

**COMMISSION OF THE EUROPEAN COMMUNITIES**

COM(94) 96 final

Brussels, 06.04.1994

**STRATEGY OPTIONS TO STRENGTHEN  
THE EUROPEAN PROGRAMME INDUSTRY  
IN THE CONTEXT OF THE  
AUDIOVISUAL POLICY OF  
THE EUROPEAN UNION**

**Green Paper**

(presented by the Commission)

## FOREWORD

The White Paper "Growth, Competitiveness and Employment" adopted by the European Council in December 1993 opened the debate on the major trends in our society on the eve of the 21st Century. Among the sectors where the stakes are highest, the White Paper identified the Information Society and, in particular, the audiovisual sector as having the greatest potential for growth and job creation.

A key component of this information society, the audiovisual industry is undergoing a transformation, in particular as a result of rapid technological developments.

Films and television programmes, as prime vectors of European culture and a living testimony to the traditions and identity of each country, deserve special attention. These programmes play a strategic role in what is happening in the audiovisual sector and today are fundamental to the future diversification in the sector.

The European Union must look resolutely to the future, take part in the developments that are occurring worldwide and play its full role in mastering and making use of this new technology. European operators must be in a position to adapt their strategies and forge alliances in order to benefit from the overall growth in the sector.

Coming in the middle of all this manoeuvring, the full implications of which cannot easily be measured today, this Green Paper looks at the future of one specific industry: the European film and television programme industry.

How can the European programme industry be made more competitive and more open on the world market? How can it be guaranteed its share of the overall growth of the audiovisual sector? How can it be placed in a position to realize its potential in terms of employment? How can European cultures be promoted without causing any individual country to lose its identity?

All these questions are discussed in this Green Paper as preparation for a wide-ranging debate in the European Union and the definition of options for the future under three heads: the rules of the game, financial incentives and the convergence of national support systems.

On the basis of this Paper the Commission intends to organize wide-ranging, in-depth consultations, reflecting the collective effort that will be needed in order to strengthen the European programme industry.

Contributions from all those concerned will be welcome

## CONTENTS

<b>1.</b>	<b>INTRODUCTION</b>	<b>1</b>
<b>2.</b>	<b>FUNDAMENTAL TRENDS IN THE PROGRAMME INDUSTRY</b>	<b>5</b>
<b>2.1</b>	<b>The diagnosis</b>	<b>5</b>
2.1.1	The film industry	5
	(i) <i>Decline in the market share of European films</i>	5
	(ii) <i>Partitioning of national markets</i>	5
	(iii) <i>The spiral of deficit</i>	6
	(iv) <i>The perverse effects of support systems</i>	7
2.1.2	The television industry	7
	(i) <i>Explosion of demand and rising production costs</i>	7
	(ii) <i>Low rate of programme circulation within Europe</i>	7
	(iii) <i>Weak production structures and catalogue shortage</i>	8
<b>2.2</b>	<b>The new technology</b>	<b>8</b>
2.2.1	Targeting of supply	10
2.2.2	Internationalization and globalization	11
2.2.3	Explosion of demand and need for catalogues	11
2.2.4	New products	12
2.2.5	Industrial imperative	14
<b>3.</b>	<b>THE CHALLENGES FACING THE EUROPEAN PROGRAMME INDUSTRY</b>	<b>15</b>
<b>3.1</b>	<b>The audiovisual sector in the new "information society"</b>	<b>15</b>
3.1.1	The objectives of the European strategy	15
3.1.2	Implications for the audiovisual sector	16
<b>3.2</b>	<b>The dangers</b>	<b>18</b>

