UNIC Annual Report 2010-2011

UNIC

Union Internationale des Cinémas
International Union of Cinemas

International Union of Cinemas (UNIC): Avenue des Arts 10/11, 10th floor, 1210 Brussels, BELGIUM.

Imperial, Copenhagen, DENMARK

FOREWORD

Welcome to this, the latest annual report of the Union Internationale des Cinémas/International Union of Cinemas (UNIC), the European grouping of cinema trade associations and operators.

Palads, Copenhagen, DENMARK

The last year has been one of change for the European cinema industry, as it has been across the globe.

The transition to digital cinema technology has now taken hold and accelerated.

Notwithstanding the determination of cinema staff to tackle this problem at source, the distribution of illegally-recorded films has shifted increasingly online and away from physical product.

And there has been renewed pressure on the theatrical release window, most significantly through recent proposals by some major studios to establish a Premium VOD service within the existing theatrical window in the US.

All of these challenges require an ever more organised and coherent response from the cinema exhibition sector.

Star Movie, Steyr, AUSTRIA

Over the last year, UNIC has discussed how best to organise that response and has now taken the decision to relocate its national office from Paris to Brussels, the heart of European Government, and to recruit a full-time chief executive. These changes will be supported by strengthened structures within the organisation.

Taken together with the establishment of the CineEurope event as our annual convention, the year covered in this annual report marks the beginning of an exciting new chapter in the history of the organisation.

We invite national associations and key operators across Europe to join us in strengthening further the voice of European cinema exhibition.

Ad Weststrate
President
Union Internationale des Cinemas/International Union of Cinemas (UNIC)

I. INTRODUCTION – EUROPEAN CINEMA-GOING IN 2010

After a record breaking year in 2009, European cinema attendance in 2010 experienced a year of mixed results.

As the table below shows, during the year Russia, Finland, Italy, Portugal, Turkey, the Netherlands and France registered significant admissions growth, with France in particular seeing the highest levels of attendance since 1967.

Country	Admissions 2010 (million)	Admissions % change 2010/2009	Box office 2010 (€ million)	Box office % change 2010/2009
Austria	17.3	- 5.9	130.3	- 0.1
Belgium	21.1	+ 2.0	-	-
Denmark	12.9	- 6.7	106.5	- 2.6
Finland	7.56	+ 11.2	66	+ 15.6
France	206.3	+ 2.7	1,305	+ 5.0
Germany	118.9	- 23.0	879.7	- 11.0
Ireland	16.4	- 6.6	116.3	- 6.6
Italy	109.9	+ 10.9	734.8	+ 17.8
Luxembourg	1.2	+ 10	8.8	- 1.1
Netherlands	28.1	+ 3.0	219.3	+ 9.0
Norway	11	- 13.4	120.8	- 8.5
Portugal	16.6	+ 5.4	82.2	+ 11.0
Russia	165.5	+ 19.5	738	+ 40.0
Spain	100	- 10.0	655	- 3.0
Sweden	15.8	- 9.0	164.7	- 4.7
Switzerland	14.9	- 4.9	177.9	- 1.6
Turkey	41	+ 11.0	85.1	+ 22.0
UK	169.2	- 2.4	1,173	+ 4.8

Source: UNIC

Cinebonus Kanyon, Istanbul, TURKEY

Against that, Germany, Norway, Spain, Sweden, Austria, Denmark, Ireland, Luxembourg, Switzerland and the UK all saw attendances fall. For countries such as Germany, that downturn was dramatic.

3D films continued to support box office growth, but unlike in 2009, failed to drive overall admissions in many territories. Once again, the key factor determining success remained the quality of film content offered by the national market.

During the year, the digitisation of cinema sites across many European territories continued to accelerate, with around 30 per cent of screens digitised by the end of the year.

In the face of the investment required of cinema operators to achieve this change, uncertainties caused by changes to the release window proposed by some studios caused particular concern.

