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**COMMISSION STAFF WORKING DOCUMENT**

*Accompanying document to the*

**Proposal for a**

**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**establishing an audiovisual cooperation programme with third countries MEDIA  
Mundus**

**IMPACT ASSESSMENT REPORT**

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**IMPACT ASSESSMENT REPORT**

Integrating ex ante evaluation requirements

This Impact Assessment Report is prepared as a basis for comments. It only commits the Commission's services involved in its preparation and does not prejudge the final form of any decision to be taken by the Commission.

The draft of this Impact Assessment Report was discussed in oral procedure with the Impact Assessment Board on 27 August 2008; on 01 September 2008 and on 13 October 2009 the Impact Assessment Board issued its opinion / recommendations, which are all integrated into this Report.

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## INTRODUCTION

The audiovisual sector is an essential vector for creating highly skilled future-oriented jobs and for conveying and developing cultural values. It plays a major role in the context of the i2010 initiative – the policy umbrella for the European information society and media policies – in the context of the Lisbon agenda.

Since 1991, Community support in the context of consecutive MEDIA programmes<sup>1</sup> is intended to enhance competitiveness and, in particular, to increase the circulation in Europe of non-national European audiovisual works<sup>2</sup>.

MEDIA 2007 is designed to enable the European audiovisual sector to develop its cultural, social and economic potential on the internal market. It does not include support for the production phase of audiovisual works for which a variety of national support schemes exist. Instead, the MEDIA programmes have focused on support upstream and downstream of production support where European added value and cost effectiveness are much more pronounced.

- The external dimension of audiovisual policy is taking on increasing importance: in 2006 the European Community ratified together with 12 Member States the *UNESCO Convention on the protection and promotion of the diversity of cultural expressions*<sup>3</sup>.

It is in this context that on 13 December 2007, the European Parliament adopted, in the 2008 budget, a Preparatory Action focusing on developing European Union relations with third-country audiovisual markets. This Preparatory Action MEDIA International provides the opportunity for structuring and strengthening relations and networks between European Union and third-country professionals in the audiovisual sector, for the mutual benefit of the European industry and that of the third countries involved. Intensified exchange and cooperation with non-European Union professionals strengthen the competitiveness of the European audiovisual industry. At the joint invitation of Viviane Reding and Gilles Jacob, President of the Cannes Film Festival, and in the presence of José Manuel Barroso, ministers in charge of audiovisual matters in the European Union and the EFTA countries, met informally in Cannes on 19 May 2008, and adopted a declaration welcoming the European Parliament's initiative on the MEDIA International Preparatory Action and encouraging the Commission "to pursue the development of this initiative and to examine the desirability and the possibility of presenting, before the end of the year, a proposal for a support programme to promote cooperation between European audiovisual industry professionals and industry professionals in third countries for the mutual benefit of all participants".

With a view to proposing a legal basis following the Preparatory Action, DG INFSO has prepared this Impact Assessment on a possible future MEDIA Mundus programme.

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<sup>1</sup> MEDIA I 1991-1995, MEDIA II 1996-2000, MEDIA Plus and MEDIA Training 2001-2006.

<sup>2</sup> Audiovisual work for the purpose of this Impact Assessment Report and the proposed new programme MEDIA Mundus means a set of moving images with or without sound, as defined in Article 1 of the Audiovisual Media Services Directive (Directive 89/552/EEC of 3 October 1989 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services, (OJ L 298, 17.10.1989, p. 23), last amended by the new Audiovisual Media Services Directive 2007/65/EC.) Examples of audiovisual works include feature films, documentaries, animation films and to a certain extent video games. In principle the scope of the initiative would embrace all audiovisual works independent from their cultural value and therefore no criteria relating to cultural diversity would need to be introduced. Exceptions might apply for video games and other moving content. Here criteria would relate to the "contribution to the cultural heritage" and the "artistic value of the project".

<sup>3</sup> UNESCO Convention on the protection and promotion of the diversity of cultural expressions. [http://ec.europa.eu/culture/portal/action/diversity/unesco\\_en.htm](http://ec.europa.eu/culture/portal/action/diversity/unesco_en.htm)

A future MEDIA Mundus programme would not overlap in any way with the existing MEDIA 2007 Programme, but would be a complementary instrument to MEDIA 2007. Whereas the objectives of MEDIA 2007 are focused on the internal market, those of a MEDIA Mundus programme would focus on the external dimension of the audiovisual industry. A point of convergence for both Programmes would be their aim to strengthen the competitiveness of the European audiovisual industry.

## 1. SECTION 1: PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

- **Lead Directorate-General:** Directorate-General for Information Society and Media.
- **Other involved services:** DGs AIDCO, BUDG, DEV, EAC, ENTR, LS, RELEX, SG, TRADE, EACEA
- **Agenda planning / INFSO Work Programme:** Reference number 2008/INFSO/046

### 1.1. Organisation and timing

#### *Exhibit 1: Chronology of Impact Assessment*

|                       |   |
|-----------------------|---|
| February to July 2008 | Consultation of stakeholders on the possibility of a future new programme at various events, meetings and conferences (see chapter 1.2.)  |
| March 2008            | 1 <sup>st</sup> Inter- Service Steering Group accompanying the Impact Assessment <sup>4</sup> . DGs AIDCO, BEPA, COMM, DEV, EAC, EACEA, ENTR, EUROSTAT, LS, RELEX, SG and DG TRADE showed interest in participating in the group <sup>5</sup> ; |
| April to June 2008    | Public on-line consultation of interested parties   |
| April to July 2008    | Provision of expertise by external consultants  |
| June 2008             | Public Hearing  |
| July 2008             | 2 <sup>nd</sup> Inter-Service Steering Group  |
| September 2009        | 3 <sup>rd</sup> Inter-Service Steering Group  |

### 1.2. Consultation and expertise

**Consultation within the Commission:** The following services have been consulted: SG, LS, BEPA, DGs AIDCO, BUDG, COMM, DEV, EAC, ELARG, ENTR, EUROSTAT, RELEX and TRADE.

**External Expertise:** DG INFSO concluded a service contract with *Technopolis / Media Consulting Group* to acquire external expertise on and input for the impact assessment and the ex-ante evaluation. The assignment included an analysis of the underlying problems, the comparative assessment of policy options and an assessment of potential impacts of the policy options (see Annex 1).

**Consultation of Stakeholders – Stakeholder meetings:** Consultations with the main stakeholders, such as participants in the current MEDIA 2007 programme, stakeholders from third countries and MEDIA committee members<sup>6</sup> - have been extensive<sup>7</sup>:

- On 6 February 2008 a meeting of the Cinema Expert group<sup>8</sup> on *Strengthening of the external dimension of Audiovisual Policy* took place. National authorities' and experts' views were heard;

<sup>4</sup> [http://intra.infso.cec.eu.int/A2/what\\_we\\_do/media\\_int/mundus/](http://intra.infso.cec.eu.int/A2/what_we_do/media_int/mundus/)

<sup>5</sup> [http://intra.infso.cec.eu.int/A2/what\\_we\\_do/media\\_int/mundus/](http://intra.infso.cec.eu.int/A2/what_we_do/media_int/mundus/)

<sup>6</sup> According to Article 11 of the current MEDIA 2007 programme Decision, the Commission is assisted by a committee (Decision n°1718/2006/CE of 15/11/2006).

<sup>7</sup> Consumers were not consulted separately. However, the public hearing on 25 June 2008 in Brussels and the online questionnaire was given wide publicity (for example on 10 June 2008 a press release was published, IP/08/909) and neither were restricted to professionals. Several individuals participated in the public consultation.

- On 11 February and 18 May 2008 the EFADs (European Film Agencies' Directors) were informed;
- In February 2008, in the context of the *Berlin Film Festival*, and in April 2008, in the context of the *Udine Far East Film Festival*, consultations were held with professionals;
- On 17 April 2008 the audiovisual experts from the EFTA were informed.
- On 25 April, 27 June and 28 July 2008 the MEDIA committee<sup>9</sup> was informed. Delegations were invited to send their written comments to the Commission and to hold bilateral consultations with the Commission, if they so wished;
- On 19 May 2008, Ministers in charge of audiovisual met during Europe Day in Cannes on the theme "Cinema: building a world of exchanges"<sup>10</sup> and a conference with approximately 230 stakeholders from all over the world took place to present and discuss possible means of international cooperation;
- On 19 June 2008 the German Federal Film Board (FFA) invited the Commission to hold a bilateral consultation with national stakeholders in Berlin;
- On 25 June 2008 a public hearing with approximately 120 professionals took place in Brussels. The hearing focused on the key role of international cooperation for the European audiovisual industry, provided an outline of a possible future programme MEDIA Mundus and three international expert panels discussed in particular questions related to cooperation between professionals and circulation of audiovisual works<sup>11</sup>;
- On 8 July 2008, the French Presidency of the EU organised a colloquium on the topic *Quelle politique de coopération cinématographique pour l'Union européenne?*<sup>12</sup> Four international expert panels discussed the challenges and opportunities of international cooperation programmes for training, co-production, distribution and exhibition.
- From 9-11 July 2008 the evaluation of projects submitted under the call for proposals for the Preparatory Action MEDIA International took place. Intensive discussions were held with the independent experts (evaluators) on the projects submitted and on their recommendations for modifications to any future actions.

**Consultation of Stakeholders – Online Consultation:** A public on-line consultation was launched on 10 April 2008 using the Commission's Interactive Policy Making tool (IPM). The consultation lasted until 25 June 2008. Wide publicity was given to this public consultation by placing it on the "Your Voice in Europe" website. Moreover, the MEDIA Desks<sup>13</sup>, delegations of the European Commission and diverse expert groups circulated the questionnaire among professionals world-wide. 259 replies from 51 different countries were received. The opinions expressed were analysed in the context of this impact assessment and the results and a detailed analysis of the public consultation were published on the Internet (see Annex 2)<sup>14</sup>.

**Consultation of Stakeholders – Interviews:** In the context of the research for their Report, *Technopolis / Media Consulting Group* conducted 54 interviews with audiovisual professionals from around the world, covering all relevant parts of the audiovisual value chain, see exhibit 2.

<sup>8</sup> The Cinema Expert group was created in 2001 to provide expertise to the Commission when drafting implementing measures on audiovisual policy (COM(2001) 534 final) - [http://ec.europa.eu/avpolicy/reg/cinema/index\\_en.htm](http://ec.europa.eu/avpolicy/reg/cinema/index_en.htm) .

<sup>9</sup> According to Article 11 of the current MEDIA 2007 programme Decision, the Commission is assisted by a committee (Decision n°1718/2006/CE of 15/11/2006).

<sup>10</sup> For text of Declaration of European Audiovisual Affairs Ministers and of the European Commission member responsible for the Information Society and Media, see:

<sup>11</sup> [http://ec.europa.eu/information\\_society/media/docs/overview/news/cannes2008/cannes\\_2008\\_en.pdf](http://ec.europa.eu/information_society/media/docs/overview/news/cannes2008/cannes_2008_en.pdf)

<sup>12</sup> [http://ec.europa.eu/information\\_society/media/mundus/public\\_hearing/index\\_en.htm](http://ec.europa.eu/information_society/media/mundus/public_hearing/index_en.htm)

<sup>13</sup> <http://www.colloquiecineurope.com/>

<sup>14</sup> The MEDIA Desks & Antennae represent the MEDIA programme in the Member States, as set out in Article 12 of the MEDIA 2007 decision (Decision n°1718/2006/CE of 15/11/2006). Their objective is to promote the Programme in their country/ region and provide information to professionals of the audiovisual industry on its implementation. Currently, the network comprises 43 desks and antennas:

<sup>14</sup> [http://ec.europa.eu/information\\_society/media/overview/who/desks/index\\_en.htm](http://ec.europa.eu/information_society/media/overview/who/desks/index_en.htm)

<sup>14</sup> [http://ec.europa.eu/information\\_society/media/mundus/index\\_en.htm](http://ec.europa.eu/information_society/media/mundus/index_en.htm)

**Exhibit 2: Distribution of interviews according to region and type of actors in the audiovisual value chain<sup>15</sup>**

| Region                           | Africa    | Asia     | Australia | CIS      | EU        | Latin America | Near East | North America <sup>16</sup> | Total     |
|----------------------------------|-----------|----------|-----------|----------|-----------|---------------|-----------|-----------------------------|-----------|
| <b>Broadcaster</b>               | 1         |          |           | 1        | 1         |               |           |                             | <b>3</b>  |
| <b>Distributor / Sales Agent</b> | 1         |          |           | 1        | 9         | 2             |           |                             | <b>13</b> |
| <b>Exhibitor</b>                 | 1         |          |           | 1        | 2         |               |           |                             | <b>4</b>  |
| <b>Producer</b>                  | 3         | 1        |           |          | 1         |               |           |                             | <b>5</b>  |
| <b>Public support body</b>       | 4         | 2        | 2         | 1        | 10        | 4             | 1         | 5                           | <b>29</b> |
| <b>Total</b>                     | <b>10</b> | <b>3</b> | <b>2</b>  | <b>4</b> | <b>23</b> | <b>6</b>      | <b>1</b>  | <b>5</b>                    | <b>54</b> |

### 1.3. Main results and follow-up to the consultations

The main results of the consultation process can be summarised as follows:

- Many professionals strongly support strengthened cooperation between European and third country professional in the audiovisual sector.
- The consulted stakeholders expressed a need for action that should mainly focus on training, distribution, the facilitation of co-productions and circulation of audiovisual works (including new platforms, such as VOD<sup>17</sup> and IPTV<sup>18</sup>), and film literacy.