3.2.1	Suffocation in partitioned markets	18
3.2.2	Refusal to move with the times	18
<b>3.3</b>	<b>The opportunities</b>	19
3.3.1	Overcoming the language barriers	19
3.3.2	Turning diversity to advantage	19
<b>3.4</b>	<b>The aims of a European policy for the programme industry</b>	21
3.4.1	Removing barriers between national markets	21
3.4.2	Catering for the European public	21
3.4.3	Promoting an industry with a future	22
3.4.4	Ensuring profitability for a loss-making industry	22
<b>4.</b>	<b>EXISTING INSTRUMENTS</b>	23
<b>4.1</b>	<b>The regulatory framework in the European Union</b>	23
4.1.1	The role of the Member States	23
4.1.2	The role of the European Union	24
<b>4.2</b>	<b>A favourable environment for the development of services</b>	24
4.2.1	The development of infrastructure and the liberalization of services	24
4.2.2	Removing barriers in the single market	25
<b>4.3</b>	<b>Promoting European programmes</b>	26
4.3.1	Majority proportion of European works	27
4.3.2	Encouraging independent production	28
4.3.3	Media time scales	28
<b>4.4</b>	<b>European financial incentives</b>	29
4.4.1	Community instruments	29
	(i) <i>The MEDIA programme</i>	29
	(ii) <i>The Action Plan</i>	30

4.4.2	Other European instruments	31
4.5	<b>National financial incentives</b>	31
4.6	<b>The international context</b>	32
<b>5.</b>	<b>OPTIONS FOR THE FUTURE</b>	<b>33</b>
5.1	<b>The rules of the game</b>	34
5.1.1	Development of the market	34
	(i) <i>Infrastructure and services</i>	35
	(ii) <i>Single market</i>	35
	(iii) <i>Application of the rules of competition</i>	35
5.1.2	Measures to promote European programmes	36
	(i) <i>Tighter checks on the application of Community law</i>	36
	(ii) <i>How can incentives be made more effective?</i>	37
	(iii) <i>Media time scales</i>	39
5.1.3	Should new types of service be covered?	40
5.2	<b>Financial incentives at European level</b>	41
5.2.1	A horizontal approach or sectoral priorities	41
	(i) <i>A horizontal approach</i>	41
	(ii) <i>Priority sectors</i>	42
5.2.2	Priority for companies or priority for projects?	43
5.2.3	What should the scale be in terms of territory, time and funding?	44
	(i) <i>Market size</i>	44
	(ii) <i>The time factor</i>	44
	(iii) <i>The level of funding</i>	44
5.2.4	The European market and cultural diversity	45
5.2.5	Involvement in the development of new markets	46

(i)	<i>Reconstruction and development aid</i>	46
(ii)	<i>Extension of the Community's financial incentives</i>	47
(iii)	<i>A new partnership</i>	47
<b>5.3</b>	<b>Convergence of national support systems?</b>	48
5.3.1	A forum for exchanges and thought	48
5.3.2	What are the priority themes for exchanges and thought?	48
(i)	<i>Convergence in the priorities of national support systems</i>	49
(ii)	<i>Convergence in financing national support systems</i>	50
	<b>CONCLUSION</b>	52
	<b>SUMMARY</b>	53
1.	Options for the rules of the game	55
2.	Options for financial incentives	56
3.	Convergence of national support systems?	58
	<b>Annexe I</b>	59

## 1. INTRODUCTION

The audiovisual industry is a large, complex sector currently undergoing fundamental changes, brought about in particular by rapid technological developments.

These changes are causing new interactions between the different cultural, technological and industrial components of the industry.

They are also generating new audiovisual products and services reflecting the multimedia and interactive approach of the information society.

These developments are creating new openings for operators who will have to adapt their strategies and forge new alliances. This convergence will involve the film industry, broadcasting services and the television programme industry, cable and telecommunications operators, the publishing industry and manufacturers of information and communications technology equipment.

The sustained growth of the audiovisual sector is set to continue, thereby generating great potential in terms of creation of highly skilled jobs.

These phenomena are all present at world level and it is not yet possible to gauge them fully.

**This Green Paper and the debate to which it should give rise focus on one specific aspect of the audiovisual sector: the development of the European film and television programme industry.**

The Commission is aware of the difficulty of isolating this aspect among the many problems connected with the changes in the sector. But it believes this exercise to be necessary to take account of two characteristics of the programme industry:

- films and television programmes are not products like any others: as the prime vectors of culture they retain a specific place in the midst of the manifold new types of audiovisual products; as living testimony to the traditions and identity of each country they deserve encouragement;
- the programme industry is - and will be even more so in future - a strategic element in the development of the audiovisual sector: as recent developments show, the most powerful operators on the world market (equipment manufacturers and cable and telecommunications operators) are seeking to control the most important programme catalogues.

