COVID-19 pandemic - Structured Engagement with Industry

AUDIOVISUAL

1. Objectives

NB. COVID-19 is having a significant impact on the whole media sector. This meeting focuses on audiovisual media. This is due to the prominence of audiovisual media services in today's media environment (as it is estimated that about 80% of global Internet traffic comes from audiovisual material). The focus on audiovisual is also a consequence of the existence of specific EU instruments in this field, of both legislative (such as the Audiovisual Media Services Directive) and support nature (such as Creative Europe MEDIA).

Europe's audiovisual sector has been severely impacted by the COVID-19 outbreak. Lockdown measures have led to productions coming to a complete stop (even those that were ongoing), closure of cinemas, and cancellation of festivals, film fairs and markets. This has led, in the short run, to a lack of liquidity for many independent European players across the whole value chain.

Cinemas are particularly hit because they can generate no revenues and this trickles down to all other segments in the value chain. A significant decrease in advertising revenue has also been reported across the board and this has impacted in particular broadcasters.

Many employees that are hired as freelancers or under otherwise precarious contracts are also seeing their incomes threatened by the current situation.

Looking ahead, a significant number of audiovisual works will be ready for release after the end of the crisis. This could result in a bottleneck that could further impact the visibility and revenues of independent European works. Cinemas are likely to release films that can easily boost their revenues (typically American blockbusters). This is likely to have a lasting impact on other parts of the value chain like distributors, sales agents and even production companies.

The purpose of the meeting is to better understand the impact of COVID-19 on the audiovisual industrial ecosystem. The meeting also aims at understanding (i) the industry demands in terms of policy response to the crisis and (ii) presenting the initial Commission support measures.

2. Running order

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Initial remarks by Commissioner Thierry Breton

a) *Audiovisual industry situation and outlook*
- [redacted] EBU - France Televisions
- [redacted], Mediaset
- [redacted] Mediapro
- [redacted] RTL Group
- [redacted], Canal +, StudioCanal & Daily Motion
- [redacted], Nordic Entertainment Group

personal data

b) *The perspective of cinemas*
- [redacted] Europa Cinemas
- [redacted], Kinepolis Group

c) *Financing of production & distribution*
- [redacted] Cattleya
- [redacted] BETA film GmbH
- [redacted], IFSIC (Insitut pour le financement du cinema et des industries culturelles)

d) *The impact on creators and artists*
- [redacted]

Discussion

Wrap-up & next steps

3. Key messages / LTT

- Confinement measures have led to the suspension of shootings, closure of cinemas, and cancellation of festivals, film fairs and markets. These measures have had a severe impact on the economy and employment in the audiovisual sector, notably on film exhibition and distribution, production, and postproduction.
- At national level, measures to support the industry have been adopted. These measures vary from deployment of funds for companies to support for employment and tax alleviations. We are following these

measures and the services are in communication with national film funds to share best practice and coordinate actions.

- [redacted]

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- My services have also asked the European Audiovisual Observatory to assess the impact on the wider audiovisual sector through economic modelling.
- On the regulatory side, you should ask the industry, particularly the broadcasters, to explain if and how audiovisual regulators may help you overcome the crisis and which aspects of the regulation (e.g. direct investment, specific national content sub-quotas, advertising quantitative obligations) would require particular attention and why.
- Concerning Creative Europe MEDIA, we intend to introduce further flexibility, within the existing regulatory context, for ongoing and planned actions. This includes – notably but not exclusively – the extension of the deadlines for submission of applications to on-going calls, the extension of the implementation period of projects currently suspended, and reshuffling of budgets to cover costs of carrying out certain activities online, such as training and IT costs incurred for facilitating market access.
- We are also planning special measures for cinemas, particularly in the context of our support to the Europa Cinemas network. This is likely to take the form of a 5 million euros supplementary allocation of funds in the form of “vouchers” for cinemas.
- We are conscious that Creative Europe MEDIA is small compared to the size of the audiovisual industry and the impact of the current crisis.
- We are therefore in contact with the European Investment Fund to examine to what extent the existing the Cultural and Creative Sectors Guarantee Facility (CCS GF) could be swiftly adapted to mitigate the adverse effects of the outbreak and encourage financial institutions to lend more money.