Stakeholders were given ample opportunities to contribute to and comment on different policy options. This Impact Assessment report closely reflects their views. The policy options described here have received feedback from a representative sample of relevant parties and actors from the audiovisual sector.

### 1.4. The opinion of the Impact Assessment Board

On 27 August 2008 the draft of this Impact Assessment Report was discussed in oral procedure with the Impact Assessment Board. On 01 September 2008 the Impact Assessment Board delivered its opinion / recommendations. The following general recommendation was given: *"The report should strengthen the rationale for the creation of a new instrument MEDIA Mundus and better explain why the extension of the existing initiative MEDIA 2007 would be neither desirable nor feasible. It should develop and analyse alternative options for the allocation of funding across the value chain and assess their cost-effectiveness as required by the Implementing Rules of the Financial Regulation. The report should also discuss the risks (in the sense of the Financial Regulation) which would be connected to the implementation of this programme. During its meeting with the board DG INFSO agreed to revise the impact assessment on this basis"*.

In response to these recommendations, a number of modifications were made to the Report and the analysis of impacts of options 1, 2 and 3 was further substantiated with the requested elements in section 4.1.-4.5., additional elements regarding cost effectiveness, resource intensity and a comparison of options (including the rationale for creating a new instrument) were introduced in section 5, and in section 6 indicators were added. In section 5 additional explanations have been provided as regards lessons learned from evaluations of the previous MEDIA programmes and how they could be transferred to a MEDIA Mundus Programme. The definition of the objectives (global, specific and operational) proposed for MEDIA Mundus in section 4.3. (including an explanation of budget

<sup>15</sup> Source: Technopolis / Media Consulting Group, 2008.

<sup>16</sup> All interviews were conducted solely with Canadian counterparts, no US organisations were interviewed.

<sup>17</sup> Video on Demand.

<sup>18</sup> Internet Protocol Television: Broadcasting of audiovisual content through the Internet. This covers several types of video content, such as live television broadcast, video on demand, catch-up TV, etc.

allocation and deliverables per specific and operational objective) now follows the standard terminology of the ex-ante evaluation requirements. Annex 11, actions to be implemented, was added. The (additional) technical comments made by the IAB were duly taken into account in the revised version. In September 2008 DG BUDG was consulted on methodological issues relating to ex-ante evaluation, in particular sections 5 and 6 and confirmed that this report fully complied with DG BUDG's ex-ante requirements. The revised report was resubmitted to the IAB on 26 September 2008 and the IAB issued its final recommendations on 13 October 2008 which state that

*"The report should further explain why it is necessary to create a new instrument, rather than integrating international activities in the existing programme MEDIA 2007. It should also demonstrate with greater precision the (cost-) effectiveness of different scenarios in achieving the objective of 7% market share of EU audiovisual works in third countries and vice versa. Finally, it should provide a clearer explanation of the added value and justification for the number of outputs under each action line in terms of the expected benefits."*

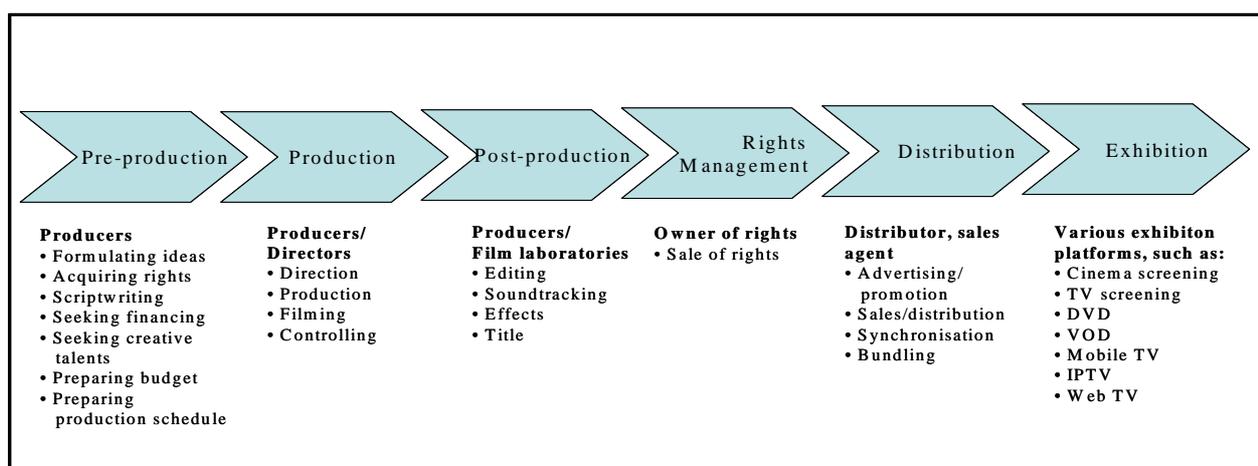
The respective modifications were made to the Report and are to be found in particular in sections 4.3, 4.4 and 5.6 as regards the clarification why the envisaged international activities cannot be integrated into the existing MEDIA 2007 Programme. Concerning greater precision of (cost-) effectiveness in scenarios 1 and 2 in meeting the 7%-objective, sections 4.5 and 5.2 were modified. Additional clarification was provided as regards added value and justification for the number of outputs under each action line, i.e. in exhibits 21 to 26. Finally, the text was shortened as requested and the concept of cost-effectiveness and administrative costs was more rigorously used in section 5.

## 2. SECTION 2: PROBLEM DEFINITION AND RATIONALE FOR INTERVENTION

### 2.1. Context: Introduction - value chain of the audiovisual industry

The life cycle of a film<sup>19</sup> is a long and complex process for which six steps can be identified (see exhibit 3). A myriad of actors are involved although certain of them have a more important role, such as scriptwriters, producers, distributors, outlets for dissemination (cinema theatres, TV channels, DVD and VOD). Their interaction (see Annex 3) determines the different market structures for the audiovisual sector. Indeed, there is not a sole cinema or audiovisual market but many of a heterogeneous nature (see Annex 4).

*Exhibit 3: Value chain of audiovisual industry - Life cycle of a film<sup>20</sup>*



<sup>19</sup> This study covers audiovisual works in the meaning of the Audiovisual Media Services Directive" (AVMSD), (see footnote 2). However, the main focus of the study and a future expenditure programme are cinema; therefore information is on occasion specific to cinema/film.

<sup>20</sup> Source: INFISO/A2.

## 2.2. What are the nature and the scope of the problem?

Europe has a particularly active cinema industry, when measured against classic indicators (see exhibit 4). In 2006, Europe produced 883 films, in second place behind India (1,016 films) and in front of the United States (485 films)<sup>21</sup>. In 2006, Europe was the third largest cinema market in the world (926 million cinema tickets sold) and the second in terms of box office takings, just behind India (3,997 million tickets sold), and the United States (1,448 million tickets)<sup>22</sup>.

*Exhibit 4: European film market, 2004 to 2006<sup>23</sup>*

|      | Number of feature films produced | Number of screens | Number of admissions (million) |
|------|----------------------------------|-------------------|--------------------------------|
| 2004 | 770                              | 28,727            | 1,006                          |
| 2005 | 815                              | 29,020            | 894                            |
| 2006 | 883                              | 29,024            | 926                            |

Despite this, the European industry struggles with the major problem of poor circulation of European films on international markets and of foreign films (other than those produced by Hollywood studios) on European markets. European films, in contrast to those produced by Hollywood studios, are not readily exported. This is evidenced by the low market share of European films on foreign markets (see exhibits 5 and 6). These figures represent some important markets; however, the average market share of European films in third countries is estimated to amount to 4%<sup>24</sup>.

*Exhibit 5: Market share European films versus US-American films in major third countries in 2006<sup>25</sup>*

|             | Market share of European films | Market share of US films |
|-------------|--------------------------------|--------------------------|
| Mexico      | 3%                             | 81%                      |
| Argentina   | 5.5%                           | 82%                      |
| Brazil      | 3%                             | 86%                      |
| South Korea | 3%                             | 47%                      |
| India       | 2%                             | 10-12%                   |
| Japan       | 5-9%                           | 50%                      |
| USA         | 3.3%                           | 94.5%                    |

<sup>21</sup> SCREEN DIGEST.

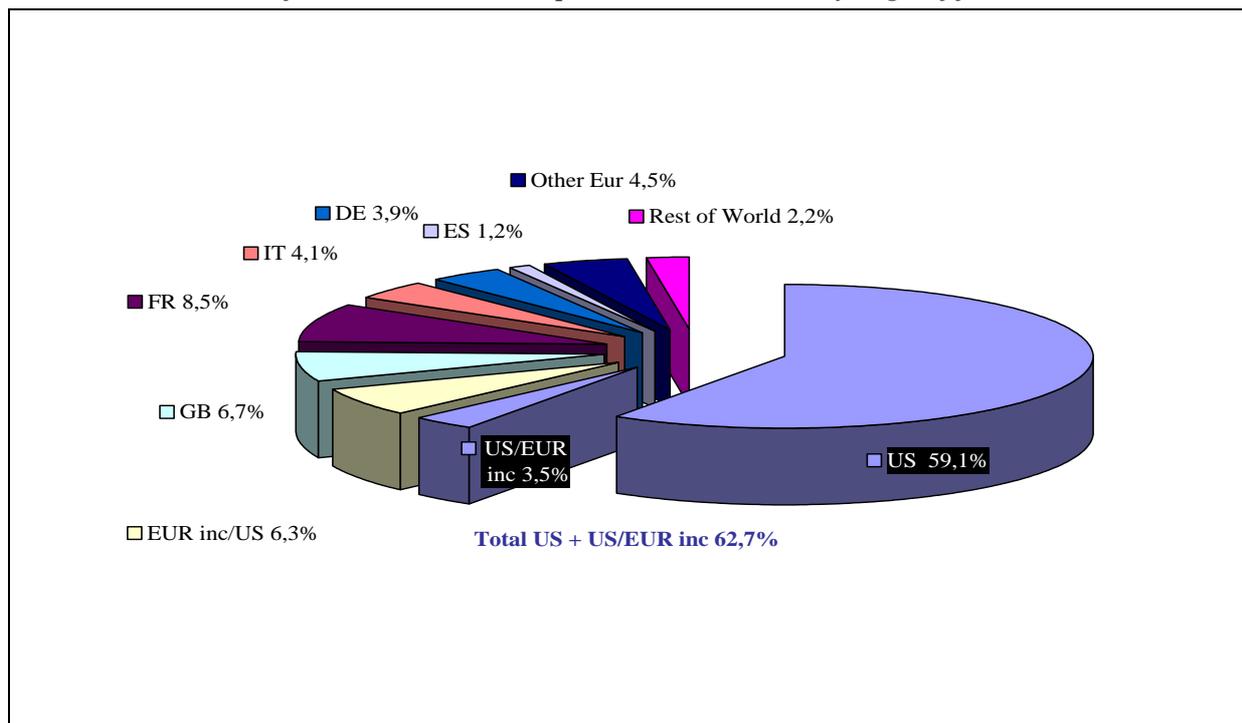
<sup>22</sup> SCREEN DIGEST.

<sup>23</sup> Source: Centre National de la Cinématographie, France (CNC) 2008.

<sup>24</sup> Source: UNESCO, *Audiovisual markets in the developing world- Statistical assessment of 11 countries*, Paris, 2006, <http://unesdoc.unesco.org/images/0014/001461/146192e.pdf>.

