

UNIC'S position on digital cinema

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Digital cinema remains one of the major challenges for the exhibitors in Europe. The fundamental objectives regarding the potential transition to digital cinema are: quality, standards and competition, security and operational control, financing, rentability and roll out. UNIC's members, the cinema exhibitors of Europe, are for that reason the key element for the functioning of EDCF. We are members of EDCF and represented at the Board by Jean-Pierre Decrette.

UNIC also works together with NATO (National Association of Theatre Owners) in the United States, representing together more than 50.000 screens and approximately 80% of the worldwide box office from the American studios. We are also in close contact with DCI (Digital Cinema Initiatives).

UNIC itself represents 15 countries with more than 27.000 screens and more than 900 million tickets sold in 2003.

During the past ten years, the theatre exhibitors, thanks to massive investments and the roll out of multiplexes, have integrated all the technological innovations every time they represented a true improvement for the audience (i.e sound digitalisation). Thereby, they widely contributed to the reconquest of the audience after the losses suffered from the emergence of television and thanks to that they established a greater diversity among the content in cinemas, European as well as American.

We must be sure today that digital projection would offer to the spectator an improvement in the quality of the cinema experience. The question of having a compatible, open, worldwide single standard is also a preamble to the development of digital projection.

It also implies heavy investments (27.000 screens x US\$ 100.000 per screen) and a business model has to be established before the roll out can take place.

Consequently, UNIC has defined fundamental objectives regarding the potential transition to digital cinema:

I Fundamental objectives

1) Quality

- With respect to quality, we ask for a branded digital movie going experience that exceeds film and exceeds home entertainment systems

2) Standards and competition

- A unique open and compatible worldwide standard must be defined, taking into account the opinion of the European exhibitors. 2K is the accepted system for now but the majority of the 7 major studios prefer 4K. Sony will give a demonstration with a 4K projector within two weeks. On September 8th 2004, DCI announced that version 5.0 will not be the final DCI Technical Specification and no final technical specification has actually been released for the whole world

- The digital cinema system must permit a single inventory of content to be distributed and exhibited on all equipment installations

3) Security and operational control

- Content decryption keys must be delivered for all auditoriums within an exhibition complex for each movie
- The system must allow the exhibitor to have full discretion over the selection of auditorium, schedules and presentation of advertisements, trailers, features and other content so that they will have the same control over their business as they have today
- Audit logs shall be owned and maintained by the exhibitor

4) Financing and rentability

- Perhaps the most important issue. UNIC believes that the investment must be covered by the distributors/studios, otherwise future development will not be conceivable in Europe
- The studios (market share 70% of the BO in Europe) must develop a universal financing plan supported by studio funding (US as well as European) that permits the participation of all exhibitors (regardless of size and/or geographic location) and all 7 Hollywood studios
- Digital cinema must not lead to heavy investments for exhibitors with savings on copies that will only benefit all distribution companies
- The eventual development of digital cinema must be guided in order not to penalize some exhibitors

5) Equipment selection and roll out

- Exhibitors must be able to select the equipment to be installed and to own the equipment
- The question of maintenance, the costs of services and updates has not been solved
- Equipment manufacturers should provide exhibitors with costs analysis related to the maintenance, life expectancy and likely obsolescence of any equipment prior to equipment selection

6) Content

- For the time being there is not enough digital content and alternative contents (concerts, sporting events...) remain quite rare and are not exhibitors' "core business".

7) Ownership

- There must be enough guaranties for the protection of works and rightholders regarding piracy

8) Transition

- The problem of the transition period is crucial, especially for the time span when digital projectors and 35 mm will coexist. That should not be penalizing for exhibitors.
- The transition must ensure competitive fairness between all exhibitors and distributors willing to participate

A general remark: UNIC doesn't expect digital cinema will be the tool to have more European films in cinemas as it is today.

II Media 2007

In the proposal for a decision of the European Parliament and the Council concerning the implementation of a programme of support for the European audiovisual sector, dated July 14th 2004, one of the objectives is to “encourage cinemas to exploit the possibilities offered by digital distribution” (point 3.5 p.31).

The Commission wants to encourage cinemas to invest in digital equipment, by facilitating access to credit by cinema owners.

The action to be implemented: support the side costs (such as financial expenses and insurance) incurred by cinema owners for investment in digital equipment.

The call for proposal DG EAC n° 57/04 mentions that one of the criteria is the implementation of digital cinema (10%).

UNIC considers that only those concerned should agree on the possible launch of digital cinema and on a common definition of standards which still doesn't exist. The Commission should not encourage the creation of new cinema screens before these norms and a business model are set.

Nevertheless, we do agree with Europa Cinemas which want to organize regional debates with the exhibitors about the challenges concerning digital cinema and we are concerned about the provision on subsidies.

Finally, there will be a marketing problem for cinemas as Home Cinema equipment comes in 2 or 4K quality.

In conclusion, UNIC believes that the conditions are not met for the moment for a viable economic transition. The Commission shouldn't encourage for now the roll out of digital cinema and lead to an unfair treatment between theatres.

Jan van Dommelen
President UNIC
January 11, 2005

Last developments in the USA

Digital Cinema Initiatives, the studios' joint venture formed in March 2002, held series of productive discussions with various banks, regarding possible business models. In early September of 2004 however, DCI announced the end of any significant business planning activities by that organisation. Subsequent to that announcement Disney, Sony and Warner Bros. have come together to work on D-cinema transition plans. Other models are being considered and proposed for the USA and Europe. Given this activity NATO has stated very clearly the exhibitors objectives, particularly that there must be **one** financing third party. This statement was given in harmony with UNIC about these topics.

Though political and legal parameters must influence the planning process, we do believe that the studios will eventually come together to support a financing plan whereby film print cost savings from the studios will be used to support the transition finances as provided by a third party. When that will happen in the USA we will have the fundamentals for a same model in Europe although European distributors will have to give the same support as they use the equipment as the Americans.

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President UNIC
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