The debate initiated by this Green Paper on the future of the European programme industry must, of course, take account of the general trends in the audiovisual sector. It will draw on thoughts about the development of the information society.

But the Commission's present analysis, taking account of technological developments, convergence of industries and the changing market structures, already identifies four fundamental requirements for the future of the European programme industry:

- it must be competitive in an open worldwide market;

- it must be forward-looking and be involved in the development of the information society;
- it must illustrate the creative genius and the personality of the people of Europe;
- it must be capable of transforming its growth into new jobs in Europe.

Building on the additions made by the Maastricht Treaty to the existing Community instruments (in particular the new provisions on culture) and the acquis of Community audiovisual policy and the trends in this sector, this Green Paper sets out to present the options for the future on the basis of these fundamental guidelines.

The essential problem can therefore be summed up as follows:

**How can the European Union contribute to the development of a European film and television programme industry which is competitive on the world market, forward-looking and capable of radiating the influence of European culture and of creating jobs in Europe?**

The approach is therefore to consider what the European Union can contribute. But it is obvious that these objectives will not be attained unless there is a coordinated effort by all the actors at whatever level.

This Green Paper will also have a logical place in a series of further reflections and debates launched by the Commission to determine what role the European Union must assume in meeting the challenges facing the audiovisual sector in Europe.

Foremost among these exercises in futurology is the White Paper on Growth, Competitiveness and Employment<sup>1</sup> adopted by the European Council in December 1993 which provides the Union with a framework for action and thought on the development of the information society, underlining the growth potential of the audiovisual sector, in particular in terms of employment. Within this medium/long-term framework a high level working party on the information society has been set up to consider matters relating to the objectives of the European Union as regards the development of infrastructure and applications. This is evidence of how the European Union intends to play a full role in harnessing and using the new technologies.

The technological and industrial issues involved in the "digital revolution" in television broadcasting are discussed in a Commission communication to the Council and Parliament on digital broadcasting.<sup>2</sup> While this document (and the proposed directive on standards for satellite broadcasting)<sup>3</sup> is being discussed in the various institutions, the

---

<sup>1</sup> Growth, competitiveness, employment - the challenges and ways forward into the 21st century - White Paper: COM(93) 700 final of 5 December 1993 - Part B, II, Chapter V, Sections A and C. For the presentation of these aspects of the White Paper, see 3.1 below.

<sup>2</sup> Communication from the Commission to the Council and the European Parliament - Digital video broadcasting - a framework for Community policy. Draft Council resolution - COM(93) 557 final of 17 November 1993.

<sup>3</sup> Proposal for a directive of the European Parliament and of the Council on the use of standards for the transmission of television signals (including repeal of Directive 92/38/EEC) - COM(93) 556 final of 15 November 1993.



Commission is watching carefully the work of the European Digital Video Broadcasting Group which comprises most of the European operators concerned.<sup>4</sup>

Finally, in the context of the changes in the audiovisual market structures and the development of operators' strategies, the Green Paper entitled "Pluralism and media concentration in the internal market - an assessment of the need for Community action"<sup>5</sup> analyses the question of whether the European Union should be laying down rules on ownership of the media.

The outcome of these different activities will help shape the framework in which a new environment for the audiovisual sector and a new communication society will gradually emerge in Europe. The Commission will endeavour to coordinate the different strands into an overall policy.

To take into account the analyses and suggestions of all the audiovisual professionals in the Union, the Commission, in preparing this Green Paper, conducted wide-ranging preliminary consultations during which three types of contribution were received:

To begin with the audiovisual sector presented its views and suggestions:

- professional associations representing the audiovisual industry at European level and various professional bodies responsible for managing the Community support measures available under the MEDIA programme<sup>6</sup> were sent a questionnaire;
- in addition, any company or organization which expressed the wish to contribute to the exercise was requested to submit its views and suggestions in writing.

Secondly, the Commission set up a Think Tank<sup>7</sup> last November to present a diagnosis of the audiovisual industry and suggestions for the future. The report produced by the Think Tank reflects the opinions of its authors and is not therefore a document put out or approved by the Commission.

