidate the process of building a united Europe. And we should not forget that the audiovisual sector is today, and in the future will be even more, a fundamental means of achieving these ends, which are so obviously of common interest.

GAETANO STUCCHI

The only industry that does not tend to the future is one that has no future.

But that is not the case of the film industry and television, which on the contrary have a great future in common, at the heart of this universe of communication which technological innovation is going to revolutionize in the years ahead.

The numerical networks that are going to cover the planet (the mythical 'information highways') bring us closer every day to Utopian science-fiction stories; human beings will live increasingly less in a physical celestial body and increasingly more in a virtual double of earth where the natural environment will be communication, language, representation and whose matter will be the infinite circulation of messages in numerical form.

The quantity and quality of each individual's symbolic consumption will be regulated by the availability of time, money, needs and temptations. But at the centre of this new personalized and perhaps interactive communication are the image and imagination which are going to retain their role: one as a basic unit of the planet's only real universal language (what Pasolini called 'real language'), the other as the superb and unique machine of dreams and knowledge which takes us beyond the limits of physical experience.

The apocalypse will be the day when on the virtual globe's 'highways' only anonymous bits and functional inputs travel; but this kind of nightmare still appears far off, like the silence of the imaginary world or the death of poets.

I believe rather in the industrial and political protagonists of this future when they talk about the competitive edge of the product, content, software, and therefore of the players (over the gate-keepers) who have the carriers of bits and images, on the one hand, and (over the service-provider) the organizers of the supply of products and services, on the other.

Audiovisual works and those who know how to invent and manufacture them (creatures and entrepreneurs, the last jobs that will remain for people in the third millennium) will have everything to gain from the establishment of a real audiovisual industry at world level such as in our European market. The magic word is 'market', but there are no markets without companies, the main players and factors of any market. What we need in Europe are audiovisual companies capable of stimulating the movement of European works at continental level, in all the profitable distribution channels possible (networks and mediums), and in all communication formats and technological standards (services and products), for a maximum number of recipients and income.

It is of the utmost importance, therefore, that the image people tend to the future. New technologies are our chance and challenge.

PETER FLEISCHMANN

Unlike the Europeans, the Americans have never forgotten that the feature film is the heart and motor of the audiovisual programme industry. Without the training machine of cinema, a country can neither reach the top form of its programme industry nor the constant innovation that is also necessary. It is only in the film industry that myths are created which become collective dreams and enter into the history of a people. When we have solved the problems of the feature film, the rest of the problems dogging the audiovisual programme industry will resolve themselves almost on their own.

As European films in recent years did not have a large enough exploitation market, European film production was only possible on the basis of subsidies. We agree with the economic incentive financing — in the form of complementary measures — with the goal of creating a pan-European market for our projects and thereby gradually cutting back on the subsidies.

The European market became, potentially, the largest film market in the world after the fall of the Iron Curtain. The markets of other continents will also have to open for us if we are to win this market back for our films.

The members of the Think-tank have shown a great deal of commitment in their search for possibilities to get the flagging European film industry up and going again.

Personally, I believe that the measures proposed by the report of the Think-tank require an additional element if they are to be realized in order to help all of those who can or will not participate in the planned consortia.

'Measures to increase the market share of European films in the cinemas and television channels of the Community' is an Appendix to the report.

DAVID PUTTNAM

This independent Think-tank, established by the European Commission, has offered a unique opportunity to sketch out a strategy for the future of Europe's audiovisual industry. To have the privilege of being one of its members has been to gain a new perspective on the challenges that face us. At our first meeting we agreed that our task was to point the way forward from 'cultural defence to industrial success'.

In that context we have attempted to set out a series of coherent, mutually supportive proposals which might, over a 10-year period, achieve fundamental shifts in our industry.

We want to see:

- (i) An industry driven by an objective commercial logic, free from what Wim Wenders calls the 'lethargy of subsidy';
- (ii) an industry which is genuinely responsive to the choices made by European consumers, and which they feel reflects their lives, their experience and their aspirations;
- (iii) an industry which can challenge and inspire the creative ambitions of those who work in it; and
- (iv) finally, and most importantly, the audiovisual sector must be placed, once and for all, at the very heart of the European economy — recognized as a key industry of the future as well as a priceless cultural asset — a source of millions of skilled jobs and of substantial earnings, both within Europe and in wider markets beyond.

We have gone some way in an attempt to sketch that picture of the future and only time will tell with what degree of success. The report now passes out of our hands and into the hands of the European governments and of the industry itself.

We have concluded that we have a good story to tell. But does our script do justice to it? Perhaps the plot is not as clear as it might be. Possibly the narrative lacks energy: the conclusion may not be strong or clear enough to sufficiently inspire and excite our audience. Perhaps we have been insufficiently rigorous in identifying exactly who that audience should be, and have failed to give the marketing and presentation of the project the priority it so desperately needs.

All of these concerns are painfully familiar to the European filmmakers.

Have we created something which will only play to a minority audience on the fringe circuits of Europe or have we a story which will reach the audience we need to attract if we are to achieve real success? In addition to the powerful multinationals that control much of Europe's existing audiovisual industry, that audience necessarily includes the bankers and financiers who already invest heavily in the American industry but not in Europe. It would be ridiculous not to take account of the telecommunications companies with the investment potential to wield increasing influence in the audiovisual markets of the future. We must also reach those Hollywood majors who already dominate many sectors of our industry and have the power to attract the best talent that Europe has to offer. It goes without saying that our audience must include the

governments of Europe. Last but not least, we have to convince those who work in our industry.

Perhaps we have been guilty of allowing ourselves to fall back into our old habits examining the reasons for past failure, in preference to the challenging opportunities for future success.

What is clear is that those opportunities exist and so too do practical policies which can help us to make the most of them.

Here, at least is a workable draft script. It is a script which in 20 years time someone will take out of a dusty drawer and say, 'Why didn't we do something with this? Maybe it could have changed everything.'

Or is it a script that Europe has the commitment and confidence to put into production now?

ANTÓNIO-PEDRO VASCONCELOS

In 1968, following the Langlois affair in which André Malraux (who in the mean time had become Minister for Culture under De Gaulle) had opposed the management of the founder of the Cinémathèque française, Truffaut, Godard, Lelouch and many others boycotted the Cannes Festival which they accused of serving the industry and not the directors.

In May 1968, the Viet Nam war protest, Guevarrism and the Cultural Revolution were in the air, and the film industry also seemed to have chosen the road of freedom by identifying the enemy in American imperialism.

That same year, Jean-Claude Batz, in a symposium organized in Brussels, explained the European deficit with American cinema, which he attributed to the differences in our distribution systems, with a concentrated and planetary system in the USA and a dispersed and local system in Europe. He went on to say that that was where the Community (which at that time was made up of six member countries) had to focus its efforts and means.

He proposed, that national aid for production in the form of subsidies gradually be phased out and replaced by a system of credit guarantees which instead would play an incentive role.

Batz was wrong to be right too soon. The time was not ripe for this kind of reformist talk. Today one realizes that by identifying the universal message of American films with its imperialist model of domination, the film-makers who had come from all parts of the world to demonstrate in favour of Langlois at the Palais de Chaillot, refusing to hand over their films to anyone but him, had found a family. But, by wanting to break the American model, preventing it from being applied to his future works, they threw out the baby with the bathwater.

I belong to that generation and for a long time shared his illusions.

Yet, a quarter of a century later, I must recognize that the events show that Batz was right. What is most important is that today we see that his proposal was the one that would have given creators the most opportunities.

It is my profound belief that only by contributing to the creation of a multiple network of transnational and multimedia distribution for our products will we be able to turn around the catastrophic situation of our industry and put an end to the growing unpopularity of our audiovisual production.

Being by definition transnational, whereas production must remain the domain of individuals and preserve its cultural references, distribution must be the priority of public investment by the EU: distribution of all kinds of audiovisual products on all kinds of mediums and on all kinds of territories, even if films and cinemas remain the engine that arouses all the imaginations and opens all the markets. A European distribution network is the only way for the industry to achieve the necessary critical mass and economies of scale indispensable for becoming competitive and for European creators to have an international marketing instrument that can make their messages universal.

The Americans did it better than we did, to the point of taking advantage of it. However, it is not by making them the eternal scapegoats of our powerlessness and our frustration but by rewarding talent, merit, risk and success, that European cinema will once again regain its energy potential and wealth of creativity.

ANNEXES

ANNEX 1

QUESTIONNAIRE

Aware of the extent of the problems confronting the European audiovisual industry at the end of this century, Commissioner Pinheiro has decided to prepare a Green Paper on the crisis currently facing this sector. A large-scale consultation of those concerned by this situation will also be organized.

A working group has been appointed to draft the document. Its members include David Puttnam, Enrique Balmaseda, Peter Fleischmann, Michèle Cotta, Gaetano Stucchi and myself as President.

The group's task will be to diagnose the crisis and propose a new strategy of intervention by the European Union in this area that restores the confidence of the sector's economic agents and allows them to achieve all their potential in the prospect of the single market.

The first phase of work will consist in taking stock of the key problems which enable the identification of the audiovisual sector's areas of chronic weakness.