- [redacted]

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4. Questions to the interlocutor(s)

1. Impact on production/provision of services/etc.

The temporary closure of cinemas, the suspension of audiovisual production and the uncertainties regarding events have had immediate consequences (for instance, on cash flow and employment). Post-crisis there may also be a bottleneck in terms of new releases. At the same time, new online experimentations are happening all across the EU. There has also been a significant drop in advertising revenues.

Do you think that this picture encompasses the most important criticalities that your sector is facing or are there other crucial elements that should be considered?

How do you see the boom of video-on-demand in this time of quarantine? Do you see European works and players benefiting from such phenomenon, or will it further reinforce the position of US productions and companies?

2. Assessment of measures

Could you please explain which policy/regulatory initiatives may help you face this crisis. In particular, do you see a need to coordinate at EU level a more flexible approach to audiovisual regulation? Which aspects of the regulation should be concerned and why?

We are primarily proposing to strengthen support measures to the audiovisual sector, notably the smaller entities (e.g. cinemas and independent producers) which have been particularly hit by the crisis. What is in your opinion the most effective way to spend the limited money available.

What should the EU or Member States do to help your industry recover swiftly once the pandemic is over?

5. Defensives (based on questions received so far from the industry)

- *Support measures to the audiovisual sector at European level are known to be underfunded. Do you intend to reinforce them in light of the current crisis?*

We are conscious that Creative Europe MEDIA is small compared to the size of the audiovisual industry and the impact of the current crisis.

We are therefore in contact with the European Investment Fund to examine to what extent the existing the Cultural and Creative Sectors Guarantee Facility (CCS GF) could be swiftly adapted to mitigate the adverse effects of the outbreak and encourage financial institutions to lend more money.

- *Should cinema films be released online on VOD services if they cannot be shown in cinemas?*

As cinemas are closed down, films already produced should be released online without delay through more flexibility on media chronology in order to avoid the release of all European films at the same time at a later stage with the negative implications of such a massive distribution in a market that will be saturated.

- *The new AVMSD is facing the critical period of implementation. Do you consider that this crisis will have an impact on these processes?*

We understand that the crisis might have an impact on the timing of transposition of the new audiovisual rules in some Member States. We are in close touch with the Member States and will continue monitoring the situation and take further steps if needed.

6. Background information on sector specificities

1. SHORT OVERVIEW

As an industrial ecosystem, the value chain of the audiovisual industry includes three main phases – preproduction, production, and postproduction/distribution[1].

For all parts of the value chain, the main challenges of the crisis will be business continuity, cash flow, revenues, and employment.

For the postproduction and distribution, severely dependent on audience, the effects of the crisis are particularly dramatic, in a moment of standby of the entertainment sector. Cash flow shortage due to closing down of cinemas and cancellation of events, uncertainty on future revenues for the duration of the lockdown, delays for the distribution companies in their planning and revenues due to cancellation of film fairs and markets.

For the preproduction and production parts the main challenge is the suspension of shootings, with many ongoing productions forced to be brutally put on hold. This will make it impossible to release content that was already planned for this year, with negative consequences for the whole value chain of the audiovisual industrial ecosystem, from writers, to producers, to technical staff.

Cinemas seem to be the most exposed to the crisis in the short and medium run. Not only they are closed due to lockdown measures in practically all Member States, but even when such measures are softened and cinemas may reopen, it is unlikely that large audiences will regain the habit of actively going to the cinema right after a long period of lockdown. This will also have an impact on the distribution sector, which counts on theatrical releases for a significant part of its cash flow. For instance, the box office loss from February 23rd to April 30th for Italy alone has been estimated to not less than 55/60 Million Euro.

Furthermore, the release of film is currently largely suspended, meaning that at the end of the lockdown period many films will be released simultaneously, thus creating a bottleneck. In such increased competition, European films will suffer in particular of the upheaval of festivals such as Cannes, which typically generate sales, promotion, visibility and ultimate audiences for European content.