Recognising the need for UNIC to become a stronger and more influential voice, a partnership was cemented with the organisers of the Cine Expo event (to be renamed as CineEurope in 2011), making it the official convention of the organisation.

The year since the last UNIC General Assembly in Cannes saw discussions focus on wider efforts to strengthen and professionalise the organisation, most importantly at a series of meetings held in Amsterdam (June 2010); Madrid (October 2010) Paris (December 2010), Vienna (February 2011) and London (March 2011).

The outcomes of these meetings – in particular decisions to relocate the UNIC office from Paris to Brussels and recruit a full-time Chief Executive supported by a new team – were being taken forward as the year 2010/2011 ended.

Kinepolis, Lomme, FRANCE

Cinemaxx, Copenhagen, DENMARK

Utopolis, Emmen, NETHERLANDS

Metropolis, Antwerp, BELGIUM

II. KEY CHALLENGES FOR EUROPEAN EXHIBITION

i. Digital cinema and the growth of digital 3D

The transition to digital cinema

The last year has seen conversion to digital cinema technology continue. By the end of 2010, some 30 per cent of European screens had been digitised.

UNIC understands the need for, and supports, this change. If managed with care and common sense, it should provide major benefits not just for studios, distributors and cinemas, but most importantly for the cinema-going public. Digital technology should provide greater flexibility of programming, access to cutting-edge 3D and the ability to watch live theatre, opera, sports and music events all in the comfort of the modern cinema environment.

UGC, Lyon, FRANCE

Each European territory is finding its own way in managing the transition. Some are able to call on public money to do so. Others are relying on the financial support of the studios and distributors and money from their own pockets.

Given the financial costs that such approaches potentially impose on cinema exhibitors, and the complexities involved, UNIC has set out seven key conditions of that support. These are that:

- distributors have to pay for a significant proportion of the transition either via the VPF or via a similar mechanism;
- all digital equipment must be inter-operable;
- Key Delivery Messages (KDMs) must be delivered for all the screens at a site in time for the first day of release;
- exhibitors have absolute and sole discretion as to what is shown on their screens and the order in which it is shown – this covers films, advertisements and trailers;
- the switch to digital technology must be organised in such a way as to ensure the diversity of cinema theatres and film product;
- the transition must respect territoriality: Europe is a single market but each nation has its own particular characteristics; and
- distributors must be willing to pay for the full costs of 3D glasses (including, where these apply, royalties).

Within these principles, UNIC recognises that each European territory has different requirements with regard to financial support. As a result, Governments, regions and municipalities should remain free to contribute to digital roll-out.

But each must be aware of the potential for public funding to distort competition between movie theatres and to discourage distributors from making their fair contribution.

European Structural Funds can also support digital transition without substituting for a VPF mechanism. Such European, national and regional financing, where they apply, should only be complementary to studio support.

Yelmo Cines Ideal, Madrid, SPAIN

During the year, a number of key European territories marked significant progress in their attempts to digitise.

In Belgium, all the main exhibitor companies, and many of the smaller operators, are in the process of digitisation. Currently around 65 per cent of screens have converted, with this number expected to reach 80 per cent very soon.

In Luxembourg, all 22 of the screen operated by the main companies are now digital and a government support scheme should ensure full digitisation in the country by the Summer of 2011.

In France, since September 2010, distributors have been obliged by law to provide a VPF to exhibitors and create a general scheme for all cinemas for digital roll-out. In addition the National Centre for Cinema and Animation (CNC) and local authorities provide public subsidies for the smallest theatres. By the middle of 2011, almost half of French cinema screens were digitised.

In the Netherlands, digitisation of over 500 screens has recently begun through the collective buying group initiative, Cinema Digitaal BV. The scheme is partly supported by €5.4 million from the Dutch government. With the exception of Pathé, Euroscoop and Utopolis, all circuit and independent sites in the Netherlands are part of this approach. Based on the VPF model, all Dutch independent distributors have signed up to the scheme. Roll-out is scheduled to be completed by end 2012 at latest.