It is for this purpose that we would like to set forth a few elements of analysis and ask you a certain number of questions. Your contribution and your opinions are very important to us, regardless of the guidelines already laid down by the working group.

1. Nobody will contest the fact that Europe needs to project its own image, which means creating a self-sustained audiovisual industry that is popular and competitive.

With its market of 350 million inhabitants, a production volume larger than that of the world's largest film-making power, the USA, a long tradition of non-documentary films and a great wealth of talent, Europe enjoys incalculable potential for the creation of a powerful and competitive audiovisual industry.

Nevertheless, the European public is consuming more and more American products, with the commercial system inevitably narrowing its freedom of choice because of the inability to implement an adequate common policy and an industrial strategy capable of responding to the disproportionate growth of demand for products which followed the policy of deregulation, and which will grow even more with the increase in the number of television stations.

In fact, the lack of economic rationality of the European system of production and distribution, which is too spread out and protected from the market instead of being integrated in it, leads economic agents — producers, distributors, cinema operators, broadcasters — to prefer investing in American production or in the purchase of its products.

This flight of capital, but also of ideas (the sale of scripts replacing film exports) and talent worsens the trade deficit with the USA, which has today become unbearable.

What concrete measures — financial, fiscal, regulatory — do you suggest to establish a coherent system at European level that has a stimulating effect for the development of an audiovisual industry that is rationally organized, that satisfies public demand and that is again competitive at world level (making it possible to keep our talent and restore investor confidence)?

2. The non-existence of a European production industry of world dimension prevents the creation of pan-European distribution networks. But in turn, the absence of transnational marketing channels makes the large-scale appearance of products for the international market difficult, increasing fragmentation and further weakening the European audiovisual industry, a prisoner of this vicious circle.

In this context, what conditions must be satisfied and what measures have to be adopted at national and Community level to strengthen the European companies and encourage them to develop pan-European strategies of production and commercialization?

3. Despite the public, national or Community systems of financial assistance, Europe has shown itself to be incapable of fighting the crisis and stopping the decline of the European film industry with the public. These systems of aid have until now mainly been used to offset market deficits and as a substitute for private capital instead of focusing on the development, by companies, of pan-European structures and encouraging the improved competitiveness of European audiovisual works.

However, the European audiovisual industry will not be viable until it is able to sustain itself, which is a long way off at the moment. The problem facing the public authorities therefore seems to be that of redefining their intervention: how can a system of assistance be replaced by a system of support for growth and regulation?

What do you think are the main side-effects — positive or negative — of the current systems of support, whether national or European, in light of the unification of the European market, and what measures need to be taken to boost the ability of companies in the audiovisual sector to compete?

4. The European audiovisual landscape is characterized, as seen above, by a lack of large marketing channels which therefore makes it very difficult for audiovisual companies to define integrated strategies to recoup the cost of audiovisual works through different markets and the various mediums of distribution.

In this context, the companies are strategically unable to consider the 'European market', and not the 'national market', as their 'internal market', thus reducing their ability to recoup costs 'domestically' and therefore to export audiovisual products.

When the products manage to cross borders, this strategic inability generally leads them to marginal distribution channels of art and testing, thus preventing them from reaching the large dubbing markets which can guarantee them greater distribution.

(a) What conditions do you think would enable European production and distribution companies to consider at the strategic level the European market and not national markets as the domestic market?

(b) What measures should be taken now to encourage European companies to want to capture international markets, especially American and Asian?

(c) Considering the fact that the countries of Central and Eastern Europe are more or less inevitably going to become a part of the European audiovisual area, what forms of collaboration or economic cooperation must there be to assimilate

their markets and also to integrate the creative capacity, the industrial and professional structures and the experiences of these countries into the European audiovisual industry?

5. The behaviour and attitudes towards the diversity of languages and cultures in Europe have more been factors of resistance and consolidation of the fortress mentality of national, and even regional, identities than factors of enrichment for the creation of a single market.

Whereas American production has standardized the European public, European products are increasingly confined to their own national markets. This results in a further trend towards bipolarization of the European market between national products and American products.

In terms of distribution, language is not an obstacle to the universalization of consumption. In face of a market divided by the large number of languages spoken, American products are released either dubbed (especially in the so-called 'large' countries) or subtitled in the national languages.

What measures do you recommend so that languages and national, indeed regional, cultures stop being elements of resistance to the development of a European industry that incorporates all the cultures but focuses on the universality of the creation?

6. The television without frontiers (TWF) Directive has posed a certain number of problems, which mainly have to do with the difficulties the Europeans themselves have in applying the legislation (resistance on the part of non-Europeans is rather understandable). Europe's public and private stations have shown difficulties in meeting the prescribed levels of broadcasting of European works and of supply of programmes with independent producers.

These difficulties are dramatically indicative of the problems facing European countries in defining policies aimed at strengthening the audiovisual industry on the European level. The current crisis seems to favour centrifugal behaviour, where economic agents, with a short-sighted view to survival, prefer playing the card of American products and Japanese cartoon films, which are more profitable in the short term but suicidal in the long term for their independence.

How would you assess the TWF Directive and what regulating measures do you recommend to better coordinate the interests of the various sectors of the European audiovisual industry — public and private broadcasters, independent producers, multimedia groups — and even the interests of distributors, video publishers and box-office circuits, compared with the chronology of the distribution?

7. In the framework of the trade rules concerning the integration of audiovisual activities, one of the main problems facing the political and regulatory bodies is compliance with the functioning of the various economic areas and the attention given to the effects of distortion on trade through the practices of economic agents with so-called 'dominant' market positions.

Safeguarding competition, which implies the balance of market forces and the ability of operators to act with autonomy, is thus one of the objectives of the European audiovisual area. This balance concerns the relationship of independence of independent producers with the large economic groups and broadcasters, on the one hand, and cooperation between national companies and multinational companies, on the other.

(a) What regulatory measures do you consider urgent to ensure the autonomy of operators on the markets and the rational coordination of their activities with regard to:

the function of producer and broadcaster?

the status of distributor and programmer of cinemas?

multimedia groups and independent producers?

the 'European champions' of the electronic industry and SMEs throughout Europe (raw materials, recruitment of skilled labour, subcontracting, localization)?

(b) What do you think are the economic or structural obstacles to the emergence of pan-European companies acting in the global market?

(c) What kinds of alliances or incompatibilities do you believe should be promoted or ordered between the various sectors in order to prevent horizontal or vertical concentrations, to increase competition in the single market and to favour the balanced development of competitive European conglomerates at world level?

8. New technologies play a major strategic role in the contemporary industrial system. They first of all help maintain high levels of employment, especially for the highest performing and best paid jobs. They have very significant collateral effects in the other sectors and thus contribute to what is considered the 'welfare of nations'. New technologies in the electronic industry are going to impose a revolutionary change on the industrial system, determining the obsolescence of today's materials, the new industrial policies and constituting the essential factor of employment in the coming years.

To the extent that it directly responds to the critical alteration in hardware, the audiovisual industry is one of the 'strategic sectors', closely linked to the development of new technologies. The audiovisual industry will thus play a determining role in the services industries for employment and added-value activities.

Already magnetic tape and optical fibres transformed the audiovisual economy in the 1970s and 1980s; today, they are going to lead to a new revolutionary deregulation in this sector, with pay-per-view, video-on-demand and interactivity.

Nevertheless, while this technological progress increases supply and improves the quality of distribution, it threatens to worsen the dependence of European production on the outside instead of representing new possibilities because of the lack of production and marketing strategies incorporating at the European level the various distribution mediums.

- (a) *What do you think are the main consequences of the technological transformations that are affecting the services industry in the audiovisual field?*
- (b) *One of the concerns of the Commission being 'to manage the social effects of the technological transformation' (see Document 15/88, October 1988), how do you see the changes in the European audiovisual industry with regard to the current technological revolution and what kind of regulatory measures do you propose to ensure the so-called 'management of its social effects'?*

António-Pedro Vasconcelos

Lisbon, 7 December 1993

ANNEX 2

Measures to increase the market share of European films in the cinemas and on the television channels of the Community

European films' market share of the revenue from cinemas of the European Union has almost continuously declined in all of the Member States over the last 12 years, with the market share of non-national European films falling even more rapidly than that of indigenous films (see Table 1).

Over the last decade, the States of the European Union had all tried to protect their national industries through support measures, with the result that today, almost exclusively, only indigenous and American productions are programmed in the countries of the European Union. The market share of non-national European films is minute in the European market. (The 22.5% share of non-national European films in Spain is an exception brought about through rigorous legislation. In the other countries of the Union the share of non-national European films amounts, on average, to 4.5%.)

At the same time, the market of a single European State has become too small to recoup the increasing costs of making a film. As a sufficiently large home market (which can only consist of the market of several European countries) is absent, the financing of European films has become extremely difficult without reliance on subsidies.

We must therefore carefully develop well-thought-out strategies to create a pan-European market.

These strategies should stimulate the development of trans-European distribution structures for European films as well as an improvement of the inadequate financing structures for European film production; they should also envisage measures for a better exploitation of European films in European cinemas. Apart from the frequent absence of popular appeal, the poor showing of European films in European cinemas can be explained, among other things, by:

- (i) the block-booking system to which the major American companies have made European cinemas agree;
- (ii) the ever-increasing number of release prints with which the major companies launch their films;
- (iii) the lack of a marketing concept and inadequate budget for the promotion of European films;
- (iv) a lack of information for the exhibitors and audience about film-making in neighbouring European countries.

