DIGITAL PRODUCTION
CHALLENGE II

Digital Distribution in France

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The recent French release of the Michael Haneke film **Amour** was used to show the quick evolution of digital in theatrical distribution.

Introduction on Digital Distribution in Europe (with a focus on France)

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.

The awareness of Digital has been slow: in 2006, most professionals did feel concerned about this technical change, this was not a priority issue for them. The digital phenomenon has been accelerated because of US films. The year 2008 is the year of the digital roll-out with a strong mobilisation of professionals and institutions; a think tank was created in France by independent distributors and exhibitors in order to find a model that could be accepted by both parties.

The Stakes for Distribution

Distributors had to face and experience a transition period with additional costs (35mm and digital) and efforts, work. The objective was thus to make this phase as short as possible.

The advantages of digital are clearly:

- Substantial savings on the cost and handling of prints;
- Flexibility in the programming practices and material, especially regarding versions (all of them on the same DCP, a big difference vs. 35mm)

But there are risks too: it can increase the number of “prints” for some films and thus the traffic, the offer.

The Stakes for Exhibition

Digital represents a significant financial investment, this is not affordable for many theatre owners, and they have no clue about sa longévité for how long this new equipment can last.

On another hand, digital brings the following advantages:

- an acceleration of access to films, especially for theatres outside big cities;

- savings on human ressources;
- an immense flexibility in the programming process;
- a diversification of contents: not only films can be shown but also operas and sport events. The arrival of alternative contents is a concern for distributors.

The VPF (Virtual Print Fee) Model

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.

On October 30, 2010, a new law was promulgated; it 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.

There are three ways of digitisation 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.

Conclusion:

This is a legal obligation in France. The current law is for the initial equipment only. Paying a fee to the theatre is not natural in Europe compared to the US. This is the reason why there has been a need for specific rules in order to avoid perverse consequences of this model.

With digital, we've seen the arrival of third parties, investors in equipment such as Art Alliance, thus a new player between the distributors and the exhibitors.

Rules and Regulations

The legal system implemented states that the financing depends on the number of national releases by screen.

Specific subsidies have been developed in France to help exhibitors to equip their theatres. The transition period has been shorter than originally planned: 3 years vs. 10. At the end of 2012, 90% screens will be digitised. There are 5.200 screens in France.

We need to define "good practices" because there are problems with the VPF payment. And once the equipment is reimbursed, there won't be any more VPF .... but there is no certainty that we will stay in 2K. If needed, how to finance the next equipment?

Changes for Distributors As a reminder, 15 new films are released every week in France.
There is an increasing lack of visibility on the releasing strategies: distributors must rationalise the releasing plans. Careers of films are shorter since the arrival of digital.
The VPF system is complex but it brings flexibility for the material (format, version) and its delivery, for films and for trailers (KDM delivery, more and more is done by satellite); distributors can define more precisely conditions of exhibition.
There is a clear reduction of material costs and thus an increase of marketing costs.

Conclusions

There are clear advantages but some risks too for the programming of independent, arthouse films. There have been regulations to face this transition period but the future is uncertain since the technical development goes on and the exhibitors will most probably have to change equipment again in a short period of time.

The example of the French release of the film Amour
It was released on October 24, 2012 by the same distributor as his previous films, i.e. the well established Films du Losange.

This new film by Michael Haneke was released on 265 screens vs. 125 for “The White Ribbon” (also a Golden Palm in Cannes) thanks to Digital:

- Amour: 265 screens including 261 in digital, using 231 DCPs (90 hard disks, 141 DCPs delivered by satellite).
- The White Ribbon: 125 screens including only 4 in digital.

Here are some comparable prices:

- Average cost of a 35 mm print: 1.000€ vs. a DCP: 590€
- Average cost of a hard disk: 90€
- Average cost of digital delivery: 50€
- KDMs: 700€

The distributor made a **saving of 40%** on the cost of the release compared to a 35mm release and the film was shown on 50% more screens.