In Austria around 64 per cent of all screens are now digital, mainly through a VPF deal agreed with the third party integrator company XDC. Negotiations are now underway to secure a VPF deal for those sites which have already digitised from their own resources or have yet to do so.

In Italy, operators looking to invest their own funds in digital cinema can do so with the support of a Government-funded tax credit, now available up to December 2013. Alongside this, representatives from distribution and exhibition have agreed a set of guidelines governing VPF models (outside of those operated by 'third party' entities). It remains the case however that further support will be required for smaller cinemas seeking to digitise.

In the UK, the Digital Funding Partnership announced a VPF deal with the Belgian integrator company XDC to digitise as many as 400 screens, with roll-out due to begin by mid-2011. Overall, around 50 per cent of screens are now digitised.

In Switzerland, that figure stands at around 37 per cent, with an agreement just reached with givernment to help finance digital installation for arthouse operators. Many cinemas operating in small towns and villages are also being supported to convert by the local community.

In Finland around 45 per cent of all screens are digital. Practically all of these installations have been made with the suppot of The Finnish Film Foundation (lottery fund via Ministry of Culture). The market share of these screens is 90-95 per cent.

Cineworld, London, UK

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In Denmark, a plan for the whole sector digital roll-out is in place, offering every cinema approximately €26,000 in state support.

Norway has, over the last 12 months, been undertaking a national roll-out of digital cinema technology across 420 screens. The country will be fully digitised by July 2011, with back-up, reporting and accounting systems all in place. The benefits of this change are already being seen, with twice the number of digital copies available than was the case for 35mm, and smaller cinemas in particular having access to a wider range of films than previously.

Digital cinema standards

UNIC is aware of a small number of voices – in the sector and elsewhere – which see the introduction of a new lower standard for digital cinema in Europe as a potential answer to some of the challenges smaller cinemas face in adapting to a digital environment.

In this regard, UNIC is unwavering in its support for the single standard currently working its way through the standards-making organisations, widely known as the DCI standard – a unique, open and compatible worldwide standard which takes into account the position of the European exhibitors.

In January 2010, the organisation made this longstanding position clear in an open letter to Aviva Silver, Head of the MEDIA Unit at the European Commission.

Star Movie, Steyr, AUSTRIA

Digital 3D cinema

2010 saw *Avatar* set new box office records across the globe, convincing many that modern 3D digital was here to stay. While the impact of 3D since that point has – perhaps inevitably – not been as marked, UNIC continues to believe that 3D has the potential not only to boost cinema admissions and box office, but also public perception of modern cinema-going.

UNIC remains neutral on the relative merits of different 3D formats, and on the decision taken by some operators to try out 35mm 3D formats while the digital transition is underway.

It believes however that not all films are necessarily appropriate for 3D, and also that customers should be given a choice to see a film in the standard format wherever possible.

While the success of 3D films such as *Avatar* and *Alice in Wonderland* has served to increase even further interest in producing films in this format, given the premium price that most cinemas charge for 3D films, UNIC also sees here a potential danger.

Vue, Bury, UK

Making a film in 3D does not guarantee that a film will be a good one. Cinema customers have the right to expect a high quality cinema experience. Recent developments suggest that where some films have been retrospectively converted to 3D, and this has been done badly, then the resultant criticism, and the poor 'word of mouth' amongst cinema-goers, has had a much wider negative effect than just around the film in question.

UNIC calls on all studios and distributors to ensure their films always offer a consistently high quality 3D experience so that customers do not become cynical about this format.

ii. Film theft

UNIC recognises that the losses to the industry from film theft – whether through films being recorded in cinemas, copied from legal content or illegally shared online – mean that many of those working in the industry do not get rewarded for their efforts and the funding available to go back into the production of new films is significantly reduced.