Admittedly, there are a whole series of cinemas that show 40-50% European films (in Germany, this is approximately 100 out of 3 600 screens), but these screens are mainly in the worst-equipped cinemas that show European programmes in a kind of market niche as they cannot get the top American films.

Table I

OVERVIEW OF THE MARKET SHARES OF EUROPEAN FILMS (NON-NATIONAL PLUS INDIGENOUS) IN THE COUNTRIES OF THE UNION

(see 1993 *Media Salles European Cinema* yearbook)

Country	Share of admissions within EU %	Market share of indigenous films %	Market share of non-national European films %	Market share of European films in total %	Factor	European films share of audience in EU %
Belgium	2.93	4.2	19.3	23.5	2.83	0.69
Denmark	1.53	15.3	3.4	18.7	1.53	0.29
France	20.52	34.9	4.2	39.1	20.52	8.02
Germany	18.75	9.5	6.2	15.7	18.75	2.94
Greece	1.77	2	3	5	1.77	0.09
Ireland	1.38	8	4	12	1.38	0.17
Italy	15.4	18.5	6.9	25.4	15.4	3.91
Luxembourg	0.1	2	12	14	0.1	0.01
Netherlands	2.42	13	3	16	2.42	0.39
Portugal	2.08	1	14	15	2.08	0.31
Spain	14.74	9.3	22.5	31.8	14.74	4.69
UK	18.34	4	1.7	5.7	18.34	1.04
EU	100				100	22.55

It should be noted when looking at these statistics that a few successful home-market films (mostly unexportable local comedies) make up a considerable percentage of the indigenous market share.

The following proposals stem from three theses:

(1) The proposed measures are incentive financing.

As European films do not have a large enough market, European film production is only possible on the basis of subsidies. We agree with the Americans that this must change and thus argue for a concentrated economic incentive financing in the form of complementary measures — with the aim of creating a pan-European

market for our projects and thereby gradually reducing the subsidies.

(2) Our efforts will concentrate initially on the European market.

After the fall of the Iron Curtain Europe became, potentially, the largest film market in the world. We need to export our films to other continents if we want to widen the market for our films.

(3) Our efforts are concentrated largely on the feature film.

Unlike Europeans, the Americans have never forgotten that the feature film is the heart and driving force of the audiovisual programme industry. Without the training mechanism of cinema, a country could neither reach the summit of its programme industry nor achieve the constant innovation that is also necessary. It is only in the film industry that myths are created which become collective dreams and enter into history. When we have solved the problems of the feature film, the rest of the problems dogging the audiovisual programme industry will sort themselves almost on their own.

A — THE PROPOSED MEASURES

1. INCENTIVES FOR DISTRIBUTION GUARANTEES ON A EUROPEAN LEVEL

As a transnational European distributor for European films has not existed until now, the following measures are proposed to stimulate the formation of a group of national European distributors:

1.1. If at least four distribution companies from different European countries (including at least two countries with a large production capacity) are prepared to give distribution guarantees for a European film project, the European Union will double these distribution guarantees.

1.2. The Union will also give a grant for prints and advertising to the distribution companies for the films supported under Section 1.1: in each case this will amount to 25% of the distribution guarantee provided by them (35% for non-national European films), but no more than 30% of the actual prints and advertising costs (50% for non-national European films).

1.3. The distribution companies should acquire the rights for theatrical and video production in their countries. The distribution companies should commit themselves to launching the supported films in their country of origin at the same time. They are also required to coordinate promotional measures to the greatest possible extent so that the film receives a unified 'image' (joint front-of-house stills, joint press stills, posters, trailers, etc.). The distribution guarantees (private and public) will be covered from the box-office revenues (the degree to which the private

distribution guarantee share will have priority in recoupment would have to be discussed with the distributor). The video revenue would be used to cover unrecovered guarantee takings.

1.4. Packages consisting of several film projects, in addition to individual projects, can also be funded.

1.5. After two years, the minimum involvement of countries providing distribution guarantees should be raised from four countries to five; after four years to six countries. This should encourage larger national distributors to extend their activities to several European countries or to join with other national distributors.

2. REDUCTION OF FILM RENTAL CHARGES FOR EUROPEAN FILMS

2.1. Both film projects and completed European films should be presented at previews for European exhibitors, with the costs being shared by the Union.

2.2. National distributors should attempt to obtain play guarantees from their territory's cinemas for European projects before production commences.

2.3. The European Union would stimulate such agreements by enabling the reduction of the film rental charges for these films in the form of incentive financing. The distributors could then hire these films out at a rate that is 7% below the usual percentage goal (9% for non-national European films). The difference would be met by a coordination office of the European Union.

2.4. Producers of the projects presented at previews should attempt to interest public and private TV stations in their territory in a pre-sale of the broadcast rights. The European TV stations are called upon by their governments to participate in this measure to strengthen the European cinema to the best of their ability.

In order to stimulate such pre-sales the Union is prepared to discount these contracts until the broadcast of the film by the TV station. The producer would bear the financing costs until the programme material is delivered. Then the Union will bear the costs. The contracts must be honoured by the television stations two months before the première, and at least 30 months after delivery of the programme material.

NB: Distributors, who have paid a minimum guarantee for a film project, should possibly have the chance to acquire the broadcast rights instead of a TV station, as a forced division of rights could have a negative effect.

In this case, however, there should be a fixing of minimum percentages — related to the project's budget — for distribution guarantees and TV pre-sales.

2.5. An organization such as Euro Media Garantie (EMG) must be equipped with the necessary means to be able to provide:

- (a) interim financing of existing contracts;
- (b) remaining financing in the form of a minimum guarantee for pending world rights;
- (c) the conclusion of a delivery guarantee which is adapted to European financing structures.

3. CREATION OF A NETWORK OF EUROPEAN CINEMAS

3.1. All European cinemas can become members of this European cinema network.

A condition is that the exhibitor commits himself to programming at least 35% European films (including at least one third non-national European films within the next five years).

This will be calculated according to the number of screenings in a cinema (the screenings in all screens will be calculated for a cinema with several screens).

Another condition is the obligation to join a European computer-aided information and accounts system for the purpose of greater transparency.

3.2. The cinemas will be members of the 'Stars of Europe' network as long as the cinemas meet their obligations each year.

3.3. The members of the 'Stars of Europe' network will be provided with computer terminals for the computer-aided information and accounts system free of charge by the coordination office for as long as they are part of the network.

Table II

FINANCING MODEL

Example: A film with a budget of ECU 6 million

% of budget

Budget total	ECU 6 million	100
Minimum guarantees from distributors from four European countries (theatrical/video)	ECU 1.5 million	25
Doubling of four minimum guarantees by the EU	ECU 1.5 million	25
Pre-sales for the project, by TV stations from four European countries	ECU 1.5 million	25
National film funds' support for the project	ECU 600 000	10
EMG minimum guarantee for pending world rights		15

3.4. In addition, the members of the network can apply for credit for the modernization of their premises. This credit will be granted, in particular, for the following investments:

- renovation of screen and seating;
- renovation of projection and sound system;
- renovation of heating/air conditioning;
- renovation of lobby and sanitary facilities;
- installation of subtitling or dubbing system;
- installation of computer-aided box-office;
- installation of new technologies in the film sector.

The credit will be granted after the application has been accepted by the coordination office. The level of support must not exceed 70% of the total volume and must not be greater than ECU 100 000. The application should contain the following information:

- description of the present state of the cinema;

- description of the planned investment;

- costs/finance plan;

- declaration of agreement with the following conditions for the repayment of the credit:

the credit will be granted at a favourable rate of interest and is to be paid back within three years;

the payment of interest will be suspended for each year the exhibitor meets his obligation (35% European programming);

where the cinema can provide evidence after four years of an average programme share of 40% European films, it will be relieved of the requirement to repay the outstanding credit.

NB: The criteria drafted by the Council of Europe serve here for the definition of a European film.

3.5. A fund should be established for larger investments or for new building projects. Experts from the coordination office should check the investment plans on the spot and advise those responsible for the fund. The credit, which can be granted in this case, should not be restricted but should not exceed 70% of the volume of investment. The granting of the credit should be dependent, among other things, on the level and duration of commitment which the investors are prepared to undertake for the showing of European programmes (i.e. credits for 10 years for a commitment to 35% European programme share; interest exemption for the years where the commitment is met).

When deciding to grant credit special emphasis should be given to the use of new technologies (e.g. interactive cinema, etc.).

New constructions or total renovations of cinemas in the economically weaker regions of Europe could possibly be undertaken with support from the European Regional Development Fund (ERDF).

3.6. Members of the network can take part in a campaign for customer services.

Those coming to the cinemas in the network should be able to collect discounts each quarter in the same way that the big airlines reward faithful customers via the 'Miles & More' campaigns.

