Wary Movie 5

In this spring of 2013, the European film industry is once again on its guard. A new version of the European Commission's Communication on State Aid, which should provide an alternative to the highly controversial one debated last year, is expected. The Creative Europe Programme, which is due to replace the MEDIA programme from 1 January 2014, is also expected to be adopted by the Council of Ministers and the European Parliament, but the fact that the EU budget has not yet been passed is casting uncertainty over the new programme's budget and the scale of the activities that can be undertaken. Finally, the announcement of the forthcoming opening of negotiations on a free-trade agreement between the EU and the United States has again conjured the spectre of the partner across the Atlantic raising objections to the arrangements in the national European systems for funding not only films but also public service media. Even if an attempt is made to get the United States to accept the status quo as far as cinema and television are concerned, it will still be necessary to establish that the cultural exception principle and the objectives regarding the promotion of European works also apply to online services. However, the argument generally put forward by the U.S. authorities and large corporations is that online services belong to the telecommunications rather than the audiovisual sector and must accordingly be exempt from cultural exception considerations.

Quite apart from the worries caused by these political issues, the situation on the European cinema market is itself cause for concern and contrasts with the "feel-good" assessment that has been provided this year by the report on the global market published by the MPAA. (1) This report highlights the fact that the global box office reached $34.7 billion in 2012, up 6 % over 2011, and that this growth was divided between the North American market and the rest of the world. The international box office (excluding North America) grew by 32% over a five year period, this upswing driven by the development of the Chinese, Brazilian and Russian markets. With a box office of $2.7 billion, China has overtaken Japan as the second-largest market after North America. The MPAA also welcomes the fact that over two-thirds of the world's screens are now digital.

Developments on the European market give rise to less enthusiasm. We do not yet have any complete figures on the development of the European box office, but, according to the MPAA, in the EMEA area (Europe, Middle East & Africa) as a whole there was a fall of 1%. Growth for the period 2008-2012 was just 10%, compared with 12% in North America, 53% in the Asia-Pacific region and 73% in Latin America.

According to the European Audiovisual Observatory's data, cinema attendance in the European Union in 2012 fell by nearly 2.2%, compared with a rise of 6% in North America. The drop in attendance is really dramatic in the countries of southern Europe: -18.1% in Italy, -13% in Bulgaria, -12.3% in Portugal, -8.4% in Greece, -5% in Slovenia and -2.1% in Spain. As far as these countries are concerned, it is difficult not to link this fall to the deterioration in the economic and social situation and to rampant piracy. However, it is probably also necessary to conduct a more detailed analysis of the domestic production situation in each of these countries, the nature of the range of films offered to exhibitors and the possible impact of the digital transition phase. Approximately 72% of cinemas in the European Union were digital at the end of 2012 (slightly more than the 66% for the world as a whole estimated by the MPAA) but there seems to be no direct correlation between the level of digitisation at the end of the year and the cinema attendance crisis. While Italy (55.4% of screens now digital), Spain (44.5%) and, above all, Greece (16.4%) and Slovenia (16.2%) are lagging behind the European average, the same does not apply to Portugal (71.3%) or Bulgaria (72.1%).

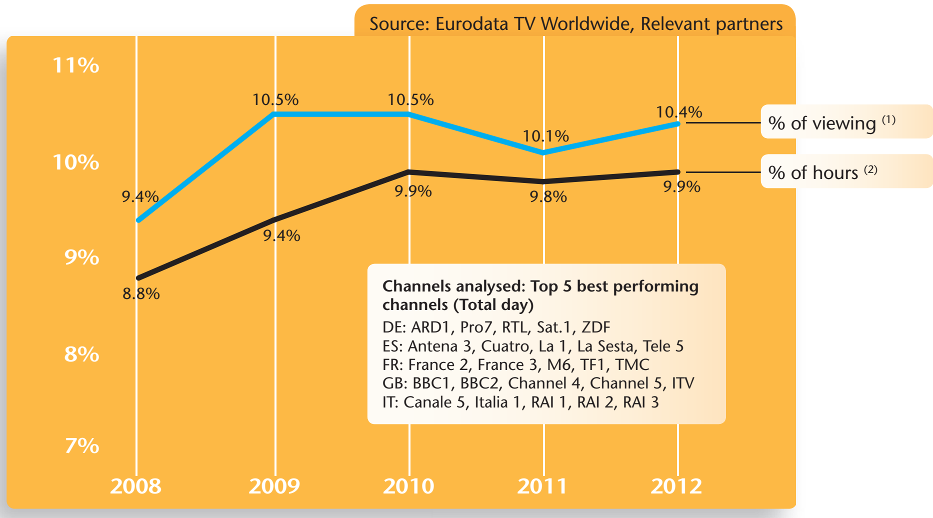
The fall in cinema attendance is not an indication that Europeans have become disenchanted with the cinema, but it does seem that cinemas are suffering as a result of the big rise in the number of films available on television and the internet, their major rivals and "best friends with benefits".