During the last year, UNIC held regular discussions on movie theft with NATO and the MPA in Cannes, CinemaCon and Paris. The organisation also circulated the latest European camcording incident reports prepared and circulated by the MPA, this information then being circulated to the various exhibitor federations and appointed partners.

Exhibitors continue to play their full part in improving public awareness and reinforcing security in movie theatres both through better staff training, staff incentives and the use of technology such as night vision goggles.

A number of countries, including France and the UK, now have in place legislation to deal with the illegal sharing and downloading of film material online. However UNIC strongly believes that this issue cannot be fought only by punishing those responsible.

The Norwegian Government is currently considering legislation which will make it easier for rights-holders to identify the IP-addresses of those who steal their films and allow for the blocking of Internet sites responsible for the largest volume of illegally-shared content.

In recent months, Austrian and German film producers, with the support of the Anti-Piracy Association (VAP), have taken legal action in a test case against a particular Internet provider, where they successfully persuaded the Commercial Court of Vienna to prevent that company from allowing customers access to a particular infringing website, in this instance based in Russia. This case confirmed that Internet providers cannot evade responsibility for the content their users download on their system, and that where they receive notification that their services are being misused for specific copyright violations, they must adopt specific counter-measures.

Utopolis, Mechelen, BELGIUM

The organisation also strongly supports and will contribute to initiatives aimed at improving public awareness of the impact of film theft. Education - particularly of young children who are the most receptive to these messages - is key.

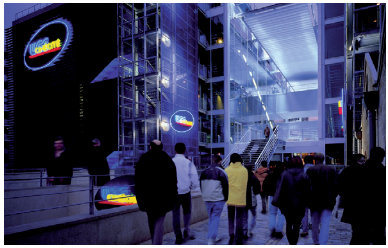
Although in many European territories a large legal film 'offer' already exists in terms of the number and diversity of films available, UNIC also looks to other parts of the film industry to do more to increase this further, on the Internet and otherwise, although not of course at the cost of theatrical exclusivity.

iii. Release windows

<u>Protecting the release window</u>

DVD release windows have remained relatively stable in Europe for the last five years. In some countries like France, Austria and Spain, this has been governed in whole or part by legislation, while in others the window has been arrived at by industry agreement on a film-by-film basis.

While European cinema operators will follow their own approach on the windows issue on a film by film basis, the support of UNIC for a distinct and significant release window in all member countries is absolute.



UGC, Bercy, FRANCE

The existence of the window is vital in maintaining a healthy and competitive cinema sector and permits the creation of value for the whole cinema industry at each step of the film value chain.

It provides an opportunity for the cinema exhibitor to achieve a reasonable return from showing the film, while at the same time driving sales in subsequent release stages.

Cinema operation remains a marginal business. Particularly for smaller independent cinemas, economic viability depends on a few thousand attendances. Anything which might reduce admissions – as any significant reduction in the window inevitably would – therefore puts at risk not just these cinemas, but also the livelihoods of those they employ and who rely on them in the local economy.

And it risks depriving communities of the social and cultural hub that is their local cinema.

Over the last year, UNIC has monitored and shared public information on trends around the release window in member countries and in the US and has offered appropriate support to individual UNIC members in their efforts to explain the value of the window at the national level.

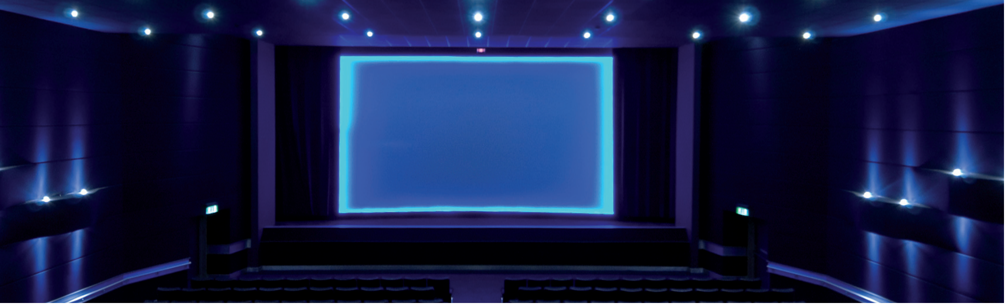
<u>Premium Video on Demand (VOD)</u>

Towards the end of 2010, a number of US studios indicated their interest in establishing a Premium VOD service within the current theatrical window. This became reality in the first months of 2011, with several studios establishing such a service in the US just 60 days after theatrical release.