At the beginning of each quarter, the cinema-goers receive a programme card at the box-offices of these cinemas with the names of the European films showing in the region. The card will be date-stamped by the cinema each time they go to one of these films. If they have seen at least eight European films by the end of the

quarter, they will then receive a membership card to the 'Stars of Europe' club, which will entitle them to a reduction of 25% on the price of a cinema ticket. Then, if they see at least eight European films in the next quarter they will receive a silver club card with a 35% discount and then a gold club card with a 35% discount for the cardholder and companion.

The club cards are chipcards which give the owner a discount for the next eight performances and allow the cinemas linked to the coordinating office to invoice it for the discount.

3.7. The members of the 'Stars of Europe' network receive regular information from the coordination office via their terminals about the range of European films on offer, about the programming and performance of European films in the various countries, and about events, festivals, etc.

3.8. The members of the 'Stars of Europe' network can also take part in previews of European films that are specially organized for them.

4. MEASURES TO SUPPORT PROGRAMME VARIETY IN EUROPEAN CINEMAS

4.1. These measures include the restriction of the number of prints for theatrical release in the cinemas of the Union.

An upper limit should be put on the number of prints per film and per country so that the screen capacity is not blocked by a few large films.

In Germany, two years ago, the distributors promised to introduce a self-imposed restriction not to strike more than 250 prints per film, but to date this has not materialized.

The Think-Tank therefore proposes that the Union sets upper limits for each Member State, e.g. 250 prints per film for both Germany and France, and correspondingly less for the other States.

4.2. The financial support granted by France and Germany to cinemas in small communities (20 000 inhabitants and less) by subsidizing the release prints for small communities should be maintained. The Think-Tank even proposes that the other Member States should follow France and Germany's example to keep cinemas in small communities alive.

It is true that a large proportion of these prints will be struck for American films, but this should not be a major obstacle since the American films are also required to pay cinema and television levies.

The subsidized release prints for small communities are not part of the restricted number of prints. However, it must be guaranteed that these prints are used exclusively for the intended purpose.

4.3. The cinemas in small communities can receive grants for local promotion (advertising hoarding above the cinema, advertising material for the foyer, adverts in the local press, advertising on local radio stations, invitations to directors and actors, etc.).

A fund with ECU 4 million annually, i.e. ECU 20 million in five years, should be made available for this.

4.4. The possibilities of financing new construction or reconstruction of cinemas in the poorer regions of the Union with the aid of the European Regional Development Fund (ERDF) should be explored.

5. IMPLEMENTATION OF THE MEASURES

5.1. Since, in recent years, a large proportion of the offices of the European film organization has proved to be both inefficient and costly, the implementation of the outlined measures should be concentrated in two institutions.

5.2. A cinema coordination office will be responsible for the computer network, the previews, the modernization of cinemas, including new construction projects, the club card system and the promotion costs for cinemas in small communities.

5.3. A film finance service could assume responsibility for all other measures as they have an automatic character: increase in the distribution guarantees, promotion grants, reduction in film rentals, interim financing of existing contracts, delivery guarantee and world rights guarantee.

5.4. In addition, an information office (possibly within DG X) could collect and evaluate the data on all the supported films and produce a common professional press service providing information about the supported projects and their results.

5.5. This information office should, moreover, help with the creation and financing of a TV magazine programme that will report regularly about European cinema and be broadcast throughout Europe by European TV stations (see Appendix 1: the 'Cinemagazine' project of the European Audiovisual Centre, Babelsberg).

6. OTHER MEASURES OF THE EUROPEAN UNION

6.1. In addition to the measures proposed here, funds should be made available for:

(i) the inclusion of Central and Eastern Europe in the pan-European film market (see Appendix 2);

(ii) the development of programmes for the new audiovisual technologies (see Appendix 3).

7. NATIONAL MEASURES FOR THE SUPPORT OF PRODUCTION/HARMONIZATION OF HOLDBACK PERIODS

7.1. The European governments are requested to introduce the French system of support funding — which has an automatic character and has proved to be efficient — throughout the Union. Moreover, the film levy which the French Government imposed on Canal Plus should apply to all pay-TV stations in the Union.

7.2. Regional and national funding as well as funding from the Union can be spent throughout the Union.

7.3. The term 'co-production' will no longer be applied within the Union. If several producers produce a film jointly within the Union, it will be known as a joint European production, regardless of whether the producers are from one or several countries.

7.4. The holdback periods for the individual forms of outlet (cinema, pay-TV, video, TV, satellite, etc.) must be standardized throughout Europe.

8. THE COST OF THESE MEASURES

8.1. INCENTIVES FOR THE GRANTING OF DISTRIBUTION GUARANTEES

To support approximately 80 films per year with an average budget of ECU 7.5 million would give a production volume of ECU 600 million per annum.

If we assume that distributors from several European countries will each give a minimum guarantee, and that these minimum guarantees together cover approximately 25% of a film's budget, then the European Union would double these minimum guarantees. Thus, 50% of the production costs would be covered in return for theatrical and video rights in approximately four European countries.

25% of a production volume of ECU 600 million gives a total of ECU 150 million. Estimated losses of 40% of this total would give annual costs amounting to ECU 60 million, i.e. for five years a total of 5 x ECU 60 million.

8.2. COSTS FOR PRINTS AND ADVERTISING GRANTS

30% of ECU 300 million:
ECU 90 million

8.3. REDUCTION OF FILM RENTALS

The box-office revenue of all European films is currently about ECU 600 million. Approximately 12% of the films produced in the Union find a distributor in several European countries. Assuming that this percentage will increase to 30% thanks to the proposed measures, the Union would be faced with costs amounting to 8% of ECU 180 million, i.e. ECU 14.4 million per annum or, within the period of five years, a total of ECU 72 million.

8.4. INTERIM FINANCING OF PRE-SALES BY TELEVISION STATIONS FOR EUROPEAN FILM PROJECTS

A production volume of ECU 600 million per annum results in a total volume of ECU 3 billion for five years.

If pre-sales contracts are signed by European TV stations for an average 25% of the production costs, this would amount to contracts worth ECU 750 million.

If the Union wants to stimulate activity by providing interim financing for these contracts, then a borrowing charge of 5% and term of 30 months would result in 750 x 12.5%, i.e. ECU 93.75 million.

8.5. INTERIM FINANCING, DELIVERY GUARANTEE AND WORLD SALES GUARANTEE

For these services, an organization like EMG would have to have a start-up finance of approximately ECU 100 million over five years for a production volume of ECU 600 million per annum.

8.6. PREVIEWS FOR EXHIBITORS

Contributions to the costs: ECU 1 million per annum, i.e. ECU 5 million over five years.

8.7. COMPUTER NETWORK

According to the Media Salles yearbook, there are approximately 10 600 screens in approximately 10 300 cinemas in the Union.

If we assume that 2 500 cinemas with approximately 4 000 screens will take part in the 'Stars of Europe' campaign and that the cost of a terminal can be set at ECU 3 000, then we have 2 500 x ECU 3 000, i.e. ECU 7.5 million plus ECU 1 million for the software, for the central computer in the coordination office and for possible interstations, e.g. in the individual national exhibitors' associations.

7.5 million ECU
1.0 million ECU

Total costs 8.5 million ECU

8.8. MODERNIZATION OF CINEMAS

If we assume that approximately 2 500 cinemas with approximately 4 000 screens will take part in the 'Stars of Europe' network and that 80% of these, i.e. 2 000 cinemas, will submit applications for credits of an average ECU 80 000 to modernize their buildings, a credit volume of ECU 160 million emerges.

The costs to be met here by the European Union are:

(a) Interest discount

With credits over five years and a rate of interest at 6%, the total interest would amount to ECU 14 400. If we work under the assumption that 90% of the borrowers fulfil the criteria for a discount in interest, this would mean 1 800 borrowers x ECU 14 400 investment discount, i.e. ECU 25.92 million.

(b) Cancellation of the last credit instalment of 20% from ECU 80 000, i.e. 16 000. If we assume that 75% of the borrowers fulfil the criteria for the cancellation of the last credit instalment, then we reach an amount of

1 500 borrowers x
ECU 16 000 ECU 24.00 million

Total costs for
these proposals ECU 25.92 million
ECU 24.00 million
ECU 49.92 million

+ 10% ad-
ministration
fee ECU 4.99 million
Total costs ECU 54.91 million

8.9. NEW CONSTRUCTION AND COMPLETE RENOVATION OF CINEMAS

If we take an investment of ECU 500 million and borrowing of 70% of this sum, this gives a total borrowing of ECU 350 million. If one supposes that 75% of the borrowers will fulfil the conditions outlined in Section 3 for a reduction in interest, then this will give us a total borrowing of ECU 262.5 million. With a credit over 10 years and reduction in interest of 4%, the costs incurred would be ECU 57.6 million over five years for these reductions in interest. In addition, there are administrative costs of 10% so that the Union would be faced with costs of:

	ECU 57.60 million
+ 10% administrative costs	<u>ECU 5.76 million</u>
Total costs	ECU 63.36 million

8.10. CLUB CARD SYSTEM/ DISCOUNTS

If the cinema-goers see eight films per programme card in a quarter, they will then receive a discount of, on average, 30% for the next eight films. If we base our calculations on an average ticket price of ECU 5, then the cost, i.e. of discounts for eight films will amount to:

eight films x ECU 1.5, i.e. ECU 12

The following costs would be incurred for the five years of the campaign:

1st year:	setting up the system	
2nd year:	30 000 club cards x ECU 12 =	ECU 3.60 million
3rd year:	400 000 club cards x ECU 12 =	ECU 4.80 million
4th year:	50 000 club cards x ECU 12 =	ECU 6.00 million
5th year:	600 000 club cards x ECU 12 =	<u>ECU 7.20 million</u>
Total costs		ECU 21.60 million
	+ 10% administrative costs	ECU 2.16 million
	+ 10% materials/ chipcards	<u>ECU 2.16 million</u>
Total costs		ECU 25.92 million

8.11. PROMOTION COSTS FOR CINEMAS IN SMALL COMMUNITIES

Expenditure of ECU 4 million per annum should be made available for this, i.e. over five years:
ECU 20 million

8.12. COSTS FOR THE REGISTRATION AND INFORMATION OFFICE AND PRESS SERVICE:

5 x ECU 800 000
ECU 4.00 million

Costs for 'Cinemazine':
12 x ECU 75 000
x five years ECU 4.5 million
Total ECU 8.5 million

Total costs for the proposed measures:

over a period of five years
ECU 841.94 million
plus

Costs for the extension of the European market to Central and Eastern Europe over a period of five years
ECU 260 million
(see Appendix 2)

Costs for the support of programmes for the new technologies over a period of five years
ECU 300 million
(see Appendix 3)

Peter Fleischmann

Babelsberg, 1 March 1994

B — OTHER MEASURES

1. 'CINEMAGAZINE' — A TELEVISION MAGAZINE ON EUROPEAN CINEMA

The Babelsberg European Audiovisual Centre suggested to ARTE, ZDF and other European film-makers the creation of a television magazine on European cinema with a view to:

- (i) stimulating the interest of viewers in European cinema;
- (ii) making film events, artists and directors of the various countries better known in neighbouring countries;
- (iii) helping to rediscover an essential and glorious history of cinema which is little known by the younger generation — as preparation for 1995, when cinema will celebrate its first 100 years;
- (iv) and, finally, to use this magazine to help win back the European market for our films.

At the Centre's initiative, a group of European directors, brought together by the FERA, discussed this project for the first time during a meeting of film directors in Viareggio from 1 to 3 October 1992.

On 2 and 3 October 1993, the Centre invited European directors and officials from ARTE and ZDF to discuss the possibility of carrying out this project as well as the structure and content of such a magazine.

The following people met at the Babelsberg studios:

- Jean Rozard, Hans-Robert Eisenhauer, ARTE
- Heinz Ungurcit, Hans Peter Kochenrath, ZDF
- João Correa, Jacques Deray, Costas Ferris, Peter Fleischmann, Denis Granier-Deferre, Robbe de Hert, Pavel Lungin, Et-tore Scola, European directors
- Martin Blaney, Screen International.

Unanimous agreement was reached on:

- (i) the need for such a magazine;
- (ii) its length: 60 minutes;
- (iii) its periodicity: monthly;
- (iv) its start-up date: 1 January 1995 (a pilot film and two thematic films must be produced in 1994);
- (v) its goal: to stimulate the distribution of European films in Europe;
- (vi) its content: to talk about cinema in an enthusiastic way, focusing, but not exclusively, on European cinema.

The following proposals were made:

- (a) the magazine should be different from other film magazine programmes currently broadcast by European channels which are directly linked to the release of new (mostly American) films;
- (b) the magazine should present and make popular the work of actors and creative artists; it should inform about current movements and trends in European cinema, talk about one-off but significant film events, and recall the historical importance and richness

of European cinema which, half a century ago, was the most important in the world;

(c) the first year of the magazine (1995) should be closely linked with the commemoration of the first 100 years of cinema;

(d) film directors and officials from ARTE and ZDF should cooperate closely on the making of each programme;

(e) the programme should be made on the studio lot itself, in order to generate a creative framework around the meetings;

(f) under the direction of one ARTE official, a different director or actor can take charge of each of the programmes;

(g) those who have participated in making the programme will present the programme to viewers themselves. They could be film-makers, actors, producers, journalists, heads of film archives, or members of comparable professions such as writers, painters, scientists, etc. but all of them must be fired by the same passion for the cinema;

(h) to give the programme a more direct and dynamic character, it would be good to have non-professionals in the round-table discussion. It was proposed to go to European secondary schools and select groups of pupils who are particularly interested in cinema and are prepared to broaden their knowledge of European cinema. These groups could be chosen through competitions organized by the film and television trade press;

(i) the structure of each individual programme should be simple although there ought to be certain permanent features to help develop a recognizable image.

For example, one proposal from John Crome was:

10 minutes: 'News' (What's new in European cinema?)

20 minutes: 'Off the wall' (round-table interviews and/or programmes on selected themes)

15 minutes: 'Profile' of a movement, actor, film-maker, etc.

10 minutes: 'Cinema's first 100 years'

5 minutes: on film politics (distribution, finance, GATT, meetings)

2. EXTENSION OF THE EUROPEAN MARKET TO CENTRAL AND EASTERN EUROPE

The American majors provide the cinemas of Central and Eastern Europe with their best products.

They pay for prints and advertising as well as the dubbing for these films and offer the films at a greatly reduced minimum guarantee.

There are hardly any large companies in Europe that can make similar offers. Therefore, the European Union should intervene with support measures to get access to the markets of Central and Eastern Europe for European films.

Funds needed: approximately ECU 12 million per annum, i.e. over a period of five years

ECU 60 million

The prerequisite for this is transparent accounts. Therefore, the cinemas of Central and Eastern Europe wanting to programme European films should be linked up to the European computer network of the cinema coordination office. The computer terminals should be made available to these cinemas at no charge.

Funds needed: approximately ECU 10 million

Moreover, European companies should receive support from the Union if they embark on joint ventures to become co-owners of cinemas in the countries of Central and Eastern Europe.

As in Western Europe, the support should be given in the form of credits for the modernization of the cinemas, with a reduction in interest for the years where a certain percentage of European films was programmed. The same should apply for the reconstruction of cinemas by the joint ventures.

It is proposed that, as part of the modernization, the European system LC Concept should be introduced for the cinemas which join the network of European cinemas, as the sound systems in these cinemas will have to be renewed in any case and this system allows the screening of prints in different language versions. The versions could either be produced in the country itself or at one of the West European production centres.

Funds needed for modernization measures: approximately ECU 18 million per annum, i.e. over a period of five years

ECU 90 million

It is proposed that a cooperation programme for joint East-West productions be established in order to stimulate the growing together of the film markets of Western, Central and Eastern Europe.

Funds amounting to approximately ECU 20 million per annum should be made available for this programme, i.e. over a period of five years ECU 100 million.

3. NEW TECHNOLOGIES

The new audiovisual technologies are on the advance. The few European hardware manufacturers in this field are poorly equipped for the impending economic competition, although they are, in part, at the fore of technological development with their prototypes. They should be supported in their efforts.

The production of programmes for these new technologies has been largely neglected in Europe until now. The professional programme manufacturers — largely scattered and almost all, without exception, having to cope with economic difficulties — feel it is too much for them to experiment in this field. Smaller, extremely capable and highly motivated high-tech programme manufacturers keep their heads above water with contracts for industrial advertising and are not financially strong enough to carry out experimental productions. The research ministers of most of the European countries do not consider themselves responsible for the production of software.

It is, therefore, a matter of urgency that the European Union should provide funds to support the production of experimental programmes for the new audiovisual technologies.

According to our calculations, at least ECU 60 million per annum, i.e. ECU 300 million, for the period of the next five years, should be made available.

**GRAPHS AND
TABLES**

Figure 1
EUROPE
MARKET SHARE OF FILMS
BY ORIGIN
Aggregate results for six countries
(Denmark, France, Germany, Italy,
Netherlands, Spain)
(point 1)

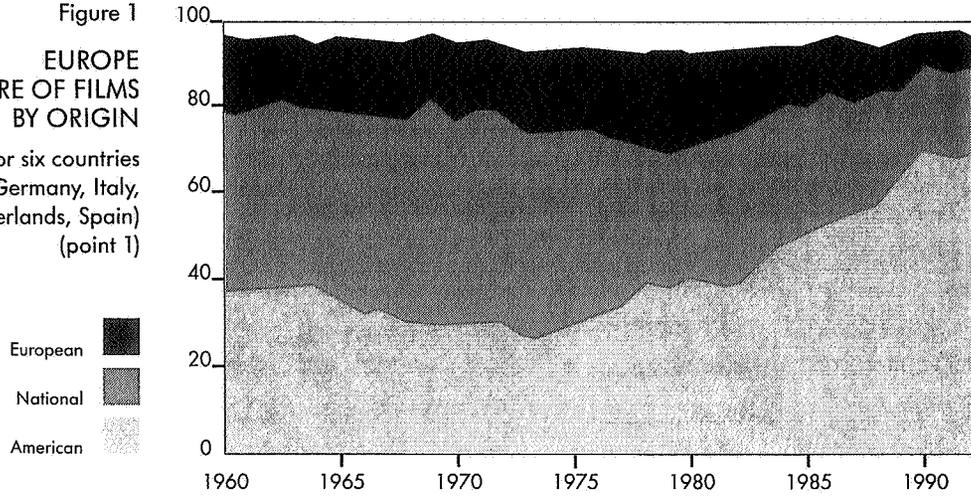


Figure 2
FRANCE
MARKET SHARE OF FILMS
BY NATIONAL ORIGIN
(point 1)