As far as television is concerned, an interesting study carried out by Eurodata TV Worldwide shows that the range of films offered by the five main free-to-air channels in the five major western European countries rose significantly from 8.8%

(1) 2012 Theatrical Market Statistics, http://www.mpaa.org/Resources/3037b7a4-58a2-4109-8012-58fca3abdf1b.pdf

Offer and consumption of feature films on TV free channels in the European Big Five | 2008-2012 e

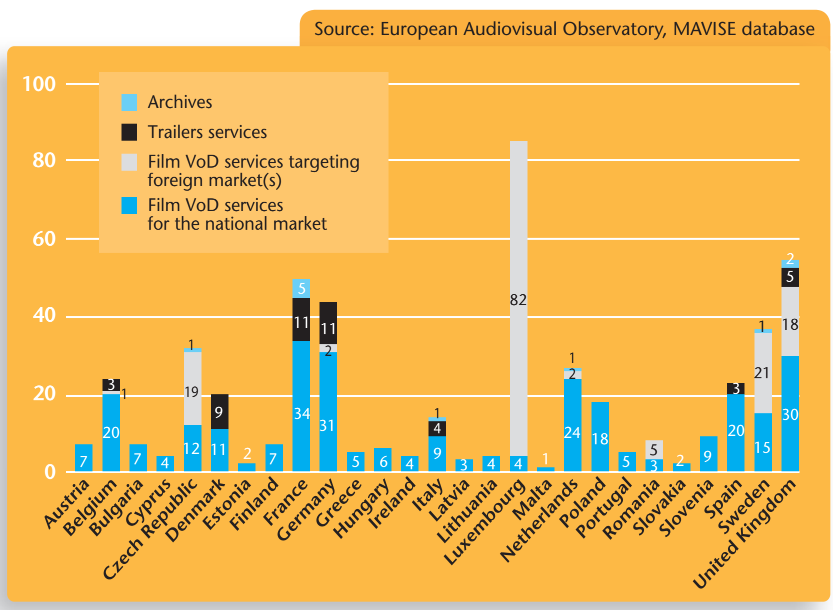
This chart is based on all movies broadcast during the all day on the channels studied over the period.
Ratings in thousands of viewers as well as the duration of each movie have been taken into account.



(1) Shows the audience for movies as a percentage of total viewing time of all individuals.
(2) Shows the percentage of movies broadcast as a part of the total programming.

Films on-demand services in the European Union by country of establishment | April 2013 e

Does not include: illegal offers, catch-up services of film TV channels, VoD services for children and for adult films.



Number of film VoD services established in US targeting one or several EU countries: 118.
Film VoD services established in other regions of the world accessible in Europe: Canada (1), Egypt (1) India (2), South Korea (1).

of the programming time of these 25 channels in 2008 to 9.9% in 2012. During the same period, the consumption of films on these channels went up from 9.4% of viewing time to 10.4%. The figures in this study – which need to be analysed in greater detail – would seem to contradict the persistent assumption that films have lost their attraction for the main free-to-air channels.

Parallel to free-to-air transmission, films remain a preferred programme genre among pay-TV companies and distribution platforms. In spring 2013, the European Audiovisual Observatory's MAVISE database (2) counted no less than 352 film channels established in the European Union. It is unfortunately not possible to ascertain the audience and revenues of these channels but it is clear that pay-TV in general is continuing to develop in Europe despite the recession. The twelve main pay-TV platforms in the EU (satellite or cable) showed growth of 3.9% in 2012, while the main TV groups financed by advertising saw their revenues fall by 0.9%. This significant rise in pay-TV platforms' revenues can be partly explained by consumers' growing interest in the new services available: VoD, catch-up TV (including for film channels) and "TV on the go" models that enable content to be viewed not only on a TV screen but also on laptops, smartphones and, especially, tablets, the rapid rise in the popularity of which is particularly remarkable. (By the way, did you ever lie in bed with Murnau's *Nosferatu* at arm's length, like a book?). The big increase in the number of triple-play services available from the telecommunications operators and the development of the smart TV market also enable the audience base of film channels and VoD services to be expanded.

In order to improve its reporting on the growth of the VoD market, the European Audiovisual Observatory has extended the MAVISE database to include on-demand audiovisual services. In April 2013, no fewer than 447 VoD services only or mainly dedicated to feature films were established in the European Union, including 49 iTunes Stores targeting non-EU markets. There were also 133 film VoD services established outside of the EU (in particular in Switzerland in the US) targeting at least one of its national markets. More than 40% of these services are established in a country other than the market in which they are received. Countries with an "ease of doing business" policy have become preferred locations for providers of VoD services, who wish to avoid the regulatory and fiscal constraints imposed by some states that want to see on-demand audiovisual services play a significant role in promoting European works or pay levies to the film funds. In this context, it is particularly difficult to produce absolutely reliable data on the development of the European VoD market. Most of the national film agencies or regulatory authorities are unable to produce any statistics and the major groups hardly make any efforts at all in this regard. A report published by Transparency International recently highlighted the fact that companies like Apple, Microsoft, Google and Walt Disney are the biggest sinners among the big multinationals, all industrial sectors combined, when it comes to reporting on the geographical breakdown of their revenues (3). For example, the European market leader, iTunes SARL, which provides store services in 112 countries not only in Europe but also in Africa, the Middle East and Asia, does not publish a breakdown of its income (1,5 billion euros in 2012, +47,8 % from the previous year) by market or type of product (films, music, applications, books) – and it is apparently in full compliance with the regulations in its country of establishment.

The future of the transparency of the European audiovisual market is cause for concern. As there are more dramatic issues in the news, I would refrain from using the word *scary*. Of course total obscurity is preferable for watching movies and it's in the dark that we can best be scared. But more concerted efforts between the European institutions, national film agencies, audiovisual regulatory authorities, national statistical institutes and professional organisations are absolutely necessary in order to prevent the final triumph of obscurity in the film business and create fair conditions for all stakeholders to understand – and therefore access – the markets.

Incidentally, the failure of the launch of *Scary Movie 5* seems to indicate that a parody of a horror film no longer makes anyone laugh. Could it be that we have now transcended fear?

André Lange
Responsible of the Department
for Information on Markets and Financing,
European Audiovisual Observatory
andre.lange@coe.int

(2) http://mavise.obs.coe.int

(3) Transparency in corporate reporting: Assessing the world's largest companies, Transparency International, July 2012, http://www.transparency.org/whatwedo/pub/transparency_in_corporate_reporting_assessing_the_worlds_largest_companies