At the same time, one of the major studios not involved in the US venture tested premium VOD models for different releases in Portugal (not a UNIC member country) and then in Italy.

UNIC shares the view of US and other international colleagues that such experiments are potentially damaging not just to cinema operators, but also to the wider industry and most importantly to cinema customers themselves.

In encouraging some to wait for the in-home experience, the impact of this move will be felt in particular by smaller cinemas, many of whom do not currently receive films on the date of cinema release. The viability of such sites will be significantly undermined, reducing the choice available to the cinema customer.



Odeon, London, UK

Cinema is the only part of the film value chain where consumers have not demanded that they pay less and less for content – indeed where income for the industry has generally increased year on year. UNIC believes that it is inevitable that whatever the starting price for Premium VOD, there will soon be downward pressure on this. Any increase in income from this proposal will be temporary.

The establishment of a Premium VOD window also means that a pristine digital copy will be available for piracy earlier in the release cycle than ever before, prior to DVD release, and while the film is still in the cinemas.

UNIC believes that no-one will benefit and many will be damaged.

iv. Music rights payments

During the last year, the issue of music rights payments has been discussed on several occasions by UNIC representatives.

All exhibitors operating in UNIC territories currently make music rights payments to ‘collecting societies’. These payments are typically intended to reward songwriters, composers and musicians for the use of their music in film soundtracks, and in providing background music in auditoriums, lobbies and other public areas.

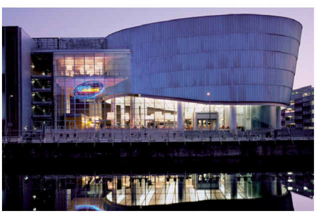
The level at which such payments are required varies from territory to territory and is generally set by national legislation. It is typically calculated at around 1 per cent of box office, but in some countries is significantly higher.

Anteo, Milan, ITALY

UNIC absolutely supports the right of all creative people to be rewarded for their work. This of course includes all the songwriters, composers and musicians contributing to the soundtrack of films shown in cinema theatres – and to music played as background in cinemas – who are entitled to a reasonable reward for their efforts.

However it strongly believes that the level of payments required of exhibitors in some UNIC countries is both unfair and potentially damaging to the livelihoods of the cinema operators and those who rely on them for employment, particularly for small independent sites.

Any measure based on percentage of box office – as exists in most UNIC member countries – ignores the fact that very few films rely on the amount or quality of the music in them to drive admissions. In truth music in most films plays a very small part in their success.



UGC, Strasbourg, FRANCE

This is particularly true for 3D films, where the significant increase in box office has been driven by each exhibitor’s willingness to invest in digital cinema and 3D equipment and where their popularity is completely unrelated to anything to do with music, yet where the collecting societies continue to receive a significant ‘windfall’.

In several UNIC territories, issues have arisen about the amount of funds handed over by the collecting societies to the actual rights-owners, these concerns in some cases leading to legal action.

MPX, Padova, ITALY

III. KEY PARTNERSHIPS

i. International Federation of Film Distributors' Associations (FIAD)

Over the last year, UNIC has maintained close contact with its counterpart in European film distribution – the International Federation of Film Distributors' Associations (FIAD). A bilateral meeting was held in Cannes in May 2010 and there have been numerous engagements since.

