Panel Discussion: The Market for Theatrical Distribution in France and Norway

With: Åge Hoffart (SF Norge) and Tommaso Vergallo; moderator: Martin Hagemann

The on-going process of digitization not only changes the technical workflow and the technical specifications of deliveries, but the terms of trade of the entire industry are on stake. This is due on the one hand to the enormous costs of equipment to be installed in the cinemas and to the higher costs for producers who face a double delivery in analog and digital at least for the next years.

In the past, distributors risk-financed mainly the costs of the prints and the P&A for each release. These costs will be significantly lower in the future: will handling and profit fees up to 35% then still be acceptable? Will the situation create a new direct relationship between the cinema and the producer who would face an additional investment for DCPs and outsourced expertise from press agencies and marketing companies, responsible for the placement of a film in the market? Could the distributors be transformed into those marketing experts while the technical part of the distribution - from the production company to the cinemas - could be handled by the post production labs?

These questions launched a lively discussion around the evolution of the roles of the various key players in the chain, from producers, post-production providers to distributors and exhibitors.

The situation in France and Norway in more details:

The national situation among the EU countries differs very much, from the UK being dominated by big cinema chains to France with many independent exhibitors.

Tommaso Vergallo has explained the French exhibition market, based on a report issued by the French association of distributors called DIRE (DIRECT).

In France, the Virtual Print Fee (VPF) is based on the number of prints the day of the national release and extensions during the first four weeks after the release. Since October 30, 2010, a new law was promulgated; it clearly specifies that a digital release has to be less expensive for the distributor than the 35mm release, except for special screenings (such as operas or sport events).

The duration of the digital contribution is on a 10-year basis from the first equipment. In all cases, the contribution will end before December 2021. The price of the digital contribution is a free price which can be different for each case. It is negotiated with a third party or the exhibitors. It should respect 3 principles: Equality, Transparency and Objectivity.

In France there are:

a. 3471 digital screens in 936 theatres; the number of digital screens doubled between 2010 and 2011. 70% of the screens are digital. The aim is to reach 100% of the screens by the end of 2012.

b. 2254 3D screens and 910 screens without 35mm.

c. 471 cinemas with Smartjog connection.

The equipment cost (server, projector, library, financing cost) is estimated to be between 60.000 and 90.000 €. The amount covered by distributors is between 70% and 90% of the equipment cost. Independent distributors require a precise estimation of the digital equipment of each screen and an annual report to check exhibitors' commitments and redemption of the equipment.

There are three ways of digitization for a cinema in France:

- *Third parties* finance the equipment for the exhibitors and collect VPF on behalf of the exhibitors. This applies mainly to big cinema chains. Deals with third parties are generally fixed over ten years.
- *The exhibitors* pay on their own; they may obtain subsidies and negotiate VPF directly with distributors.
- *The Ministry of Culture* gives a subsidy for 90% of the price of the digital equipment needed for small theatres, which have 1 to 3 screens and which cannot receive enough digital contributions. It is half a subsidy, half an advance on the amount of VPF paid by distributors on national releases. The total subsidy amounts to 125 Mio € over 3 years, for an estimated number of 1.500 screens.
- *Associations of exhibitors* which negotiate and collect VPF on behalf of their members. These associations may be supported by government.

Åge Hoffart has then exposed the specificities of the Norwegian market.

Here are a few important dates and figures:

- The Law for Cinema is dated 1913. It stipulated, among others, that cinemas will be run by municipalities. For Oslo for example, you have only one contact person for all the theatres (30 screens).

- The total population of Norway amounts to 4,9 Mio inhabitants and the number of admissions to 11,13 Mios. The market share for Norwegian films is 20%.
- There are 15 distributors.
- The first 4K projectors appeared in 2006.

Over the last 15 years, there have been many changes: shorter windows, bigger releases with bigger budgets (ex. the same film can be shown on 160 screens; MGs increased), i.e: "Big get bigger and small get smaller". Therefore, more and more films are released directly on DVD.

The digital change has accelerated this phenomenon. 35mm is dead in Norway: since July 2011, 100% of the screens are digital. VPF has been implemented (250€ per cinema house up to 90 paid). P&A are lower, more DCPs are available but the number of cinemas has not increased !

The power balance has changed between exhibitors and distributors. The minimum length of exploitation is one week but negotiations with cinema owners are tougher and tougher. Within the last four months, the shift of the market towards mainstream films on more screens has been clear and happening very quickly.

Even if the future seems to lie in the hands of the cinema owners, the independent scene in Europe should brainstorm on the advantages of digital distribution for arthouse cinema. Distributors remain key in the marketing/promotion of the films and they are the KDM keepers. They have to relaunch a dialogue with the exhibitors regarding a bigger diversity in terms of programming, possibly introducing alternative content.

It could also be a chance to get small cinemas back to the districts (especially with the price of digital equipment going down) offering a specific programming for their local audience and thus turning the theatres into cultural, meeting places ?

The future is challenging, but still open to innovative initiatives supporting independent cinema. Let's be quick at reacting !