<sup>25</sup> Source: Instituto Mexicano de Cinematografía (IMCINE), Korean Film Council (KOFIC), Instituto Nacional de Cine y Artes Audiovisuales, Argentina (INCAA), Unifrance, Motion Pictures Association of America (MPAA).

**Exhibit 6: Breakdown of admissions in the European Union admissions by origin of films 2007<sup>26</sup>**



Films from non European countries other than Hollywood productions face similar difficulties on the European market, see exhibit 7.

**Exhibit 7: Top 10 third country films (excluding the US) in the EU- 2002 to 2006<sup>27</sup>**

| Rank                | Country     | Number of feature films produced | Number of films released in Europe | Market share of admissions in Europe <sup>28</sup> |
|---------------------|-------------|----------------------------------|------------------------------------|--|
| 1                   | Canada      | 484                              | 114                                | 0.55%  |
| 2                   | Australia   | 122                              | 42                                 | 0.32%  |
| 3                   | Japan       | 1,663                            | 122                                | 0.29%  |
| 4                   | India       | 4,464                            | 248                                | 0.25%  |
| 5                   | China       | 1,042                            | 43                                 | 0.13%  |
| 6                   | Argentina   | 275                              | 82                                 | 0.12%  |
| 7                   | Hong Kong   | 359                              | 37                                 | 0.09%  |
| 8                   | South Korea | 427                              | 56                                 | 0.08%  |
| 9                   | Russia      | 610                              | 76                                 | 0.08%  |
| 10                  | Turkey      | 110                              | 39                                 | 0.06%  |
| <b>Top 10 total</b> |             | <b>9,556</b>                     | <b>859</b>                         | <b>1.96%</b>                                       |

<sup>26</sup> Source: European Audiovisual Observatory (FOCUS 2008).

<sup>27</sup> Source: European Audiovisual Observatory (FOCUS 2008) and SCREEN DIGEST.

<sup>28</sup> Column 3 is not related to columns 1 and 2 but relates to the overall number of admissions/attendance in Europe.

On the French exhibition market, which is seen as the most open to diversity within the European Union, only 541 films from Asia, Africa and Latin America had a première showing between 1992 and 2003, as opposed to 1,967 from North America, 1,746 French films and 1,201 from Europe. Only 20 Indian films were shown in France during this period, 4 Thai films, 31 Korean films, 23 Mexican films (this represents a tiny proportion of the national production from these countries during this period). This under-showing is even more noticeable when one considers the number of screenings (i.e. number of times the film was shown in cinemas) as a reference criterion. Asian cinema represented 7.26 % of the number of films released during that period, but only 2.05 % of the number of screenings. This discrepancy affects also Latin-American productions (share in the number of screenings lower by 1.39 points than films released). Conversely, domestic films and American films represent a share in screenings higher than their share in the number of films (by nearly 20 points in the case of American films). For additional information on market shares in the European Union, see Annex 5.

Regarding the circulation of films on television, DVD, VOD, IPTV available data is patchy<sup>29</sup>. In general the television market is dominated by domestic, European<sup>30</sup> and US productions and this is even more pronounced for video.

### 2.3. What are the underlying causes behind these problems?

**Market size and fragmentation:** As has been demonstrated by the new theory of international trade<sup>31</sup>, in a state of imperfect competition, the size of the original market predominates in determining the structure of international exchanges: Consequently, the concentration of performance of European works on their sole domestic market, by reason of the persistent fragmentation of European audiovisual markets, affects their competitiveness in third-country markets, particularly with regard to competition from American works. This also applies to non American foreign films in Europe<sup>32</sup>. These imbalances also concern the market for television resources (advertising resources, public resources and subscription resources, See exhibit 8). Thus, remaining largely compartmentalised within domestic markets, whose relative size is modest, European and foreign works are doubly handicapped with respect to competition from American works on foreign (and European) markets. A detailed explanation of this phenomenon is given in Annex 6.

**Exhibit 8: Comparison of TV advertising spend in the EU versus USA in 2006(in million Euro)**<sup>33</sup>

| USA    | GB    | Italy | Germany | EUR 15 |
|--------|-------|-------|---------|--------|
| 49,823 | 5,654 | 4,599 | 4,571   | 26,785 |

The *linguistic diversity* of the European audiovisual market reinforces the problem of fragmentation and market size. In general, language transfer (generally dubbing or subtitling) is a necessary condition to enable circulation within Europe and on an international level. In cinema, and even more so on television, the general public prefers the traditional “comfort” of National language. The high costs of dubbing and subtitling are a major obstacle for distributors, in particular in restricted linguistic

<sup>29</sup> For further reference: European Audiovisual Observatory (FOCUS 2008)

<sup>30</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1207&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>31</sup> For any goods, countries whose market size is relatively larger than that of their commercial partners will have a relative advantage and will therefore have a strong economic interest in specialising in the production of those goods, see Krugman, (1979), Siwek and Wildman (1987), Lancaster (1991).

<sup>32</sup> As an example to demonstrate the scope of the problem it is useful to compare the number of screenings / entries, which highlights that the US and European markets are of completely different orders of magnitude. In fact, with 1,400 million entries in 2007, the market for screenings in the USA is almost 10 times the size of any major European market, on the other hand the largest European national market, France, had 177 million entries in 2007; i.e. the largest European national market is tiny compared to that of the US.

<sup>33</sup> Source: European Audiovisual Observatory (OEA), 2007.

areas, to target non national markets. The average costs (for a 90 minutes film) in big markets like Germany, Spain, France and Italy are 5.300 Euro for subtitling and 34.900 Euro for dubbing whereas in small markets like Finland, Sweden and Denmark prices are around 2.600 Euro for subtitling and 52.000 Euro for dubbing<sup>34</sup>.

**Distribution structures** in Europe are extremely disadvantageous for exporting audiovisual products. Contrary to their large vertically integrated multinational US counterparts, distributors in Europe are mostly small. In addition, within each national market of the European Union, other types of organisational structure exist for distribution (independent distributors, distributors integrated within TV channels, distributors vertically integrated into a cinema group, exhibitors with distribution activities etc.). Thus, the distribution sector in Europe is highly fragmented without any integrated pan-European companies. Moreover, European audiovisual works are first released on their national markets and, if this is a success, other European non-national distributors may distribute the film in another European country. This strategy generates a 'timing constraint', i.e. the release of the film over several months/years, thus increasing the risk and cost of distribution: All the more so as film distribution requires heavy investments upfront<sup>35</sup> without any guarantee on returns. Since the US majors<sup>36</sup> have a greater degree of control over distribution<sup>37</sup>, they are able to organise the release of their films on international markets in a short period of time, improving the efficiency of the promotion and marketing. In addition, in a large number of countries around the world, the distribution segment is to a large extent in the hands of US majors, either through distribution subsidiaries or through a joint venture with a powerful domestic distributor, thereby ensuring privileged distribution for the American majors. For example, in Brazil, Argentina and Mexico, the six Hollywood majors are the top six distributors, whilst in South Korea three of the Hollywood majors are in the top seven distributors<sup>38</sup>.

**Financing Structures** of European audiovisual works depend heavily on public resources and national distributors. This strongly favours the creation of works geared towards national audiences and hampers the export of audiovisual works as well as the participation of non-European capital.

**Under-funding of European audiovisual companies:** In the European audiovisual industry, revenues from European audiovisual works are limited mainly to television sales and box office receipts from domestic markets. This characteristic, combined with the economic specificities of film production (high-level risk, hazards of demand, importance of fixed and sunk costs), explains the chronic under-funding of European audiovisual companies and the central role of national public aids and legal investment obligations imposed on domestic TV Broadcasters in the financing of European audiovisual works. It also explains in part why there is little impetus for seeking foreign investment or developing strategies for export.

**Lack of equity:** European audiovisual works suffer from a lack of funds meaning that financing depends on obtaining pre-financing (often from public funds). This situation means that seeking additional non-domestic or non-European finance is rarely vital once the pre-financing has been awarded, and prevents the development of effective export strategies. This also however impacts negatively on the economic viability of the company and its capacity to attract private investment.

**Lack of information / data:** Information on third country audiovisual markets is scarce, awareness is low and available data is limited. It is also difficult for audiovisual professionals to establish networking abroad given distances and legal and linguistic barriers.

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<sup>34</sup> Study on dubbing and subtitling needs and practices in the European audiovisual industry 14.11.2007, Media Consulting Group in partnership with Peacefulfish, published on <http://intra.info.ccc.eu.int/>

<sup>35</sup> Minimum guarantee and print & advertising costs.

<sup>36</sup> Buena Vista International, Columbia Tristar, Paramount Pictures, Universal, 20<sup>th</sup> Century Fox, MGM, Warner Bros.

<sup>37</sup> Competition policy is not an instrument to remedy this problem and it is not a tool for industrial policy. It is a response to market behaviour and not to (European) market failure. See for example UIP case <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/99/681&format=HTML&aged=0&language=EN&guiLanguage=en>

<sup>38</sup> For further details see impact assessment study (Technopolis) in Annex 1, page 10, exhibit 5.

**Viewing habits:** Depend on personal impressions and emotions that are linked to previous positive experiences. Experience is also cumulative and depends on individuals but also generations (acquired taste) as well as on (regional) cultural traditions. In a context where viewing is mainly dominated by US and partly by domestic production, these characteristics are important for determining the demand for audiovisual works and represent a significant obstacle to diversity of audiovisual works. In this context, it is of paramount importance for the audience (in particular young audiences) to be aware of and seek a choice of culturally diverse audiovisual works.

## 2.4. Who is affected, in what ways and to what extent?

- **European Professionals:** European audiovisual professionals, in view of the problems explained above, are caught in a vicious circle:
  - the financial fragility of production and distribution structures combined with the poor circulation of works on foreign markets affects adversely the economic viability of all segments of the value chain,
  - the implementation of an export strategy could increase the circulation of European works and would thereby address the problem of financial fragility, improve profitability and therefore increase overall competitiveness,
  - nevertheless, this is in itself limited by the current structure and financial weakness of the European audiovisual industry.

This vicious circle is of great concern since the potential of development (and consequently the increase of revenues) on the "old" European markets is limited. In the long term, the future of the European audiovisual industry could clearly be compromised.

- **Consumers:** There is limited international visibility for European films and limited visibility of foreign audiovisual works in the EU. This limitation is often perceived as the consequence of economic dysfunctions in the supply and screening conditions for non-domestic (and non-American) works but it should not simply be interpreted as a possible lack of appetite of the public for foreign works. In fact, a study conducted by the European Audiovisual Observatory highlights the growing importance of films from third countries<sup>39</sup>.
- **European Union credibility / position vis-à-vis international policy in the sector:** The European Union was a major player in the conception and adoption of the *UNESCO Convention on the Protection and the Promotion of the Diversity of Cultural Expressions*<sup>40</sup>, which entered into force on 18 March 2007. Its aim is to "strengthen international cooperation and solidarity so as to favour the cultural expressions of all countries". The poor circulation of third country cinema works on European markets does not reflect favourably the aims expressed by the European Union. The conference *Cultural Diversity – Europe's Wealth. Bringing the UNESCO Convention to Life*, organised in Essen during the German Presidency of the EU<sup>41</sup>, highlighted the expectations of Europe from third country audiovisual professionals. In this context, the success of the first year of the Preparatory Action MEDIA International illustrates the needs of European and third country professionals. (See section 2.6. and Annex 9 )

## 2.5. How would the problem evolve, all things being equal?

The international audiovisual landscape has changed significantly over the last two decades, notably from the impact of technological developments. New players have emerged, requiring more content production for emerging markets where financial growth is extremely promising.

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<sup>39</sup> The place of third country film and audiovisual works in European markets; M.Kanzler and A. Lange, EAO 2008; [http://www.obs.coe.int/online\\_publication/reports/thirdcountry\\_av\\_works.pdf.en](http://www.obs.coe.int/online_publication/reports/thirdcountry_av_works.pdf.en)

<sup>40</sup> [http://portal.unesco.org/en/ev.php-URL\\_ID=31038&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=201.html](http://portal.unesco.org/en/ev.php-URL_ID=31038&URL_DO=DO_TOPIC&URL_SECTION=201.html)

<sup>41</sup> April 2007 see <http://www.unesco.de/1338.html?&L=0>

### 2.5.1. *Missed potential for opportunities on third country markets*

During the last fifteen years, audiovisual markets of many third countries have largely improved their economic results. **Multi channel TV** has developed in numerous Latin American and Asian countries. This has been mirrored by the removal of institutional barriers and increased resources. Asia Pacific stands out as exceptionally dynamic (India and China). This development of multi channel TV is an opportunity for the broadcasting of content.