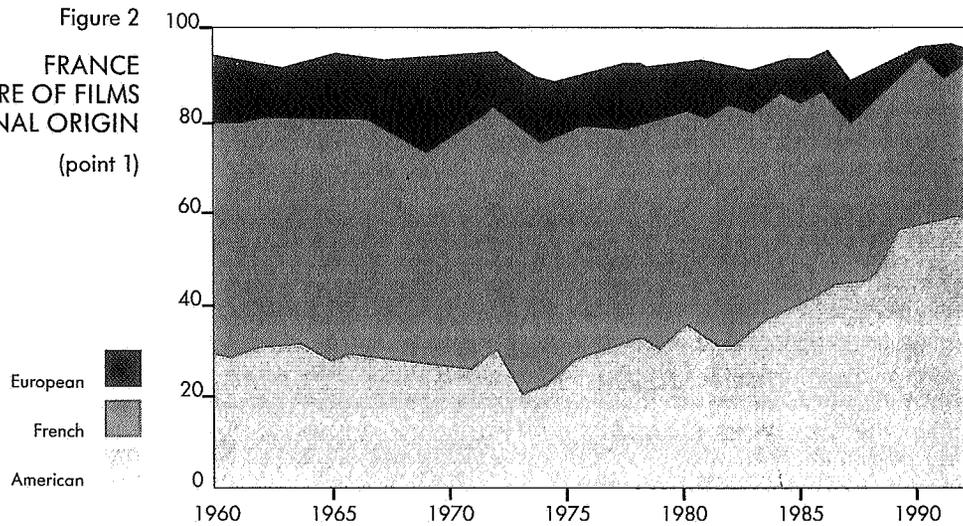


Figure 3
NETHERLANDS
MARKET SHARE OF FILMS
BY NATIONAL ORIGIN
(point 1)

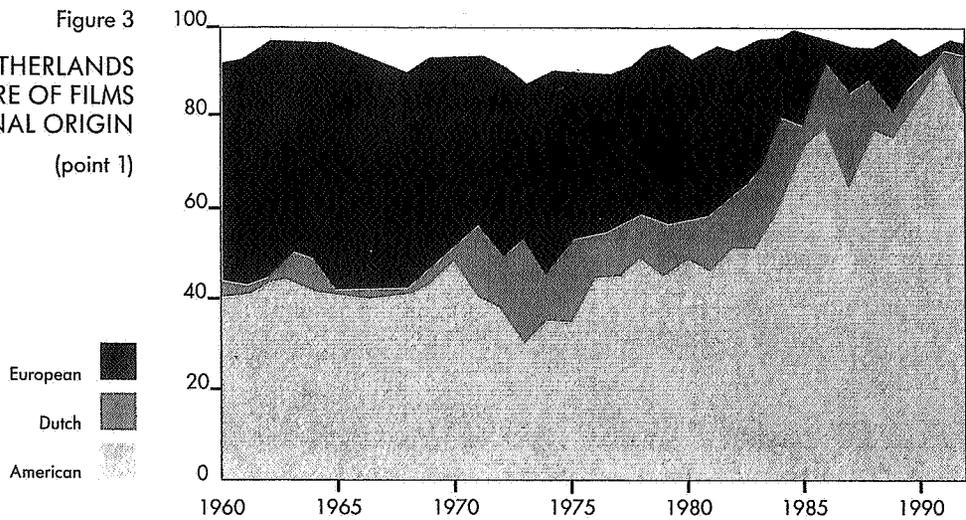


Figure 4a
EUROPE
CINEMA ADMISSIONS
(MILLIONS) BY ORIGIN OF
FILMS
Aggregate results for four countries
(France, Germany, Italy, Netherlands)
(point 4)

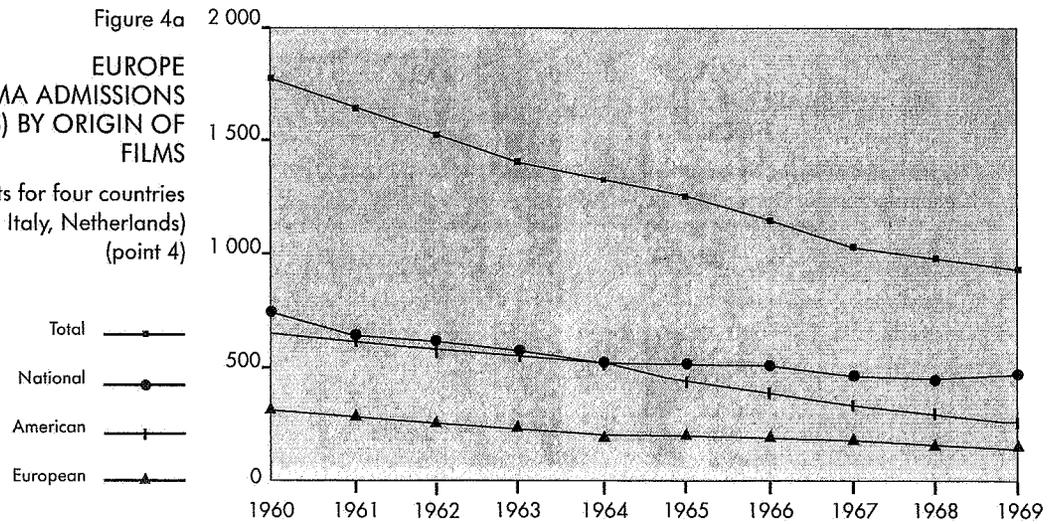
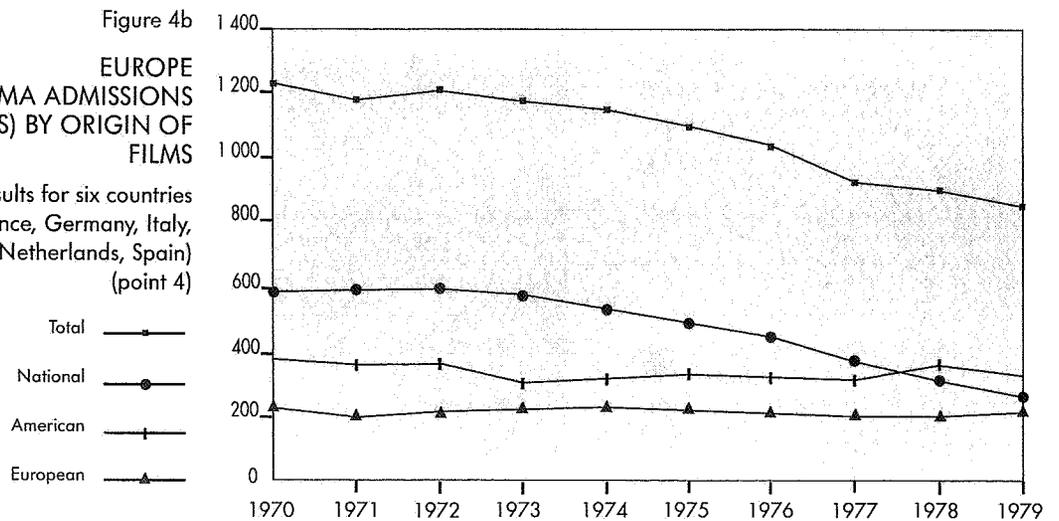


Figure 4b
EUROPE
CINEMA ADMISSIONS
(MILLIONS) BY ORIGIN OF
FILMS
Aggregate results for six countries
(Denmark, France, Germany, Italy,
Netherlands, Spain)
(point 4)