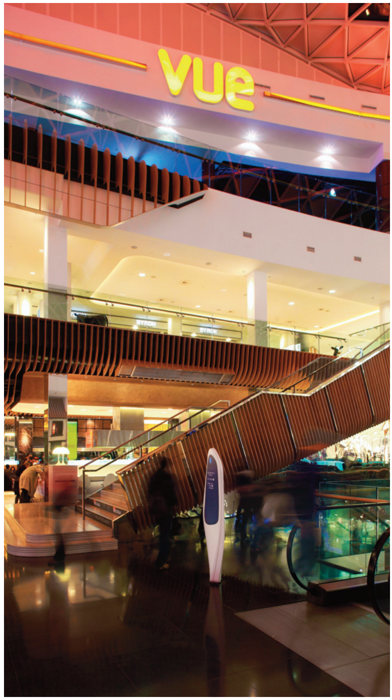
It is to be hoped that one outcome of the strengthening of UNIC will be to make this partnership even more productive and robust.

ii. Relationships with the European Commission, Media Salles and European Audiovisual Observatory

Given the increasing extent to which policy-making and regulation is decided at the European level, regular contact with the European Commission and its departments remains vital in keeping up to date and providing an exhibitor view on key issues such as digital cinema, film theft and release windows.

Over the last year, UNIC has worked with partner organisations to engage with the Commission on matters such as digital cinema standards, and in particular around the future shape of the MEDIA programme, whose whole existence at one point seemed to be in jeopardy.

Key UNIC members participate in meetings and have a seat on the Media Salles Board of Directors and the organisation is represented on the Advisory Committee of the European Audiovisual Observatory, with whom it exchanges information. UNIC also helps determine which studies will be conducted by the Observatory.



Vue, London, UK

The increasing extent of UNIC activity across all these strands at the European level all served to underline the case for the organisation to strengthen both its presence and capacity to engage with the European Commission and Parliament.

iii. European Digital Cinema Forum (EDCF)

The European Digital Cinema Forum (EDCF) has remained an important source of technical advice and expertise for UNIC over the last year. Advice on matters such as digital cinema standards, 3D formats and other technical issues has helped inform the organisation's position on a range of key agendas.

Yelmo Tres Aguas, Madrid, SPAIN

In the last few years, the EDCF has published a number of helpful guides around the operation and delivery of digital cinema, most recently *The EDCF Guide to 3D Cinema*, which was made available to UNIC members.

This is a partnership which it is hoped will continue to strengthen as we move forward.

iv. National Association of Theatre Owners (NATO)

The relationship between UNIC and its American counterpart, the National Association of Theatre Owners (NATO) continues to be a strong and productive one.

John Fithian of NATO was honoured with the first UNIC Award at the 2010 edition of CineExpo, and attended UNIC Assembly meetings in Amsterdam (June 2010) and Paris (December 2010). UNIC in turn was well-represented at the inaugural edition of CinemaCon, the NATO convention, in Las Vegas in March 2011.

UNIC hopes that the changes being put in place by the organisation – noted elsewhere in this report – will enable it to become an even better partner to its US counterpart.

v. Motion Picture Association (MPA)

UNIC held a productive meeting with the Motion Picture Association (MPA) in Cannes in May 2010 and was delighted that its President and several of its Vice-Presidents were able to meet the new MPA Chairman Senator Chris Dodd for a bilateral meeting at CinemaCon in March 2011.

UNIC hopes that its relationship – already strong through the sharing of information on matters such as illegal film recordings – will continue to develop. While there will be issues – such as proposals around Premium VOD – where exhibitors and some of the key US studios differ, clearly continued dialogue remains the best approach.

Bergakungen, Gothenburg, SWEDEN

Cinebonus Kanyon, Istanbul, TURKEY

IV. CHANGES AT UNIC

i. Reform of UNIC

In recent years, UNIC has sought further to strengthen and professionalise its approach. The success of these measures has been evidenced by the number of new member associations and operators attracted in that time.