In many regions the cinema theatre market has also grown in the last decade<sup>42</sup>. In fact, many markets show remarkable increases often linked to the **creation of multiplexes**. The revenues needed to finance this growth require foreign investment. Positive effects of this growth include increased cinema going, and therefore increased revenues; this growth is likely to continue over the next 10 years (see Annex 7 for further details).

Structural weaknesses affecting the circulation of European works on foreign markets and inadequate financing of European firms prevent the European audiovisual industry from benefiting fully from this new international expansion of opportunities. This situation is regrettable since:

- The majority of the European audiovisual markets (with the exception of the new Member States) are "mature" markets with little prospect of growth in revenues.
- The recent construction of cinema theatres launched on a massive scale in many third countries means that these countries, unlike Europe or the United States, will benefit from advances in digital projection since they have not invested (as have European cinema theatres) in an upgrade to multiplexes but will switch directly to digital multiplexes. Indeed, digital rollout can be expected to happen rapidly and on a wide scale in these countries; this will in turn reduce the costs for film distribution.

### 2.5.2. *Insufficiency of existing internationalisation efforts*

There are three types of internationalisation activities, namely (1) international film funds, (2) co-production treaties and (3) existing European Union programmes in the area of audiovisual support (*MEDIA 2007*, *Euromed Audiovisual* and *EU – ACP support programme for cinema and the audiovisual industry*)

**International film funds:** There are several funding bodies supporting internationalisation activities (see Annex 8<sup>43</sup>). These funds<sup>44</sup> cover all geographic zones of the world and all parts of the value chain. However, budgetary allocations are very limited. Altogether these funds had less than 10 million Euro at their disposal in 2007. In comparison, financial support for the film industry in Austria amounted to more than 12 million Euro in 2007 – exceeding the budget of the international funds.

**Co-production treaties:** An international co-production is a film made by production companies from different countries. Official co-productions are made possible by co-production treaties between national governments and stipulate the legal framework in which producers may work together. They open national sources of film funding to foreign producers. International co-productions also occur outside the framework of co-production treaties<sup>45</sup>.

**Existing European Union programmes in the area of audiovisual support: MEDIA 2007:**

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<sup>42</sup> This does not apply to Africa. For further reference see impact assessment study (Technopolis) page 11.

<sup>43</sup> For further reference: Appendix D of the impact assessment study (Technopolis).

<sup>44</sup> Ibermedia, Balkan Fund, Produire au Sud, Fonds du Sud, Hubert Bals Fund, World Cinema Fund, Göteborg Film Fund, Southern Vision, Visions Sud-Est.

<sup>45</sup> <http://merlin.obs.coe.int/> ; <http://www.cnc.fr> 49 bilateral co-production treaties between EU Member States and 109 co-production treaties between EU Member States and third countries can be identified. For further reference, Appendix C of the impact assessment study (Technopolis).

The *MEDIA 2007* programme (2007-2013)<sup>46</sup> is the fourth multi-annual programme for support to the European audiovisual industry since 1991. Its general objectives are to:

- (a) preserve and enhance European cultural and linguistic diversity and its cinematographic and audiovisual heritage, guarantee its accessibility to the public and promote intercultural dialogue;
- (b) increase the circulation and viewership of European audiovisual works inside and outside the European Union, including through greater cooperation between players;
- (c) strengthen the competitiveness of the European audiovisual sector in the framework of an open and competitive European market favourable to employment, including by promoting links between audiovisual professionals.

Article 8 of the *MEDIA 2007* Decision sets out the conditions for, on the one hand, participation of European third countries in the programme and, on the other hand, cooperation with non-European third countries:

- Full participation in *MEDIA 2007* is limited to certain European third countries. Currently Norway, Iceland, Liechtenstein, Switzerland and Croatia participate in *MEDIA 2007*. They have to pay an annual financial contribution for their membership ("entry ticket").
- Limited participation in the field of training is also possible.
- Cooperation is possible with Western Balkan countries and with other third countries which have concluded Association and Cooperation Agreements with the European Union incorporating clauses on the audiovisual sector. Only one request for cooperation under Article 8 of the *MEDIA* programme has been received to date and is currently pending.

All forms of participation and cooperation require supplementary appropriations and specific arrangements to be agreed upon, necessitating lengthy negotiations and legislative procedures. Although *MEDIA 2007* creates synergies on a pan-European level and foresees the possibility for cooperation, it is mainly an intra-European programme aiming at increasing co-operation and circulation among Member States<sup>47</sup>. Its main focus is thus not on the international, but on the internal market dimension.

#### ***Existing European Union programmes in the area of audiovisual support: EUROMED Audiovisual***

In the 1995 Barcelona Conference Foreign Affairs Ministers from the European Union and 12 Mediterranean Partners agreed to form the Euro-Mediterranean Partnership to nurture closer economic and cultural ties between the southern Mediterranean and Europe. In 2000, the European Commission launched the regional Euromed Audiovisual I Programme and in 2006, the current Euromed Audiovisual II Programme<sup>48</sup>. The current programme budget is 15 million Euro for the period 2006 to 2008. The programme ends in 2008 and its relaunch is currently foreseen for 2009. Euromed Audiovisual II is geared towards professionals, institutions and national organizations in the audiovisual field from the following countries and territories: Algeria, Egypt, Jordan, Israel, Lebanon, Morocco, Syria, the Palestinian Authority, Tunisia and Turkey<sup>49</sup>. The 15 Euromed Audiovisual projects concern training, development, promotion, distribution and exhibition, backed up by a technical assistance structure<sup>50</sup>.

#### ***Existing European Union programmes in the area of audiovisual support: EU – ACP***

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<sup>46</sup> See [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_327/l\\_32720061124en00120029.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_327/l_32720061124en00120029.pdf)

<sup>47</sup> Countries that are eligible for participation in the *MEDIA 2007* programme are an integral part of the European audiovisual area and are therefore enabled, if they wish and taking into account budgetary considerations or priorities of their audiovisual industries, to participate in the programme.

<sup>48</sup> <http://www.euromedaudiovisuel.net/general.aspx?treeID=4&lang=en>

<sup>49</sup> All those activities have the aim of exchanging know-how, networking the South Mediterranean professionals and institutions and reinforcing their contacts with Europe.

<sup>50</sup> To reinforce the capacity of the South-Mediterranean region's public authorities, to improve the organization of the audiovisual sector and to adopt measures to deal with new developments and new threats.

The *EU-ACP support programme for cinema and the audiovisual industry*<sup>51</sup> aims to promote the development and structuring of the audiovisual industries in the 79 ACP (Africa, Caribbean and Pacific) countries. The Programme started in October 2007 for 3 years with a budget of 6.5 million Euro. The programme is managed and implemented by the ACP Group of States Secretariat with the assistance of a Programme Management Unit. It is funded under the 9th European Development Fund (EDF). It supports training, film production, film distribution and film promotion.

## 2.6. Events triggering the initiative - the Preparatory Action *MEDIA International*

On 13 December 2007 the European Parliament adopted, in the 2008 budget, a Preparatory Action *MEDIA International* with a 2 million Euro budget to focus on European Union relations with third countries' audiovisual markets. Unlike existing programmes, the Preparatory Action is ***based on the principle of mutual benefit for professionals from European Union Member States and from third countries***; the coordinator of the project needs to be a resident of an European Union Member State, but projects have to be jointly implemented by professionals from third countries and the European Union.

On 4 April 2008 the Commission launched a call for proposals<sup>52</sup>, which closed on 13 June 2008. This call contained three action lines: (1) Continuous Training, (2) Promotion of cinematographic works and (3) Support of Cinema Networks. Of the 33 proposals received, 26 were found to be eligible; 19 in the field of training, 6 for promotion/distribution and 1 cinema network. In total, Community support required by the 33 submitted projects amounted to 4.62 million Euro, Community support required by the 26 eligible projects amounted to 3.13 million Euro, compared to 1.98 million Euro available (see exhibit 9). It can be seen that this call, in spite of the short period for finding partners and submitting proposals, was significantly oversubscribed.

### ***Exhibit 9: MEDIA International Preparatory Action 2008: proposals received and supported***<sup>53</sup>

|                        | Proposals | Support (million Euro) | Eligible Proposals | Support (million Euro) |
|------------------------|-----------|------------------------|--------------------|------------------------|
| Continuous training    | 24        | 2,49                   | 19                 | 1,75                   |
| Distribution/Promotion | 8         | 1,43                   | 6                  | 0,68                   |
| Cinema Networks        | 1         | 0,70                   | 1                  | 0,70                   |
| <b>Total</b>           | <b>33</b> | <b>4,62</b>            | <b>26</b>          | <b>3,13</b>            |

The evaluation process for the *MEDIA International Preparatory Action* was concluded on 24 July 2008 and the list of selected projects can be found in Annex 9.

- In the field of ***continuous training***<sup>54</sup>, 19 eligible projects were submitted by coordinators from Belgium, France, Germany, Hungary, Ireland, Italy, Luxemburg, Rumania, Spain and the United Kingdom. Partner institutions in third countries originate inter alia from Argentina, Brazil, Uruguay, India, Indonesia, Jamaica, Israel, Lebanon, Tunisia, Iraq, Canada, US, Armenia, Georgia, Azerbaijan, Moldova and Turkey. The majority of the proposals were for new training projects, 5 of them extended existing training programmes (supported under *MEDIA 2007*) to participants

<sup>51</sup> <http://www.acpfilms.eu/index.php?id=23&L=1>

<sup>52</sup> [http://ec.europa.eu/information\\_society/media/prep\\_action/call/index\\_en.htm](http://ec.europa.eu/information_society/media/prep_action/call/index_en.htm)

<sup>53</sup> Source: INFISO/A2, 2008.

<sup>54</sup> Training under *MEDIA* supports the creation of pan-European training networks to help professionals in the audiovisual industry enhance their competence in the international market. Separate action lines support initial training initiatives for students with no experience in the sector, and continuous training for experienced professionals of the audiovisual industry.

from third countries. The vast majority of training projects was open to professionals from all European Union Member States.

- In the field of *distribution and promotion*, 6 eligible projects were submitted by coordinators from Bulgaria, France and by pan-European associations like *Europa Cinemas*, *Europa Distribution* and *Club des Producteurs européens*. Partners originate from China, Japan, South Korea, India, Morocco, Mexico, Chile, Bosnia and Herzegovina.
- One *cinema network* submitted a proposal, comprising 146 cinemas from 19 third countries and 230 cinemas from the *Europa Cinemas* network.

## 2.7. Does the EU have the right to act?

**Treaty Base:** Several Treaty provisions give the European Union the right to act:

- Article 157 EC: "*The Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist. For that purpose, their action shall be aimed at: speeding up the adjustment of industry to structural changes...*". Under the AETR<sup>55</sup> doctrine the European Community has the competence to establish contractual links with third countries over the whole field of objectives defined by the treaty. Therefore Article 157 is also the legal basis for activities going beyond the Community borders.
- According to Article 150 (2) EC, Community action in the field of vocational training shall aim to: "*facilitate adaptation to industrial changes, in particular through vocational training and retraining, and improve initial and continuing vocational training in order to facilitate vocational integration and reintegration into the labour market*". Under Article 150 (3), "*the Community and the Member States shall foster cooperation with third countries*".
- Under Article 149 the Community can support a policy "*encouraging mobility of students*" and the Community "...*shall foster cooperation with third countries...*".
- Article 151 (4) should be taken into account but would not serve as a legal base. It stipulates that the Community "*shall take cultural aspects into account in its action under other provisions of this Treaty, in particular in order to respect and to promote the diversity of its cultures*".

**Subsidiarity and added value:** Since certain actions to be proposed concern domains where the Commission does not have exclusive competence the principle of subsidiarity applies.