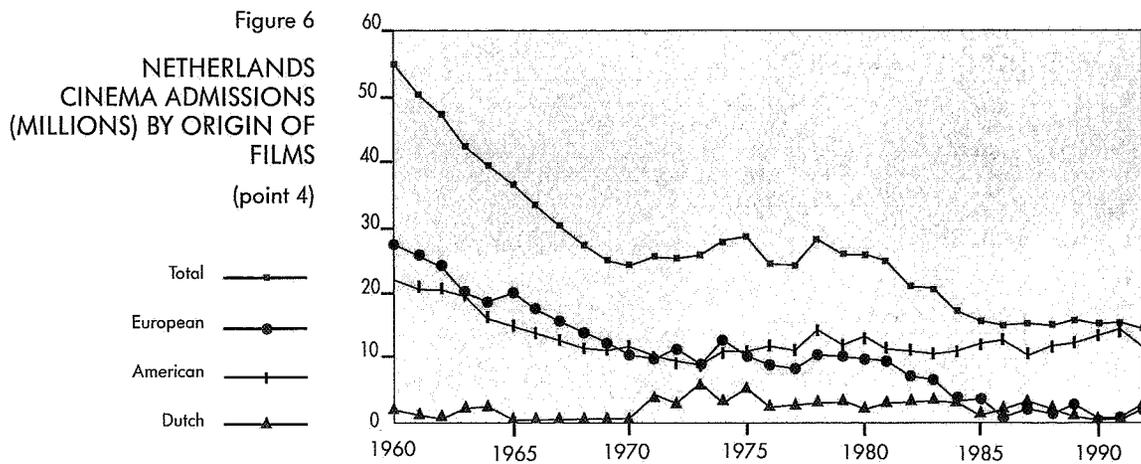
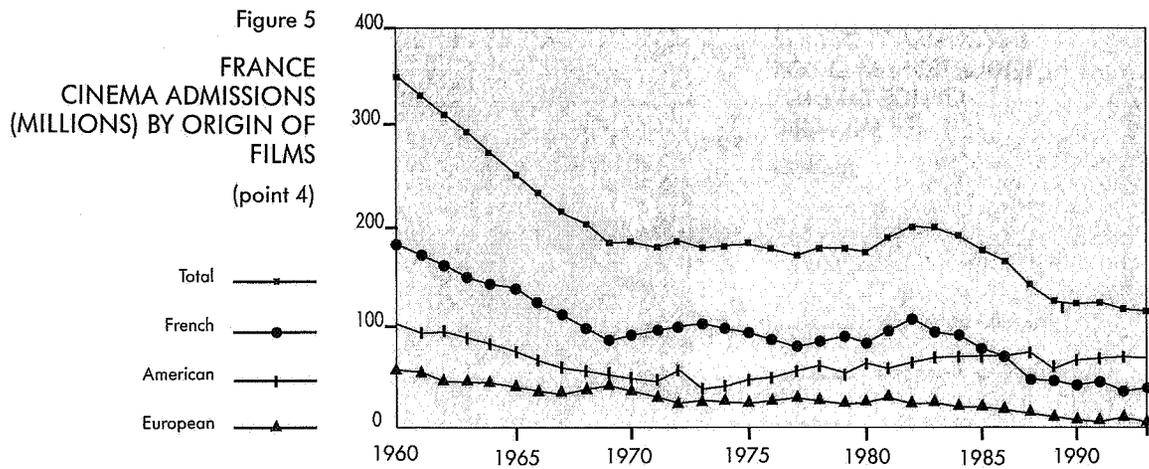
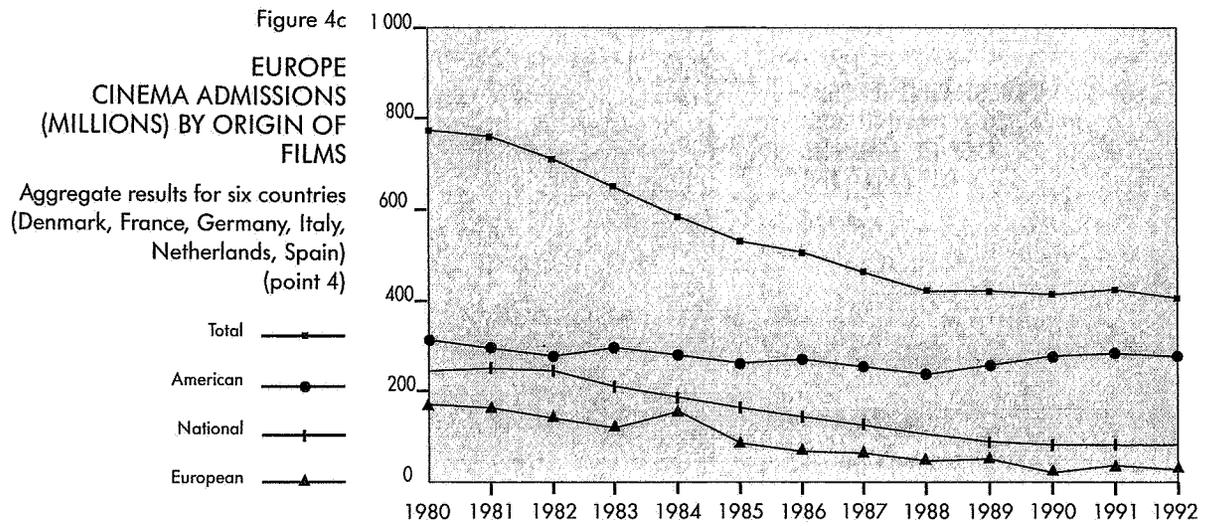


Figure 7

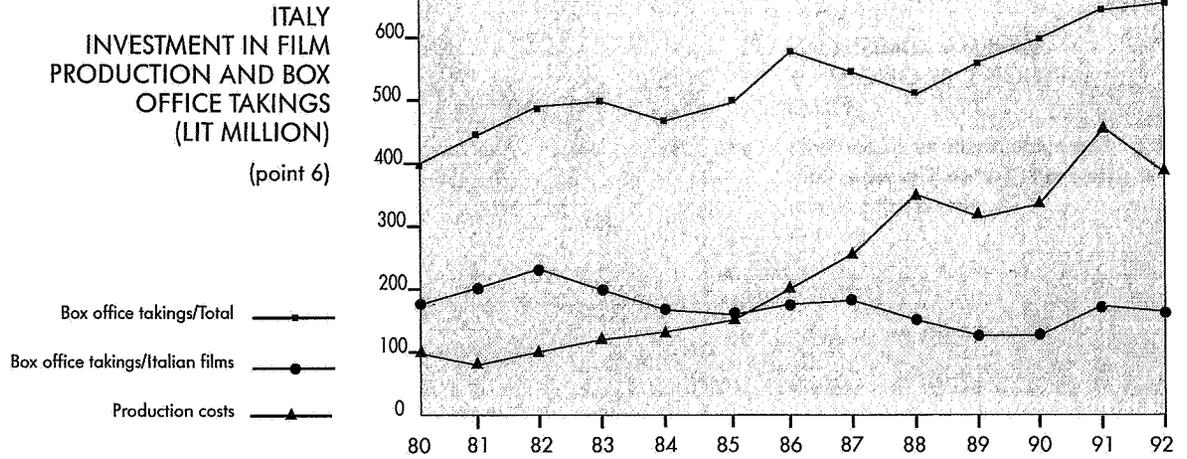


Figure 8

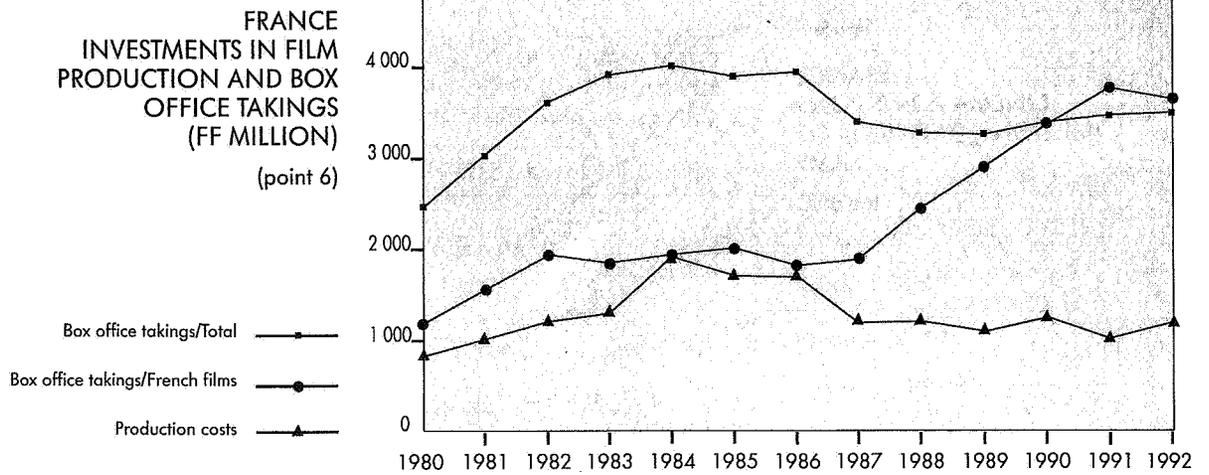
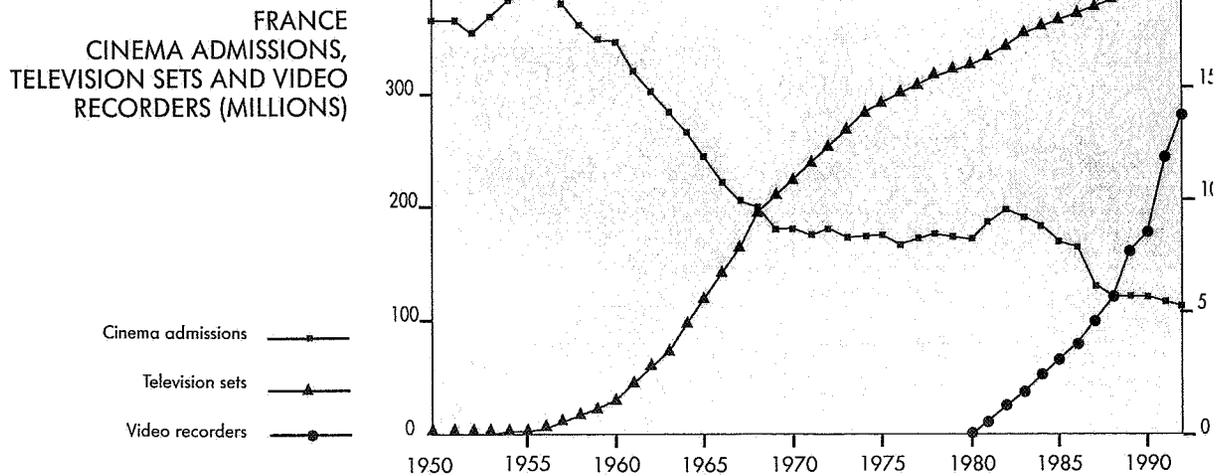
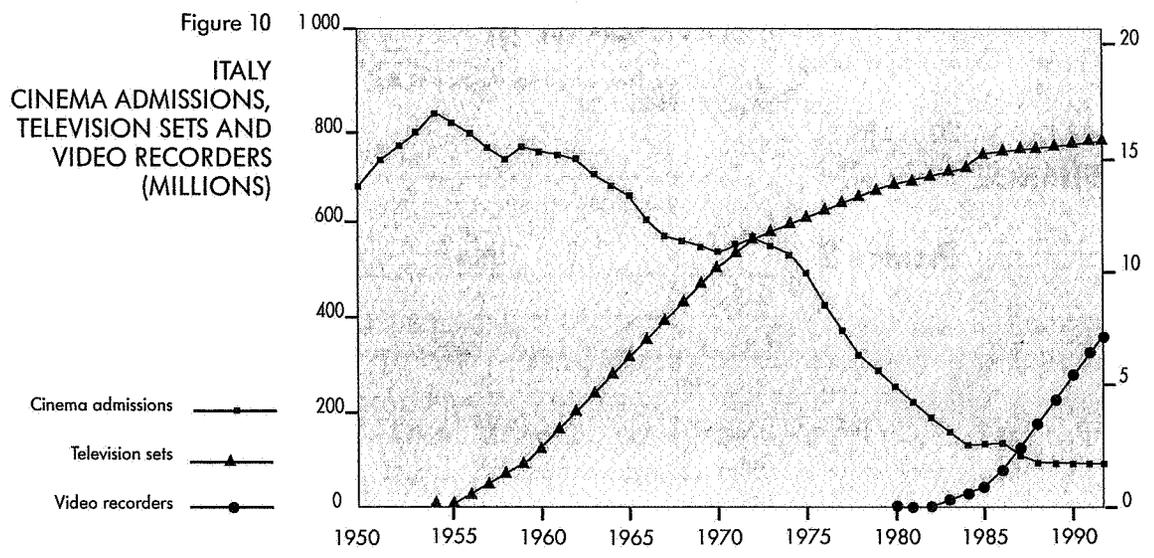