Finally the competent authorities of the Member States were asked to submit their views.

---

<sup>4</sup> For the presentation of the work of the DVB Group, see 4.2 below.

<sup>5</sup> COM(92) 480 final of 23 December 1992.  
There has been widespread consultation in connection with this Paper and the conclusions reached will be set out in spring in a communication to the Council and Parliament in which the Commission presents its position on the need for action.

<sup>6</sup> Council Decision (90/685/EEC) of 21 December 1990 concerning the implementation of an action programme to promote the development of the European audiovisual industry (MEDIA) (1991-95): OJ L 380, 31.12.1990, p. 37).

<sup>7</sup> This Think Tank was chaired by Antonio-Pedro Vasconcelos (TV and cinema producer and former coordinator of the National Secretariat for the Audiovisual Sector in Lisbon). The other members were David Puttnam (film producer, Director of Anglia Television and head of Enigma Productions), Michèle Cotta (journalist and TV producer with France 2, former Chairwoman of the Audiovisual High Authority and former head of the TFI news service), Peter Fleischmann (film director, head of Hallelujah Films and founder of the European Federation of Audiovisual Film Makers) and Enrique Balmaseda Arias-Davila, lawyer, former legal adviser to Spanish television and former Director-General of the Institute of Cinematographic and Audiovisual Arts in Madrid).

It also heard the expert opinion of Gaetano Stucchi (RAI) on matters relating to new technologies.

From the mass of contributions received,<sup>8</sup> it was seen that though there were some contrasting, not to say conflicting, views on what instruments should be used to implement the Union's audiovisual policy, there was virtually unanimous agreement on the following points, confirming the need for wide-ranging debate on the future on the audiovisual industry in Europe:

the audiovisual industry is a special case amongst the high-growth industries, in particular with the possibilities it offers for job creation;

the safeguarding of the diversity of national and regional cultures, often expressed in terms of maintaining the choice available to the public, is now clearly linked to the development of a predominantly European programme industry which must ultimately be profitable;

digital compression technology is seen as revolutionary because it appears set to transform the sector, accentuating the strategic role of the programme industry;

if the European Union wants to strengthen its audiovisual policy, it must act quickly, otherwise it will be overtaken by the rapidly developing technology and the unavoidable liberalization of the industry at international level.

While this Green Paper broadly reflects these points on which there is consensus, it is mainly concerned with initiating a wide-ranging debate on the options the European Union should take for the future.

To this end it will be circulated extensively and in-depth consultations will be organized.

---

<sup>8</sup> For the list of contributions, see Annex 1.

## **2. FUNDAMENTAL TRENDS IN THE PROGRAMME INDUSTRY**

The diagnosis of the condition of the European programme industry reveals its structural shortcomings and its malfunctionings at a time when new trends are becoming apparent as a result of technological change.

### **2.1 The diagnosis**

The diagnosis of the situation in the European programme industry produced by the Think Tank, the professional organizations and the Member States is detailed - often highly so - and, apart from some slight differences between the various analyses, notably with regard to the causes of the phenomena under investigation, broadly consistent, enabling the Commission to give an overview of the key aspects of recent developments before going on to highlight the main upheavals likely to result from current technological advances linked to digital transmission.

#### **2.1.1 The film industry**

The current state of the European film industry shows clear evidence of a decline in the market share of European films. The causes of the decline are complex but there is agreement on some of the main factors involved.

##### **(i) Decline in the market share of European films**

While cinema attendance has been falling steadily (although the decline now appears to be bottoming out in some of the Member States), there has been an increase in the part played by television (pay-channels in particular) and the video cassette in the screening of cinema films. Although the success of a film on these alternative media is often largely determined by its success on the large screen, it is the video sector (hire and sale) which generates most of the revenue.

But whatever the medium, the market share of European films continues to shrink in the face of competition from imports from outside Europe, in particular from America.

Falling attendance has indeed affected only European films, and American films remain popular with their market share averaging nearly 80% for the European Union as a whole. And the "showcase" effect of large-screen success obviously has an impact on the television and video sectors.