- It is preferable for an international audiovisual initiative to take place at an European level where it can generate European added value. An European initiative would be complementary to initiatives by individual Member States. Although these initiatives are highly beneficial in themselves, they often remain at a bilateral level and cannot have the same pan European effect as a Europe-wide cooperation instrument. The European added value generated would be that the visibility of European films in the world would not be reduced to a small number of films from mostly large Member States but create opportunities to increase market share for European films on third country markets.
- The nature of the challenge that Europe faces means that coordinated action at European level is likely to create an European added value to regional or local initiatives because it enables a pooling of resources and greater geographical coverage, encompassing more than one or indeed several European country(ies). Many of the barriers to internationalisation can be better addressed at European level, in particular as regards the size, under-funding and fragmentation of markets, but also barriers specifically related to third countries such as lack of information etc. It would be more efficient, proportional and effective if these problems were addressed on a European level rather than by individual Member States. A joint approach including a critical mass of professionals from the European Union and from third countries, could lead to a greater positive impact, sustainable global networking and thus the gradual change of global market structures. This would be particularly beneficial for smaller Member States. The European Union is best placed to help

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<sup>55</sup> Case 22/70 *Commission v Council (AETR)* [1971] ECR 263.

develop an international dimension for the European audiovisual industry, thus creating a framework for cooperation and for improved circulation of audiovisual works.

- Action taken at the level of individual institutions or Member States and a Community programme in the field are not mutually exclusive – quite on the contrary – they often meet the same objectives and are complementary. Community action would aim at reinforcing any national action taken in this field. It would be proportionate and would not go beyond what is necessary to achieve the objectives.
- The generated added value would not detract from other Community programmes, in particular the MEDIA 2007 programme. MEDIA 2007 is clearly focused on the internal market and a new MEDIA Mundus Programme would be targeted towards the mutual exchange between European and third country professionals. Nor is there any overlap with the development programmes *EUROMED audiovisual* and the *audiovisual programme EU-ACP*. All these initiatives are complementary. The enhancement of the circulation of European audiovisual works worldwide would entail a specific European added value that transcends national policies.

## 2.8. Summary of problems

The major problem faced by the European audiovisual industry on international markets is the poor circulation of audiovisual works.

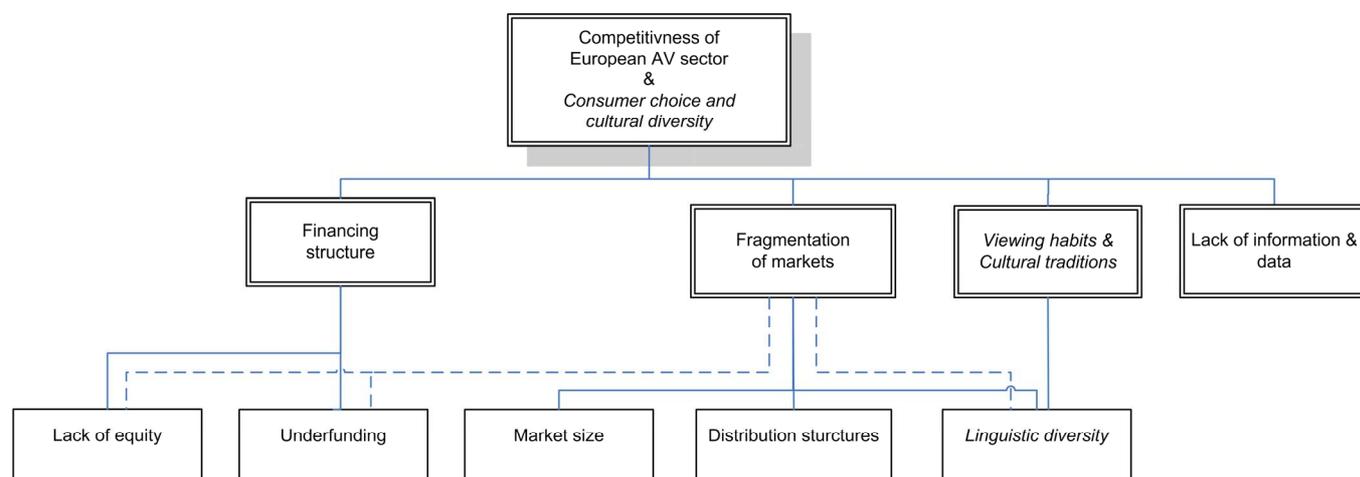
The reasons underlying this problem are the following: There is fragmentation of the different European markets on the basis of language but also market structure. There is a problem with the market size: since the original market size determines the strength of the industry on the international stage and individually all the Member States (and their foreign counterparts) have relatively small markets (notably when compared to the USA market). The distribution structure in Europe is composed of individual small companies unlike their large multinational vertically integrated US counterparts, hence the European audiovisual industry is internationally not competitive. In addition, under-funding is one of the major causes of the problems of European audiovisual companies; the financing of European audiovisual works depends heavily on public resources and national broadcasters/distributors. Films are essentially financed on national markets, limiting the need for foreign investment, but the funding of films solely from their national market also limits export strategies and possibilities.

This has to be seen in the context of an international audiovisual landscape that has changed significantly over the last two decades, notably from the impact of technological developments like digital cinema, VOD or multi-channel digital television. For certain foreign markets, this has created strong financial growth and promising investments in the audiovisual industry and a consequent strong and growing demand for more audiovisual content. However, structural weaknesses affecting the circulation of European audiovisual works on foreign markets and inadequate financing of European audiovisual companies prevent the European audiovisual industry from benefiting fully from this new expansion of international opportunities.

There is a similar problem for foreign audiovisual works - other than those from Hollywood studios - on European markets. There is a demand on European markets for more diverse audiovisual content. These aspects also need to be evaluated in the light of the commitment of the European Union as a major player in the conception and adoption to the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, ratified by the European Community together with 12 Member States on 18 December 2006.

The problem can be broken down into two concrete elements; a lack of competitiveness for the different European players on international markets and a clear lack of consumer choice and cultural diversity on European and international markets.

**Exhibit 10: Problem tree**



### 3. SECTION 3: OBJECTIVES

#### 3.1. General policy objectives (global objectives) and specific objectives

Based on the problem definition in section 2, the policy objectives of an activity related to international cooperation in the audiovisual field should be twofold, as defined in the general policy objectives (global objectives) and detailed in the specific objectives below.

##### *General Policy Objectives (global objectives)*

Two general policy objectives are defined *for international cooperation*:

- **Objective 1:** to increase the *competitiveness* of the EU audiovisual industry on global markets.
- **Objective 2:** to *increase consumer choice and cultural diversity*.

##### *Specific objectives*

Four specific objectives are detailed below. They are reflected in the proposed operational objectives / action lines described in section 4:

- to increase *information exchange and market intelligence* and, in particular through training activities, facilitate networking between European and third country audiovisual professionals in order to improve access to foreign markets and to build trust and long-term commercial relationships.
- to contribute towards the *facilitation of international co-productions* in the audiovisual markets.
- to improve transnational *distribution* of audiovisual works and enhance the visibility of European audiovisual works in the world and vice versa and to increase consumer choice for European and third country audiences.
- to reach new *audiences and promote film literacy*.

The specific objectives can be broken down to the following more detailed *operational objectives / actions lines* that refer to the actual deliverables (actions) of the new initiative (see Annex 11). The

definition of the specific and operational objectives are largely based on the results of costs-benefits analyses carried out by the various ex-post evaluations of MEDIA programmes<sup>56</sup>

### **3.2. Consistency with other European Union policies and other objectives**

The policy objectives are consistent and complementary with the objectives of other European Union policies such as industrial policy, external cooperation policy (including development policy), the common commercial policy and the completion of the internal market.

In the context of the Lisbon strategy the audiovisual sector is highly relevant and contributes to the Lisbon Agenda, namely to boost training, prosperity, growth and jobs in a knowledge-based economy. In its conclusions, the European Council of 23 and 24 March 2000 stated that "content industries create added value by exploiting and networking European cultural diversity". This approach was confirmed in the conclusions of the Brussels European Council of 20 and 21 March 2003 and by conclusions from the Austrian presidency in 2006. The initiative is coherent with and further develops the audiovisual strand of the i2010 initiative –the policy umbrella for the EU's information society and media policies – in the context of the Lisbon agenda.

Furthermore, the general policy and the operational objectives play an important role in the context of the implementation of the *UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions*. This convention emphasises the specific and dual (cultural and economic) nature of cultural goods and services.

Community action is consistent with the obligation placed on the Community by Article 151(4) of the EC Treaty to take cultural aspects into account in its action under other provisions of the Treaty, in particular in order to respect and to promote the diversity of its cultures.

The general policy objectives and the specific and operational objectives of the action are also consistent with the *Charter of Fundamental Rights*, especially the principle of promoting cultural diversity (Article 22).

## **4. SECTION 4: POLICY OPTIONS AND IMPACTS**

### **4.1. Option 1: Business as usual**

The option would cover the continuation of MEDIA 2007, the regional development programmes *EUROMED Audiovisual II*, and *EU-ACP Support programme for Cinema and the Audiovisual Industry*<sup>57</sup>.

### **4.2. Impact of option 1 – "Business as usual"**

The evolution of the problem, all things being equal, was discussed in section 2.5.1.. In conclusion, existing internationalisation efforts in the European audiovisual sector are insufficient and in view of the situation evolving on world markets and the technological challenges, the situation for European audiovisual companies would deteriorate significantly over time. All existing programmes have either an internal market or a regional (MEDA region or ACP) and not a global focus. 'Business as usual' would not entail new costs, but would definitely have a negative cost: if the opportunities of internationalisation are not seized by European companies in the new fast-growing markets (in Asia

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<sup>56</sup> Except for (1) development support where evaluations concluded that action lines such as script development seminars and pitching events, which are less resource intensive, could lead to equally good results and have similar impacts and for (2) video distribution, which had been heavily criticized by the evaluation report of MEDIA Plus but has been retained in MEDIA MUNDUS, because of its major impact in third countries.

<sup>57</sup> See section 2.5.2 above for detailed description.

for example), their revenues will be restricted mainly to the Internal Market, with the limitations already described. Therefore this option should not be pursued further.

### **4.3. Option 2: Extension of existing instruments**

Under this option, MEDIA 2007, the regional programme *EUROMED Audiovisual II*, and the *EU ACP support programme for Cinema and Audiovisual* could be amended in order to attain the objectives as described above under section 3.1.

#### *4.3.1. Extension of Euromed Audiovisual II and the EU – ACP Support Programme for Cinema and the Audiovisual Industry*

Euromed Audiovisual II expires at the end of 2008; the EU-ACP Support Programme for Cinema and the Audiovisual Industry is scheduled until 2011. Both programmes could be extended and the budgets could be increased. For the detailed description of the programmes, see section 2.5.2 above.

#### *4.3.2. Amendment of the MEDIA 2007 programme*

The following two sub-options could be envisaged to amend the MEDIA 2007 Programme. For a detailed description of MEDIA 2007, see section 2.5.2 above:

(1) ***Extending participation and cooperation under Article 8***: On the basis of Article 8 additional countries could be integrated in the MEDIA 2007 programme, either as full members or through cooperation agreements (see section 2.5. above). The programme could be opened to the participation of professionals from other regions in the world and a specific fund for cooperation under Article 8(4)<sup>58</sup> could be set up. This fund could contain action lines specifically devoted to international cooperation between European Union professionals and professionals from third countries having concluded a cooperation agreement. Such a fund could for example promote the exchange of information (conferences, websites), support joint training initiatives, the use of new technologies and the distribution of audiovisual works.

(2) ***Opening of MEDIA 2007 to the participation of third countries' professionals***, by opening strands to professionals from third countries or adding specific strands for global cooperation between professionals. Accordingly the above defined objectives (see section 3.1) and the actions (see section 4.5 below) would be integrated into the existing MEDIA 2007 programme.

### **4.4. Impact of option 2 - Extension of existing instruments**

#### *4.4.1. Impact of amending Euromed Audiovisual II and the EU – ACP support programme for Cinema and the Audiovisual Industry*

The programmes, *EUROMED Audiovisual II* and the *EU-ACP programme for Cinema and the Audiovisual Industry*, have been successfully operating for some time.

However, it should be noted that both programmes are by their very nature development programmes with a specific regional focus (MEDA for *Euromed Audiovisual* and ACP-countries for *ACP Audiovisual*). Thus, the objective of both programmes is to assist partner countries in specific geographical zones creating a sustainable future for their cultural heritage through assistance in terms of training, development and distribution, and to provide help for the restructuring of these countries' audiovisual markets. Accordingly benefits are concentrated on the respective regions. The objectives of the initiative currently being discussed focus on international exchange aiming at the competitiveness of the European audiovisual sector and a global increase of consumer choice and

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<sup>58</sup> See [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l\\_327/l\\_32720061124en00120029.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_327/l_32720061124en00120029.pdf).

cultural diversity. In that respect the objectives of the current initiative would not fit into a development programme.

It should be underlined that an extension (in their current form) of *EUROMED Audiovisual II* and the *EU-ACP programme for Cinema and the Audiovisual Industry* would be complementary to the objectives of the current initiative, in that these programmes create the structures enabling the professionals from these regions to participate as partners in any future initiative at an international level.