The obvious exception to this gloomy scenario are broadcasters and online platforms that instead are the only distribution channels that continue and perhaps increase their activities due to the lockdown[2]. Nonetheless, they may be affected by a fall in the purchasing power of consumers. Another major impact will be a steep fall in advertising revenues as the wider economy slows down. The broadcasters will therefore have less revenue available to invest in production of works. Moreover, European broadcasters who have invested heavily in

[1] Preproduction: creative talents, production company activities of development, including business development.
Production: production companies and collateral industries such as tourism and infrastructures.
Postproduction: sales agents, distributor, exhibitors, digital platforms, and collateral sectors, such as advertising and marketing companies.

sports rights when sports events are postponed or cancelled, are also likely to suffer substantially.

As the most popular online platforms tend to be American, the current crisis may further strengthen their market position and accelerate the ongoing challenges for European independent producers and in terms of brain drain towards such platforms.

Despite its fragmentation across national and linguistic lines, the audiovisual value chain is highly interlinked. This means that effects in the postproduction sector will have negative effects in the medium run also in the preproduction and production components of the value chain (e.g., less revenues in distribution may result in fewer investments in production).

The crisis is likely to affect all EU territories. In absolute terms, it is likely to have a significant impact on big production hubs (typically based in larger Member States) and urban areas (where cinemas, festivals, events and markets are concentrated). However, smaller production and distribution realities are likely to suffer even more in relative terms, as they can count on smaller capitals, cash flows, and audience bases.

To quantify the economic impact of the crisis an economic model would be necessary. This would be based on a set of hypothesis (e.g., duration of containment, speed of recovery) and parameters (e.g., purchasing power of consumers, fall in advertising revenue). The model should look at direct effects in the short term as well indirect effects from the wider economy in the medium/long term.

As of today, a very rough estimate, based on the assumptions of a three-month lock down across Europe, 100% fall in cinema box office and 50% fall in TV advertising is that there would be a direct 22% fall in revenues. Thus over three months, the audiovisual sector would have revenues of € 22.25 billion instead of € 28.5 billion, a nominal loss of € 6.25 billion.

However, the economic impact for the audiovisual industrial ecosystem would be greater because of indirect and longer-term impacts. The resumption of business would be gradual because the purchasing power of consumers will be lower, confidence will be lower and some restrictions may still apply.

2. KEY EU POLICY ACTIONS RELEVANT FOR THE SECTOR

The response to the crisis will need to extend well beyond the period of lock down as the domino effects and indirect effects will continue to be felt across the industry as business will only gradually recover.

Besides horizontal instruments (competition and state aid rules, structural and cohesion funds, COSME), the main policy instruments are of sectoral nature, namely the Creative Europe MEDIA programme.

a) 5 additional millions euros for the cinemas

Within Creative Europe MEDIA, we plan to introduce new flexibility measures to support Europe's audiovisual industry in these difficult times.

Among these, we plan to introduce a 5 million additional top up for members of the EU-supported Europa Cinemas network, helping in particular those cinemas that have been closed for the longer period, through "vouchers" aimed at the modernisation of the cinemas (e.g., to make them fitter for security and "social distancing" needs) and targeting online experimentations (e.g., common projects with video-on-demand platforms involving a sharing of revenues). [redacted]

b) Encourage online releases of European Films

While theatrical releases continue to play a crucial role for the visibility and promotion of European films, especially across borders, the current situation of cinema theatres that are closed is exceptional and presents a number of challenges to cinemas and distributors alike.

Within the MEDIA distribution schemes, distributors under the 'Selective Scheme' that still have to distribute films till July 2020 are exceptionally being allowed to release films on VOD if necessary to replace the originally envisaged release in cinema theatres. Following a change to its distribution schemes in 2017, the MEDIA programme does not prescribe any particular window system but offers the industry the possibility to use all possible windows.

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[redacted]

c) Strengthening the culture and creative sectors guarantee facility

In addition, we are in contact with the European Investment Fund to examine to what extent the existing the Cultural and Creative Sectors Guarantee Facility (CCS GF) could be adapted to lend more money to the audiovisual SMEs system to mitigate the negative effects of the crisis. This would be necessary as cultural and creative sectors present specificities (creativity is an asset that is complicated to express in monetary terms) that weaken their capacity of accessing funding from horizontal instruments, such as COSME.

[redacted]

[redacted]

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[redacted]

[redacted]