##### **(ii) Partitioning of national markets**

Cultural and linguistic diversity clearly plays a part in market partitioning. But while the circulation rate of European films within Europe remains low, the Europe-wide distribution of American films is high, a paradox which has resulted in a polarization of supply between national films (dependent in terms of quantity and quality on the size of their national market) and non-European films.

All fingers point at the weakness of European distribution structures as one of the factors identified as causing this phenomenon. But apart from this structural defect, some blame the failure to take account of market realities throughout the creation, production and distribution process.

**\* Fragmentation of distribution structures**

The American film industry invests massively in distribution and promotion throughout the Community. As revenue from the European market is now essential to cover ever-rising production costs, it is building pan-European strategies based on powerful distribution networks.

The European film industry, on the other hand, is struggling with fragmented distribution structures. With nearly 1 000 distribution companies in Europe for 400 or so European films produced each year, this sector is oversized and does not even provide genuine international distribution networks at European level.

The upshot is that only 20% of European films go beyond their national frontiers. Films are released in a number of countries but without any overall strategy. Only if they are a success on the markets where they are first screened will they be distributed further afield. But this step-by-step approach deprives distributors of the economies of scale that could be achieved via a comprehensive promotion strategy.

This fragmentation has also put the distribution sector in a position where it is incapable of investing in film production, thereby depriving the industry not only of resources but also of an indispensable link with the market.

**\* Failure to take account of market realities**

This breakdown in essential links with the market is evident at two levels in particular.

At the creation stage, European projects are handicapped by a lack of development. This is the crucial stage where original ideas must be reworked and geared more towards other audiences, whether elsewhere in Europe or throughout the world. It is regrettable that some public support mechanisms are unduly restricted to domestic production and do not give sufficient incentive to work for European and transnational markets. This creation/development stage is essential: even with the most sophisticated distribution mechanisms, if no account is taken of the audience's tastes and demands, the European film industry will never be competitive.

At the promotion and marketing stage, compared with the massive investments of American operators (the promotion budget for blockbusters is frequently as much as the production budget), European campaigns are on too small a scale and lack experience in pan-European and worldwide marketing.

**(iii) The spiral of deficit**

With rising production costs compounded by failure to break into the different markets the European film industry is being sucked into the spiral of chronic deficit.

The increasing participation by broadcasters in production financing has so far done little to disrupt this pattern. Investment in co-productions is geared primarily to securing access to programmes attracting what are usually national audiences.

The small scale of the European film industry locked into national markets too restricted to guarantee continuing or profitable investment, is reflected at all levels, both upstream and downstream of production proper. The result is a crisis of confidence and a diversion of European capital, notably to the American programme industry.

**(iv) The perverse effects of support systems**

Apart from the shortcomings connected with the restriction of support mechanisms to domestic production, the proliferation of national and regional aid schemes for film production - with operating rules which pay little if any heed to market requirements - can create "lame-duck" mentalities in the European industry.

Where this happens, European operators become experts in milking these schemes and are then incapable of taking financial risks commensurate with the box-office receipts they can expect. They then develop projects without a thought for potential audiences, knowing full well that a substantial proportion of production costs will be covered by public aid.

The fact that some films produced with public funding are never distributed in cinemas is clear evidence of this.

The principle of public aid is not in itself the cause of this phenomenon; it can be an effective stimulus for the development of profitable projects, provided that the rules governing such aid take account of the market dimension. The reverse phenomenon can also occur, namely that where all public aid is discontinued, the film industry disappears almost entirely. This is why thought must be given to the priorities, the volume and the mechanisms of public financial support in the European Union.

**2.1.2 The television industry**

In the television sector the explosion in programme demand has failed to boost the European programme industry, which remains locked into fragmented national markets.

**(i) Explosion of demand and rising production costs**

The proliferation of broadcasters in the 1980s combined with longer viewing hours produced a veritable explosion of programme demand.

Increased receipts have not compensated for rising production costs or for soaring fees for rights to broadcast sports events. Programme budgets have been cut and broadcasters have had to make massive use of non-European material from programme catalogues that have already paid for themselves on other markets.