One of the key recommendations of the working document "*Towards a Strategy for the Development of Euro-Mediterranean Audiovisual Cooperation*"<sup>59</sup> is the creation of a simple-to-operate co-production support fund. The Fund would finance the development (including translation costs), production (including post-production) and promotion (including assistance for distribution and marketing) of works from Mediterranean countries, including digital products. Professionals from the Mediterranean region could subsequently be enabled to participate in global, multilateral projects. Thus, a new international initiative MEDIA Mundus would be complementary<sup>60</sup>.

#### 4.4.2. *Impact of amending the MEDIA 2007 Programme*

##### ***Sub-option (1): Participation and cooperation under Art. 8***

Opening the MEDIA 2007 programme to further participation of and cooperation with third countries as described above would have the following implications:

"Participation in MEDIA 2007" means (full) involvement of the third countries' professionals on the same footing as EU professionals, as well as involvement in the decision making process (comitology) through joint committees<sup>61</sup> (Article 8 paragraphs 1-3).

Participation or cooperation with third countries under Article 8 would be on State level and require supplementary appropriations and specific arrangements to be agreed upon and would necessitate a framework agreement or an international agreement based on Article 113(5), a Memorandum of Understanding, and in the case of participation an agreement on the financial contribution of each country ("entry ticket"). This is an extremely lengthy procedure (the timeframe for completing this procedure could take up to two years for each additional country).

MEDIA 2007 is listed as GATS<sup>62</sup> exempted from the general MFN<sup>63</sup>. It would therefore be necessary to check that each potential partner country has no commitments on audiovisual services in the framework of the GATS and that it has scheduled the necessary exemptions to the MFN rules. This would greatly -restrict the scope of the initiative and leave out important countries with emerging audiovisual markets. The current MEDIA International preparatory action has underlined the

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<sup>59</sup> <http://www.euromediaaudiovisuel.net/general.aspx?treeID=9243&lang=en>

<sup>60</sup> There has been some interest from the MEDA region in the Preparatory Action *MEDIA International*. The projects selected include one project focusing on distribution and certain MEDA cinemas are included under the cinema networks project). The financing of these projects does not overlap with or duplicate MEDA financing.

<sup>61</sup> As regards management and implementation of MEDIA 2007, it should be noted that MEDIA 2007 functions on the basis of comitology. "Participation in MEDIA 2007" means involvement of the third countries' professionals on the same footing as EU professionals, as well as involvement in the decision making process (comitology) through joint committees (Article 8 paragraphs 1-3). Even if third countries' participation was solely on the basis of cooperation they should be allowed to participate as observers when decisions concerning them are on the agenda. The MEDIA 2007 committee meets between 5 and 6 times a year. The participation and cooperation of further countries would increase the number of participants/observers and meetings.

<sup>62</sup> GATS = General Agreement on Trade in Services (GATS), see [http://www.wto.org/english/tratop\\_e/serv\\_e/serv\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/serv_e.htm).

<sup>63</sup> MFN = Most favoured nation is a status awarded by one nation to another in international trade: the receiving nation will be granted all trade advantages (such as low tariffs) that any other nation also receives and a nation with MFN status will not be treated worse than any other nation with MFN status: [http://www.wto.org/english/tratop\\_e/serv\\_e/serv\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/serv_e.htm).

importance of wide participation (the cinema network action covers 13 countries by itself) and the constraints therefore of this option.

On this basis it is extremely unlikely that a sufficient number of professionals from third countries to create the necessary critical mass in order to achieve the objectives could be reached, since professional participation would be limited to those professionals from the third countries that had become members of MEDIA 2007.

The option is therefore unlikely to contribute to any of the objectives. For these reasons, this option should not be pursued further.

**Sub-option (2): *Opening of MEDIA 2007 to the participation of third countries' professionals*** by adding the above defined operational objectives and the respective strands to the legal basis of the existing MEDIA 2007 programme. This option is not based on membership by a country, but third country professionals would benefit directly from the MEDIA 2007 programme. Therefore, neither time consuming and arduous negotiations with other governments would be required nor would this policy option entail difficulties with GATS regulations. As long as the programme were open to all third countries' professionals in a non discriminatory way the MFN rule would not be infringed. However, the MEDIA programme has been operating for 17 years on an internal market basis and has high brand equity a high degree of EU-identification. Adding international cooperation to its action lines would lead to some confusion.

The present *MEDIA 2007* programme includes EU-wide funding for:

- Training (scriptwriting techniques; economic, financial management; digital technologies);
- Development (single projects, catalogues, European talent, co-productions, i2i, other financing);
- Distribution (distributors, sales agents, broadcasters, cinema exhibitors, VOD, digital);
- Promotion (market access, festivals, common events, heritage);
- Horizontal actions making it easier for small and medium sized enterprises to access funding, and to encourage the presence of European audiovisual works on digital platforms, and pilot projects embracing new technologies like digital technologies in production and distribution.

Whilst the option of opening different strands for professionals from third countries, has been considered there are few if any activities under the MEDIA 2007 programme where this could be successfully achieved in particular in the light of meeting both the existing objectives under MEDIA 2007 and the new needs that have been established. Many, like automatic distribution, could not be opened on a global scale (for example automatic distribution support, where necessary data is not available, see exhibit 24) and in any event the opening up of the strands to non-European professionals would change the nature of MEDIA 2007 and impact negatively on the achievement of the internal market objectives, notably in respect of fragmentation within Europe and the horizontal priority of addressing imbalances between European markets. This means that the option would entail the addition of new strands under the existing programme alongside the current activities, but with an international focus.

The actions to be implemented under the current initiative are evaluated below under sections 4 and 5. In section 4.4. and 5.6. an analysis is carried out as to whether it is more cost effective to integrate them into the MEDIA 2007 programme or whether to create a new programme.

#### 4.4.3. *Conclusion*

It can be concluded that neither an extension of the *EUROMED Audiovisual II* and the *EU-ACP programme for Cinema and the Audiovisual Industry* nor an opening of the MEDIA 2007 programme to further countries can reach the objectives defined in section 3. The possibility of opening MEDIA 2007 (in the form of additional action lines) to cooperation with professionals from third countries is discussed further in section 5.

#### 4.5. Option 3: Creation of a new instrument

The key problem for the sector is the limited circulation of audiovisual works. Community financing is designed to provide a leverage effect, which could not be achieved by legislative measures for the audiovisual sector<sup>64</sup>. Legislative instruments were not retained in this Impact Assessment because they were considered inappropriate in relation to the objective of reinforcing the competitiveness of the audiovisual sector.. The action lines would be available for all professionals from Europe and third countries independent from the origin of the project and would not discriminate against any region. Therefore subsidies would be in line with the principle of the Most Favoured Nation rule and WTO compatible.

In order to respond to the problems set out in section 2, two general policy objectives (global objectives) were defined in section 3 for which in turn four major specific objectives have been identified.

For each of these four specific objectives, a series of cumulative operational objectives /actions were developed based on (1) contributions of stakeholders, (2) evaluations of previous MEDIA programmes and (3) experience gained from implementing the current MEDIA 2007 programme.

Following the principle of mutual benefit professionals from the European Union and from third countries would have to jointly propose and implement projects under the proposed actions. Therefore potential applicants for all proposed actions are relevant professionals from Europe and third countries. Funding would be available for consortia only, and under two basic premises: (1) any group/consortium which submits a project needs to be headed by a company with head office in the EU/a Member of the programme; (2) any group/consortium should include at least one audiovisual company/organisation which has its head office in a third country.

This section on policy option 3 is thus sub-divided into sub-sections for each specific objective. For each specific objective, the operational objectives/actions are first described, then their impact is assessed against a set of economic and social/cultural criteria as well as a (stable) environmental criterion, in addition to a qualitative verbal assessment of each specific objective, the result of this assessment is also summed up in a table (exhibits 11 to 17). Moreover, two alternative scenarios were developed for the specific objectives 2 and 3; for each of these respective scenarios the operational objectives/actions are first described, then they are assessed/compared (text and exhibits).

Values attributed to the various operational objectives/actions for each of the economic, social/cultural and environmental criteria in exhibits 11, 13, 14,16 and 17 range from "---" to "+++" and were established on the basis of experience and expertise from the implementation of the MEDIA programme in the MEDIA unit.

|     |  |
|-----|--|
| --- | Extremely negative impact  |
| --  | Very negative impact   |
| -   | Negative impact  |
| 0   | No impact at all, neither negative nor positive  |
| +   | Positive impact and positive contribution to achieving the specific objective  |
| ++  | Very positive impact and clear positive contribution to achieving the specific objective                             |
| +++ | Extremely positive and decisive impact and extremely clear positive contribution to achieving the specific objective |

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<sup>64</sup> Therefore, no legislative measures are planned. However, the recently adopted Audiovisual Media Services Directive includes a new definition of European audiovisual works, complementary to the aims of this initiative.

#### 4.5.1. Specific Objective 1 – information exchange and market intelligence

These operational objectives/action lines would implement the first specific objective. Market knowledge and networks are crucial to create awareness about market opportunities in order to access foreign markets, to remedy the under-financing of the audiovisual industry and to improve circulation of audiovisual works.

- **Operational Objective / Action Line 1.1. - Building up of Websites and Databases:** Action would aim at collecting and disseminating structured information about European and third country audiovisual markets. This information could be disseminated in the form of an Internet platform using a common structure and predefined guidelines (similar to the concept (but not the content) of *EraWatch*<sup>65</sup> or *Cineuropa*<sup>66</sup> ). Furthermore, it could be useful to build a database of interested professionals and training institutions in Europe and third countries available on the Internet. There is no intention to duplicate any existing structures; on the contrary, the necessary structures do not generally exist.
- **Operational Objective / Action Line 1.2. - Network of audiovisual contact points:** Action would aim at installing a network of contact points in various regions of the world in order to monitor audiovisual markets in terms of market opportunities, distribution venues and possible barriers. Members of the network would act as primary information points for European audiovisual professionals seeking to access third country markets, and vice versa and they could help audiovisual companies to look for partners in the respective regions (e.g. with a view to future co-production or distribution activities).
- **Operational Objective / Action Line 1.3. - Certification of training establishments**<sup>67</sup>: Action could aim at inviting European and third country professional training establishments to apply for certification from the European Commission, based on a set of well defined criteria.
- **Operational Objective / Action Line 1.4. - Initial training**<sup>68</sup>: Action would aim at supporting activities such as mutual exchange between initial training establishments. For example film schools could arrange for joint courses or scholarships could be given to students to study abroad.
- **Operational Objective / Action Line 1.5. - Continuous training:** Action would support continuous training projects for European and third country professionals. Potential topics should relate to the problems identified under section 2 and could include: Improving economic and financial management related to cross-border activities; launching marketing campaigns on international markets; organising distribution in other territories; pitching programmes<sup>69</sup> with third country broadcasters; promoting European best practices in third countries; reaching audiences with Internet technologies<sup>70</sup>; using new technologies in order to improve production and post-production workflows; dealing with new distribution platforms, such as VOD, IPTV, Web TV. Projects could

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<sup>65</sup> <http://cordis.europa.eu/erawatch/>

<sup>66</sup> <http://cineuropa.org/> , *Cineuropa* is given as an example for a certain type of webpage, it however does not relate to international cooperation, where no such website exists.

<sup>67</sup> The idea of certification of training establishments was raised in interviews conducted by the consultants (see points 6.2.1 and 6.2.2 of the Technopolis Impact assessment study, "accreditation").As it can be seen in exhibit 10 on page 18 of the draft extended impact assessment, the author DG does not believe that there is an added value in such certification. The process would be resource intensive and since the market is relatively limited, stakeholders can easily informally obtain information about the quality of training measures

<sup>68</sup> Training under MEDIA supports the creation of pan-European training networks to help professionals in the audiovisual industry enhance their competences in the international market. Separate action lines support initial training initiatives for students with no experience in the sector, and continuous training for experienced professionals of the audiovisual industry.

<sup>69</sup> Pitching sessions offer producers the opportunity to "pitch", i.e. present / sell their projects to a panel of potential buyers such as TV channels.

<sup>70</sup> eMarketing strategies, Web 2.0 or new and innovative delivery mechanisms such as IPTV, Web TV or VOD.

relate to an opening of existing (MEDIA 2007 supported) training projects to professionals from third countries or they could consist in setting up new training activities.