During the course of 2010, intense discussions at Board level focussed on whether more fundamental changes were needed in the organisation's approach in order to make a step-change in its impact and effectiveness.

Arising out of these discussions, in early 2011, the UNIC Board formally agreed to the following steps:

- to relocate the UNIC office from Paris to Brussels, placing it closer to the heart of European government;
- to recruit a full-time Chief Executive, supported by an executive team; and
- to ratify a new set of regulations for the organisation, establishing more streamlined decision-making structures.

It is planned that all of these changes will be implemented, and a strengthened UNIC structure in place, by the end of June 2011.

ii. Cine Expo 2010 and CineEurope 2011

In 2010, UNIC entered into a formal partnership with Nielsen, then organisers of the long-running Cine Expo International event in Amsterdam. The aim of the partnership, which established the event as the annual convention of UNIC, was to provide a better platform for discussion of issues relevant to European exhibitors, to increase the amount of European film content on show, and to encourage a broader range of European colleagues to attend.

Following the success of that event, UNIC agreed a new long-term deal with Prometheus Global Media (who had taken over the event contract) cementing that partnership and looking to ensure increasing UNIC input and influence going forward.

Cinema Adriano, Rome, ITALY

iii. New members

As the year 2010/2011 closed, UNIC was delighted to welcome a number of key European cinema companies to the organisation as operator members, specifically Odeon/UCI/Cinesa, Nordisk Bio, Yelmo Cines, SF Bio, Svenska Bio and Cineworld Cinemas.

It is hoped to increase the number and range of members over the coming year, in particular from emerging territories in Eastern Europe and Eurasia.

Bergakungen, Gothenburg, SWEDEN

V. BOARD OF DIRECTORS AND MEMBERS OF UNIC 2010/2011

Board of Directors (from May 2011)

President	Ad Weststrate (Netherlands)	
Senior Vice President	Phil Clapp (UK)	
Vice Presidents	Jean Labé (France)	Lene Løken (Norway)
	Kim Pedersen (Denmark)	Mario Mazzetti (Italy)
Treasurer	Andreas Kramer (Germany)	

Members of UNIC

<u>Association members</u>

Austria	Fachverband der Kino-, Kultur- und Vergnügungsbetriebe
Belgium	Fédération des Cinémas de Belgique (FCB)
Denmark	Danske Biografer
Finland	Finnish Cinema Exhibitors' Association
France	Fédération Nationale des Cinémas Français (FNCF)
Germany	Hauptverband Deutscher Filmtheater Kino e.V.
Greece	Federation of Greek Cinematographers
Hungary	Mozisok Orszagos Szovetsege
Israel	Cinema Industry Association in Israel
Italy	Associazione Nazionale Esercenti Cinema
Italy	Associazione Nazionale Esercenti Multiplex
The Netherlands	Nederlandse Vereniging van Bioscoopexploitanten (NVB)
Norway	Film & Kino
Russia	Kino Alliance
Spain	Federación de Cines de España
Sweden	Sveriges Biografägareförbund
Switzerland	Association Cinématographique Suisse
Turkey	Turkish Cinema Operators' Association (SSID)
UK	Cinema Exhibitors' Association (CEA)

<u>Operator members</u>

Cineworld Cinemas*	UK, Ireland, Spain
Cinémas Gaumont Pathé	France, Netherlands, Switzerland
Kinepolis Group	Belgium, France, Spain, Poland, Switzerland
Mars Entertainment Group	Turkey
Nordisk Bio*	Denmark, Sweden*
Odeon/UCI/Cinesa*	UK, Austria, Germany, Ireland, Italy, Portugal, Spain
SF Bio*	Sweden, Norway*
Movies@ Cinemas	Ireland
Svenska Bio*	Denmark, Sweden
UGC	France, Belgium
Utopia Group	Luxembourg, Netherlands, Belgium, France
Vue Entertainment	UK, Portugal
Yelmo Cines*	Spain

* From May 2011.