Figure 9





DISSEMINATION OF US, NATIONAL AND EUROPEAN AUDIOVISUAL PRODUCTION ON EUROPEAN UNION TELEVISION (in %)

Source: Media Business School. Analysis of main TV programming at prime time.
Week 17-24 May 1993.

FRANCE

France 2

	USA	Europe	France
Monday	55.1	0	44.9
Tuesday	0	0	100
Wednesday	0	0	100
Thursday	36.9	0	63.1
Friday	0	0	100
Saturday	0	0	100
Sunday	0	0	100

France 3

	USA	Europe	France
Monday	0	0	100
Tuesday	0	0	100
Wednesday	0	0	100
Thursday	0	63.2	36.8
Friday	0	0	100
Saturday	0	0	100
Sunday	0	0	100

TF 1

	USA	Europe	France
Monday	0	0	100
Tuesday	52.3	0	47.7
Wednesday	0	0	100
Thursday	0	45.6	54.4
Friday	0	0	100
Saturday	74.4	0	25.6
Sunday	0	0	100

M 6

	USA	Europe	France
Monday	88.3	0	11.7
Tuesday	31.1	41.7	45.2
Wednesday	19.5	0	80.5
Thursday	19.7	0	80.3
Friday	91	0	9
Saturday	74.2	0	25.8
Sunday	75.6	0	24.4

UNITED KINGDOM

BBC 1

	USA	Europe	UK
Monday	0	0	100
Tuesday	30.7	0	69.3
Wednesday	0	0	100
Thursday	0	0	100
Friday	33.4	0	66.6
Saturday	31.5	0	68.5
Sunday	30.9	0	69.1

BBC 2

	USA	Europe	UK
Monday	0	0	100
Tuesday	49	0	51
Wednesday	0	0	100
Thursday	0	29	71
Friday	0	0	100
Saturday	29.4	22.7	47.9
Sunday	24.5	0	75.5

ITV (Carlton)

	USA	Europe	UK
Monday	0	0	100
Tuesday	0	0	100
Wednesday	58.3	0	41.7
Thursday	0	0	100
Friday	7.5	0	92.5
Saturday	28.9	0	71.1
Sunday	0	0	100

Channel 4

	USA	Europe	UK
Monday	23.9	0	76.1
Tuesday	36.3	0	63.7
Wednesday	14.1	0	85.9
Thursday	37.5	0	62.5
Friday	23.6	0	76.4
Saturday	0	0	100
Sunday	35.8	0	64.2

BSkyB (Sky One)

	USA	Europe	UK
Monday	100	0	0
Tuesday	61	0	39
Wednesday	100	0	0
Thursday	80.2	19.8	0
Friday	89.8	0	10.2
Saturday	100	0	0
Sunday	65.6	34.4	0

SPAIN**TVE 1**

	USA	Europe	Spain
Monday	22.3	0	77.7
Tuesday	24.2	0	77.8
Wednesday	19.5	0	80.5
Thursday	23	0	77
Friday	19.1	0	80.9
Saturday	0	0	100
Sunday	36.9	0	63.1

TVE 2

	USA	Europe	Spain
Monday	0	0	100
Tuesday	59.9	0	40.1
Wednesday			
Thursday	53.7	0	46.3
Friday	29.9	0	70.1
Saturday			
Sunday	0	0	100

Telemadrid

	USA	Europe	Spain
Monday	47.6	0	52.4
Tuesday	47.2	0	52.8
Wednesday	0	0	100
Thursday	0	0	100
Friday	43.9	0	56.1
Saturday	0	0	100
Sunday	0	0	100

Tele 5

	USA	Europe	Spain
Monday	0	0	100
Tuesday	50	0	50
Wednesday	53.9	0	46.1
Thursday	54	0	46
Friday	49.1	0	50.9
Saturday	66.2	0	33.8
Sunday	0	0	100

Antena 3

	USA	Europe	Spain
Monday	0	0	100
Tuesday	0	0	100
Wednesday	25	0	75
Thursday	75	0	25
Friday	22.2	0	77.8
Saturday	82.9	0	17.1
Sunday	38.8	0	61.2

ITALY**RAI 1**

	USA	Europe	Italy
Monday	0	0	100
Tuesday	43.75	0	56.25
Wednesday	0	0	100
Thursday	9.5	80.9	9.6
Friday	0	0	100
Saturday	0	0	100
Sunday	0	0	100

RAI 2

	USA	Europe	Italy
Monday	0	27.5	72.5
Tuesday	0	0	100
Wednesday	44.4	0	55.6
Thursday	50	0	50
Friday	0	0	100
Saturday	79.6	0	20.4
Sunday	41	0	59

RAI 3

	USA	Europe	Italy
Monday	0	0	100
Tuesday	31.3	0	68.7
Wednesday	37.5	0	62.5
Thursday	0	0	100
Friday	41.2	0	58.8
Saturday	58.1	18.1	23.8
Sunday	66.6	0	33.4

Canale 5

	USA	Europe	Italy
Monday	0	0	100
Tuesday	76.4	0	23.6
Wednesday	0	0	100
Thursday	0	0	100
Friday	0	0	100
Saturday	0	0	100
Sunday	82.3	0	17.7

Italia 1

	USA	Europe	Italy
Monday			
Tuesday	0	0	100
Wednesday	63.1	0	36.9
Thursday	62.8	0	37.2
Friday	55.8	0	44.2
Saturday	88.8	0	11.2
Sunday	46.4	0	53.6

ITALY**RETE 4**

	USA	Europe	Italy
Monday	100	0	0
Tuesday	100	0	0
Wednesday	100	0	0
Thursday	94.2	0	5.8
Friday	100	0	0
Saturday	57.8	0	42.2
Sunday	50	0	50

GERMANY**ARD**

	USA	Europe	Germany
Monday	0	0	100
Tuesday	29	0	71
Wednesday	0	0	100
Thursday	0	0	100
Friday	0	0	100
Saturday	28.5	0	71.5
Sunday	0	0	100

ZDF

	USA	Europe	Germany
Monday	0	0	100
Tuesday	0	0	100
Wednesday	0	39.4	60.6
Thursday	0	0	100
Friday	0	0	100
Saturday	0	0	100
Sunday	0	0	100

SAT 1

	USA	Europe	Germany
Monday	0	0	100
Tuesday	0	0	100
Wednesday	0	18.1	81.9
Thursday	84.8	0	15.2
Friday	44.8	0	55.2
Saturday	35	0	65
Sunday	0	0	100

RTL

	USA	Europe	Germany
Monday	0	0	100
Tuesday	22.2	0	77.8
Wednesday	43.9	0	56.1
Thursday	57.3	0	42.7
Friday	0	0	100
Saturday	53	0	47
Sunday	0	0	100