- **Operational Objective / Action Line 1.6. –Market access and Events:** Under this action line access instruments such as an umbrella stand for key European Union/international film markets, reimbursement of travel costs and fees could be included.

#### ***Impact of Specific Objective 1:***

Information about third countries' audiovisual industries in Europe is scarce, as is information about European audiovisual industries in third countries. However, provision of information is crucial to create awareness about market opportunities, facilitate market access and foster intercultural dialogue. In addition, the market is changing rapidly with the advent of new technologies and stakeholders, making it crucial to collect relevant, updated information. The impact of information dissemination and exchange tend to be of a long-term and sustainable nature and is likely to continue even if the public intervention ceases. Once a basic threshold of awareness and know-how has been reached, a long-term change in behaviour of audiovisual professionals is likely to take place over time.

Training is an effective tool for communication, contributes to networking and leads to an improvement of skills needed to access international markets. Evaluations of the previous MEDIA programmes<sup>71</sup> show that the skills acquired by participants in training are long lasting. The proportion of firms hiring MEDIA trained persons also reveals that these skills are being appreciated and disseminated throughout the sector. The effects of schemes that, in particular through scholarships, help encourage meetings and exchanges of professionals are lasting, even though results may occur several years after the intervention.

Regarding a possible impact on the first general policy objective (global objective), namely competitiveness, information provision would lead to increased knowledge about audiovisual markets, and would reduce the cost for companies of obtaining that information on their own. This is important since the European audiovisual industry consists mainly of small and medium sized enterprises, with limited strategic and financial resources at their disposal. Information exchange facilitates market access by increasing opportunities and reducing cost. Access to foreign markets would open additional financial sources and would help to remedy the under-financing of the audiovisual industry. The creation of sustainable networks lowers transaction costs between different markets. Since the sector is dominated by small and medium sized enterprises without significant financial capacity, there is an additional added value and a specific need to support their participation in the major industry events.

Regarding a possible impact on the second general policy objective (global objective), namely consumer choice and cultural diversity, effective dissemination of information as well as mechanisms to ensure continuous market intelligence can lead to greater networking between professionals and therefore contribute to intercultural dialogue and enhance intercultural learning.

It was however found that certification of training institution would not significantly contribute to any of the objectives. Costs (established on the basis of other audit systems, for example EMAS<sup>72</sup> figure of approximately 50 000 Euro) are high and institutions need to be regularly monitored. It is difficult to see an added value, in particular in view of the high costs and the fact that there are possibilities to obtain information via other, less costly, means. Therefore this option was not pursued further.

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<sup>71</sup> [http://ec.europa.eu/information\\_society/media/overview/past\\_programmes/index\\_en.htm](http://ec.europa.eu/information_society/media/overview/past_programmes/index_en.htm).

<sup>72</sup> [http://ec.europa.eu/environment/emas/index\\_en.htm](http://ec.europa.eu/environment/emas/index_en.htm)

**Exhibit 11: Potential impact of Operational Objective / Action Line 1**

| <b>Impact</b>               | <b>Description of impact</b>   | <b>Websites and Databases</b> | <b>Contact points</b> | <b>Certification of training establishment</b> | <b>Initial training</b> | <b>Continuous training</b> | <b>Market access</b> |
|-----------------------------|--|-------------------------------|-----------------------|--|-------------------------|----------------------------|----------------------|
| <i>Economic</i>             | Increased availability of information on structure and functioning of markets  | +++                           | +++                   | 0  | ++                      | +++                        | +                    |
|                             | Enhanced know-how on international markets   | ++                            | ++                    | 0  | ++                      | +++                        | ++                   |
|                             | Increased awareness of market opportunities for European audiovisual professionals in third countries and vice versa | +++                           | +++                   | 0  | +                       | +++                        | +++                  |
|                             | Reduced transaction cost related to the ascertaining of relevant information   | +++                           | +++                   | 0  | +                       | ++                         | +                    |
| <i>Social/<br/>Cultural</i> | Increased networking between European and third country professionals  | ++                            | ++                    | 0  | ++                      | +++                        | +++                  |
|                             | Enhanced dialogue about audiovisual cultures   | 0                             | +                     | 0  | +                       | +                          | +                    |
| <i>Environmental</i>        | <u>No impact</u> on CO 2-Emissions from increased volume of travel   | 0                             | +                     | 0  | +                       | +                          | ++                   |
| <i>Short term effect</i>    |  | ++                            | ++                    | 0  | +                       | ++                         | +++                  |
| <i>Long term effect</i>     |  | ++                            | ++                    | +  | ++                      | +++                        | ++                   |

#### 4.5.2. *Specific Objective 2 - Facilitation of international co-productions*

These operational objectives are intended to implement the second specific objective. A generally positive role is played by co-productions with regard to market access as shown by recently published data by the European Audiovisual Observatory<sup>73</sup>: 54% of Latin American films and 42% of African films released on the European market were majority co-productions<sup>74</sup> with Europe. If minority co-productions are also taken into account, the proportions rise to 64% and 74% respectively. In addition, an analysis of the findings in terms of the number of admissions clearly suggests that films co-produced between third countries and European Union countries are more successful than those that have not been co-produced<sup>75</sup>. This action line therefore contributes to the circulation of films. It also addresses the problem of under-financing, in that official co-productions have access to the financing systems of all "participating countries", see section 2.5.2.

There are two phases when it comes to setting up co-productions: The development (action line 2.1.) and the production phases (action line 2.2.).

##### ***Operational Objective / Action Line 2.1. - Supporting the development stage of co-productions:***

Two different, alternative scenarios can be considered in respect of the development of co-productions.

###### **Scenario 1:**

An important number of consulted stakeholders opted strongly in favour of a specific development fund for co-productions.

- ***A specific fund for the development of projects*** could be set up: Support would aim at supporting the development phase of audiovisual projects, i.e. to prepare for financing, casting and finalising the script etc. Such support should only be possible if at this stage two producers (one European, one from a third country) are already involved.
- Furthermore, support would be awarded for the ***organisation of co-production markets, partner search events (pitching)***: Support would aim at bringing together possible partners at co-production events and markets (for script writers, directors and producers).

###### **Scenario 2:**

- Instead of setting up a development fund, support could be awarded for ***Script development training***: Support would aim at script development training and at the development of high quality scripts for co-productions.
- Support under this scenario would also be granted for the ***organisation of co-production markets, partner search events (pitching)***

##### ***Operational Objective / Action Line 2.2. - Supporting the funding of co-productions:***

For the funding of co-productions two alternative scenarios could also be envisaged. Under one scenario the Commission would finance co-productions whilst under the second scenario existing co-

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<sup>73</sup> The place of third country film and audiovisual works in European markets, Report updated for the conference 'Cinema, Europe, the World', organized by the CNC during the French Presidency of the Council of the European Union, Paris 7-8 July 2008 [http://www.obs.coe.int/online\\_publication/reports/thirdcountry\\_av\\_works.pdf.en](http://www.obs.coe.int/online_publication/reports/thirdcountry_av_works.pdf.en) .

<sup>74</sup> Majority co-productions are productions where European partners have the lead (in general above 50%).

<sup>75</sup> Co-productions take place in different contexts: Story driven/artistic co-productions" are motivated by the content/story line (for example a character is from a country different from the others, some scenes have to be shot in a particular part of the world etc.). "Financial co-production" activities are driven by the necessity to access funds from different sources in order to be able to finance the film. Frequently, this leads to using facilities or actors from different countries whether or not there is a requirement in terms of the content of the film.

production funds would be supplemented and financial institutions would be supported for this activity.

**Scenario 1:**

- **Setting-up co-production fund for feature films:** Such a fund could support co-productions between European Union professionals and professionals from third countries.
- **Setting up a co-production fund for animation films:** Several stakeholders pointed out the particular necessity of such a fund for co-financing animation films.
- **Setting up a co-production fund for documentary films:** Several stakeholders pointed out the particular necessity of such a fund for co-financing documentary films.
- **Gap financing of co-production budget<sup>76</sup>:** Gap financing refers to supporting financing the difference between the production budget for the film and the amount of presales or other funding that a bank would traditionally use as collateral for "production loans" by using an estimate of the value of the unsold rights to the film<sup>77</sup>.

**Scenario 2:**

- **Alternatively, the Commission could Supplement existing co-production funds:** Under section 2.5.2 and in Annex 8 reference is made to several co-production funds. These existing funds could be supplemented.
- **Facilitate access to commercial financing:** Support could be provided to financial institutions in order to facilitate access to financing from banks and other financial institutions by subsidizing for example part of the cost of guarantees, insurance, completion bonds or financing costs.

**Exhibit 12: Alternative instruments for delivering operational objective 2**



**Impact of Specific Objective 2**

As regards the first general policy objective (global objective), namely increased competitiveness, co-productions have access to additional financing instruments (see section 2.5.2), they circulate better and can therefore reach a broader audience<sup>78</sup>. Co-productions can play a very important role in boosting film production in countries with no or very weak national financial support measures. A

<sup>76</sup> For details regarding film finance, see Appendix B of the impact assessment study (Technopolis).

<sup>77</sup> For example, if the production budget is 2.5 million Euro and 2 million Euro of the budget is already covered by presales, investor funds, public funds or other collateral, the remaining 0.5 million Euro that is not covered by any collateral, other than the future potential sales on the film, is considered the "gap."

<sup>78</sup> [http://www.obs.coe.int/online\\_publication/expert/krakow\\_report.pdf.en](http://www.obs.coe.int/online_publication/expert/krakow_report.pdf.en)

good example is co-productions supported under the *Ibermedia*<sup>79</sup> fund which have contributed to the emergence of production talent on the Latin American market.

The main contribution of co-productions to cultural diversity, i.e. the second general policy objective (global objective) defined, is the impact on the art and language of film. Professionals from different regions of the world cooperate on co-productions, often with different methods (for example photography), visions of the world and working habits.

Thus, facilitating co-productions addresses the problems listed under section 2 and contributes to increasing the competitiveness of the audiovisual sector and cultural diversity.

Under the first scenario there would be very high additional administrative costs (17 extra staff needed for the agency to run the development and co-production funds, see Annex 10b and extra costs of 3.11 million Euro).

***Impact of Operational Objective / Action Line 2.1. - Supporting the development stage of co-productions: Scenario 1 and 2***

An important number of stakeholders opted strongly in favour of support for the development stage of co-productions. However, experience from previous MEDIA programmes show that support to development of projects in terms of administrative overhead costs is particularly resource intensive (see Annexes 10a and 10b). Script development seminars and pitching events, which are less resource intensive, can lead to equally good results and have a similar impact<sup>80</sup>. (For details, see section 5.4 ).

***Exhibit 13: Potential impact of Operational Objective / Action Line 2.1***

| Area of impact           | Description of impact   | a) Script development | b) Pitching | c) Development Fund |
|--------------------------|---|-----------------------|-------------|---------------------|
| <i>Economic</i>          | Enhanced know-how   | +++                   | ++          | 0                   |
|                          | Better knowledge of international markets                             | +                     | ++          | 0                   |
|                          | Accessing additional production funds                                 | Indirect +            | +           | ++                  |
|                          | Increasing circulation and distribution                               | Indirect+             | +           | +                   |
|                          | Reaching a wider audience   | Indirect+             | +           | +                   |
|                          | More consumer choice  | Indirect+             | +           | +                   |
| <i>Social/cultural</i>   | Increased networking between European and third country professionals | ++                    | ++          | +                   |
|                          | Better films  | +++                   | +           | 0                   |
|                          | Enhanced dialogue about audiovisual cultures                          | 0                     | 0           | +                   |
|                          | Culturally more diverse offer of films                                | Indirect+             | Indirect+   | +                   |
| <i>Environmental</i>     | No impact on CO2-Emissions from increased volume of travel            | -                     | --          | -                   |
| <i>Short term effect</i> |   | +                     | ++          | ++                  |
| <i>Long term effect</i>  |   | ++                    | ++          | Indirect            |

<sup>79</sup> <http://www.programaibermedia.com/>  
<sup>80</sup> See action lines 2.1.a and 2.1.b above.

**Impacts of Operational Objective / Action Line 2.2. - Supporting the funding of co-productions Scenario 1 and 2**

Extensive discussions were held with professionals and representatives from Member States on whether to finance co-productions. The outcome was not clear cut and controversial. Stakeholders had strong opinions in favour of co-production funding, stating that there was a considerable necessity because existing funds were insufficient and co-productions contribute greatly to the artistic value of a film and cultural diversity. On the other hand, national authorities invoked the principle of subsidiarity and some stakeholders raised the difficulties surrounding the administration of co-production funds.