**(ii) Low rate of programme circulation within Europe**

Moreover, as most of the new broadcasting services have been developed on a national basis, television production has focused on satisfying national audiences with very little by way of programme circulation within the Community (other than in language areas).

The small number of co-production and co-financing ventures involving operators from more than one Member State is not conducive to the development of projects likely to attract European or world audiences. This has had an adverse effect on the production of television films in particular but television series, cartoons and documentaries are also affected, and these programmes are vital for the creation of catalogues. They are stock programmes which can be screened repeatedly. Catalogues of such programmes are the economic heritage of the television programme industry.

### **(iii) Weak production structures and catalogue shortage**

Production structures remain fragmented, often dependent on one or two national broadcasters, and too small to compete on larger markets. They are undercapitalized and limited resources reduce their potential for building up catalogues, as programme rights are for the most part usually granted to broadcasters financing the production.

At a time when the emergence of pay-television has highlighted the strategic role played by catalogues in the launching of new services, these structural weaknesses are the Achilles' heel of the European television industry.

At the same time there is a tendency for broadcasters to integrate vertically, upstream towards production but also downstream towards conditional access technologies and individual receiving equipment.<sup>9</sup> Recent alliances in Europe show that this tendency is set to increase, focusing on communications groups of telecommunications operators, catalogue holders and equipment manufacturers.

Despite the differences between the cinema and television sectors, the European programme industry can be said to display the following characteristics:

- it is fragmented into national markets threatening the survival of small producers unable to compete on European and world markets;
- the partitioning of national markets is compounded by a low rate of cross-border programme distribution and circulation;
- it is trapped in a chronic deficit spiral;
- it is unable to attract European capital, even though this is available for investment in non-European programme industries.

## **2.2 The new technology**

The increasingly imminent transition from analog to digital broadcasting is so rich in potential that it is not excessive to use the term "revolutionary".

Based on digital compression (the vast quantity of information needed to transmit a moving image is "compressed" by means of algorithms), which is becoming increasingly sophisticated with every day that passes, digital transmission makes it possible:

---

<sup>9</sup> Individual receiving equipment (apart from decoders) is mainly satellite dishes.

- to relay much more information on the same communications vector;
- to relay the same information on many different vectors (radio waves, cable, satellite, telephone lines ...) and develop multilevel user-interactivity;
- to access, store, rework and combine information at will in line with user requirements;
- to combine on the same networks services for consumers and services for business. The large investment required can be justified in economic and social terms by this extensive scope for utilization and the potential benefits for the user and profits for the supplier.

\* The first possibility provides the audiovisual sector<sup>10</sup> with a double option: quantity, quality or a combination of the two.

The quantity option will enable operators to use one and the same vector, either to provide a number of different services (increasingly specialized in nature) or to provide a single service on a staggered basis (near video-on-demand).

The quality option will enable them to play around with the different broadcasting parameters ranging from HDTV through the entire range of image quality and formats to mobile television and with the different sound channels and ancillary services (teletext ...) on one and the same transmission vector.

\* The second possibility places on an equal footing all the different modes of programme transmission, practically fusing broadcasting and telecommunications. Thanks to digital technology, which has the potential to reduce the constraints imposed by frequency availability, access to a communications vector will become less and less costly. While the potential of digital technology can easily be realized with cable and satellite broadcasting, exploiting this potential with land-based radio transmission will depend to a very large extent on the approaches adopted by the Member States concerning the distribution of frequencies. Transmission modes will be selected depending on the level of user interactivity required.

\* The third possibility virtually provides access to any information at any time with, as end result, the concept of multimedia, which allows the user to move around freely through all the information available and to combine images, texts and sounds at will.

In view of the scale and speed of the technological (digital) revolution, the European hardware and software (in the broad sense) industries will probably need to establish and develop new forms of cooperation and strategic alliance to exploit their respective strengths. If the multimedia opportunities are to benefit European firms, all parties involved must be given sufficient incentive to cooperate.

\* The fourth possibility makes it difficult to accept that delays in introducing advanced digital infrastructures should jeopardize not only the availability to the consumer of a

---

<sup>10</sup> The term "audiovisual sector" is used here to cover television broadcasting as well as all other telecommunications facilities able to transmit audiovisual programmes (see p. 7).