- **Setting-up a fully fledged co-production fund:** Reservations regarding the principle of subsidiarity relate in particular to the setting up of a fully fledged co-production fund. As described above co-productions in certain cases can benefit from the participating states' support systems. However, most professionals considered state funding and international funds that are available largely insufficient. Administration costs are comparatively high.
- **Setting up a co-production fund for animation films:** Several professionals expressed strong support for such funding because Europe could benefit from third countries' advanced experiences, e.g. Asia. Administration costs are comparatively high.
- **Setting up a co-production fund for documentary films:** Several professionals expressed strong support for such funding because such co-productions were very important in terms of storytelling and contribute to cultural diversity. Administration costs are comparatively high.
- **Gap financing of co-production budget:** Because of "market failure", there would definitely be a need for such funding. Administration costs are comparatively high.
- **Supplement existing co-production funds:** In line with the subsidiarity principle and to avoid the cumbersome administration of a fund, existing co-production funds could be supplemented in view of the positive impact of co-productions.
- **Facilitate access to commercial financing:** In view of the ongoing problems of small and medium sized enterprises to access commercial financing, this option would have a positive impact on the competitiveness of the sector and encourage financing institutions to expand their activities<sup>81</sup>.

**Exhibit 14: Potential impact of Operational Objective / Action Line 2.2**

| Impact                  | Description of impact   | Co-production fund features | Co-production fund animation | Co-production fund documentary | Gap financing | Supplement existing funds | Access to finance |
|-------------------------|---|-----------------------------|------------------------------|--------------------------------|---------------|---------------------------|-------------------|
| <i>Economic</i>         | Enhanced know-how   | 0                           | 0                            | 0                              | 0             | 0                         | 0                 |
|                         | Better knowledge of international markets                             | 0                           | 0                            | 0                              | 0             | 0                         | 0                 |
|                         | Accessing additional production funds                                 | +++                         | +++                          | +++                            | +++           | +++                       | +++               |
|                         | Increasing circulation and distribution                               | +                           | +                            | +                              | +             | +                         | ++                |
|                         | Reaching a wider audience   | ++                          | ++                           | ++                             | ++            | ++                        | ++                |
|                         | More consumer choice  | ++                          | ++                           | ++                             | ++            | ++                        | ++                |
| <i>Social /cultural</i> | Increased networking between European and third country professionals | +                           | +                            | +                              | +             | +                         | +                 |
|                         | Better films  | 0                           | 0                            | 0                              | 0             | 0                         | 0                 |

<sup>81</sup> Under MEDIA 2007 "i2i" is a similar small scale support mechanism in favour of producers.

| Impact                   | Description of impact                                       | Co-production fund features | Co-production fund animation | Co-production fund documentary | Gap financing | Supplement existing funds | Access to finance |
|--------------------------|---|-----------------------------|------------------------------|--------------------------------|---------------|---------------------------|-------------------|
|                          | Enhanced dialogue about audiovisual cultures                | +                           | +                            | +                              | +             | +                         | +                 |
|                          | Culturally more diverse offer of films                      | ++                          | ++                           | ++                             | ++            | ++                        | ++                |
| <i>Environmental</i>     | No impact on CO 2-Emissions from increased volume of travel | -                           | -                            | -                              | -             | -                         | -                 |
| <i>Short term effect</i> |   | ++                          | ++                           | ++                             | ++            | ++                        | ++                |
| <i>Long term effect</i>  |   | +                           | ++                           | ++                             | +             | +                         | +                 |

#### 4.5.3. Specific Objective 3 - Distribution and circulation of audiovisual works

These operational objectives would implement the third specific objective and primarily address the circulation of audiovisual works (with an impact on revenues and financing of the audiovisual sector). The aim would be to attain a market share of 7% for EU works in third countries and vice versa over the three years.

For the distribution of audiovisual works, two alternative scenarios have been considered, first the European model of distinct activities (right-holders, sales agents, and distributors) and secondly creating realistic partnerships across the value chain.

##### Scenario 1:

- **Operational Objective / Action Line 3.2. – Support to sales agents:** Sales agents could be supported to prospect new markets, attend big festivals/markets and increase their promotion investments for European audiovisual works in third countries and vice versa.
- **Operational Objective / Action Line 3.3. - Automatic distribution support<sup>82</sup>:** To give structural support to the distribution of European audiovisual works in third countries and vice versa, automatic funding (based on prior distribution of similar audiovisual works) could be made available to European and third country distributors (in partnerships) for the acquisition and the print and advertising costs (prints, dubbing and subtitling, promotion and public relations activities) of those audiovisual works. Inspired by the automatic scheme developed in MEDIA, the amount of potential support should be calculated from the admissions or box office receipts from European audiovisual works in third countries and vice versa. (Data is not easily available; therefore a different mechanism would need to be developed).
- **Operational Objective / Action Line 3.4. - Selective distribution support<sup>83</sup>:** Selective support to distributors could be made available to partnerships of European and third country distributors for the print and advertising costs (prints, dubbing and subtitling, promotion and public relations activities) of European or third country audiovisual works. These partnerships could be coordinated by sales agents.

<sup>82</sup> Under MEDIA 2007, "automatic support" is granted on the basis of the number of tickets sold in a territory for a non-national European film in order to encourage circulation of European audiovisual works among different countries participating in the programme. Member States nominate an authority to "certify" tickets sold.

<sup>83</sup> Under MEDIA 2007, "selective support" covers specific promotion and distribution costs such as dubbing and subtitling and is granted to permanent groupings of European companies distributing a film from another European country in order to encourage circulation of European audiovisual works among different countries participating in the programme.

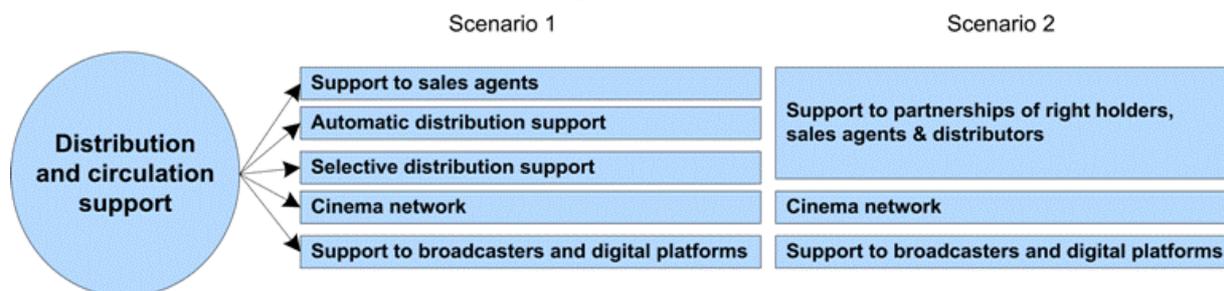
**Scenario 2:**

- **Operational Objective / Action Line 3.1. - Support to right-holders, sales agents and distributors:** As the key players in international distribution, right-holders, sales agents, and distributors could be supported in order to encourage international sales and export of European audiovisual works (and vice versa) by stimulating the conclusion of agreements between right-holders, sales agents, and distributors of EU countries and those of third countries to ensure the distribution (in cinemas, on TV, VOD, video...) of their respective audiovisual works on the territory/territories of their partner(s).

These action lines would be valid for both scenarios:

- **Operational Objective / Action Line 3.5. - Cinema networks:** Financial support would be provided to cinema networks with screens in Europe and in third countries that programme a significant number of European audiovisual works and vice versa.
- **Operational Objective / Action Line 3.6. - Support to broadcasters and digital platforms:** In view of the technological developments and the wide audience reached by TV broadcasting, support should be made available to ensure that European works are shown on TV in third countries and vice versa. Similarly niche, thematic, IPTV, Web TV, VOD platforms etc. should be encouraged to show European and third countries' programmes according to a set of predefined criteria.

**Exhibit 15: Alternative instruments for delivering operational objective 3**



**Impact of Specific Objective 3**

**Scenario 1:**

Under MEDIA 2007 support is awarded to sales agents and distributors, through several automatic and/or selective schemes. Given the differences between sales agents' and distributors activities and the specificity of their role in the circulation of European audiovisual works, three action lines devoted to the distributors/sales agents' activities are in place under MEDIA 2007: selective support for distributors, automatic support for distributors and automatic support for sales agents. These mechanisms achieve good results in the context of the internal market. However, for an international cooperation programme and in view of the objectives, the approach does not appear to be promising. Firstly, the system of automatic distribution support is not transferable to global markets, because certain data on which the support under MEDIA 2007 is calculated, is missing or difficult to obtain. Secondly, the implementation of these three support mechanisms based on partnerships (groupings) does not really reflect the realities of the sector. (A European distributor never gets into contact with a foreign distributor and has no interest in having a commercial relationship with him. This situation also characterises the relationships between European and foreign sales agents. ). For these two reasons it is not likely, that the actions (support to sales agents, automatic and selective distribution support) presented under this scenario would contribute sufficiently to achieving the objective of 7% market share for EU works in third countries and vice versa over the three years.

To alternatively award support to individual applicants would mean that financing would be granted directly for professionals in third countries. This however is not in line with the logic of the programme (mutual benefit) and would lead to additional risks (see section 5.5.1. below).

## **Scenario 2:**

Distribution is key to bringing productions to the market. Given the characteristics of international distribution/circulation of audiovisual works around the world and the respect of the mutual benefit principle, the fostering of agreements gathering distributors, sales agents and rights holders of the European Union and third countries is the only way to increase distribution and thus to achieve the objective of 7% market share for EU works in third countries and vice versa over the three years. Given the growing importance of new technologies as well as the number of screens in many third countries, it is also crucial to define distribution not only in the traditional venue of cinema exhibition, festivals or TV broadcasting, but also to include new delivery mechanisms such as DVD, VOD, IPTV, Web TV<sup>84</sup>, mobile TV etc. this approach takes account of the different roles played by professionals inside and outside Europe. Regarding the circulation strand in both scenarios, in general, improved distribution significantly contributes to increased circulation. The impact can be expected to be twofold, responding to both general policy objectives, firstly increased competitiveness and secondly, cultural diversity and consumer choice<sup>85</sup>.

- Any increase in circulation obviously depends on the financial resources of the programme invested in distribution activities.
- The actions proposed will help to reduce the risks and costs of distribution. The fragmented structure of the European distribution system as well as the reduced financial capabilities of distributors hamper film distribution, leading to time constraints and increasing both risk and cost of distribution.

**Exhibit 16: Potential impact of Specific Objective / Action Line 3**

| <b>Impact</b>            | <b>Description of impact</b>                               | <b>Partnerships between sales agents distributors and right-holders</b> | <b>Sales agents</b> | <b>Automatic distribution support</b> | <b>Selective distribution support</b> | <b>Cinema networks</b> | <b>Broadcasters/IPTV /VOD</b> |
|--------------------------|--|---|---------------------|---------------------------------------|---------------------------------------|------------------------|-------------------------------|
| <i>Economic</i>          | Increase distribution                                      | +++   | +                   | ++                                    | ++                                    | +++                    | ++                            |
|                          | Increase circulation                                       | Indirect++  | Indirect++          | Indirect++                            | Indirect++                            | +++                    | +++                           |
|                          | Reaching a wider audience                                  | Indirect++  | Indirect+           | Indirect+                             | Indirect+                             | +++                    | +++                           |
|                          | More consumer choice                                       | Indirect++  | Indirect++          | Indirect++                            | Indirect+                             | +++                    | +++                           |
| <i>Social /cultural</i>  | Culturally more diverse offer of films                     | +++   | ++                  | +++                                   | +++                                   | +++                    | +++                           |
|                          | Enhanced dialogue on audiovisual cultures                  | 0   | 0                   | 0                                     | 0                                     | ++                     | ++                            |
| <i>Environment</i>       | No impact on CO2-Emissions from increased volume of travel | -   | -                   | -                                     | -                                     | -                      | 0                             |
| <i>Short term effect</i> |  | +++   | +                   | ++                                    | ++                                    | ++                     | ++                            |
| <i>Long term effect</i>  |  | +++   | +                   | +                                     | +                                     | ++                     | ++                            |

<sup>84</sup> Web TV is a computerized system that enables viewing TV on the Internet.

<sup>85</sup> Experience with MEDIA Plus has shown that coverage has been extensive: During the period of the programme, one in three European films circulating outside of its national borders received direct support from MEDIA Plus. That ratio increased towards the end of the programme, see [http://ec.europa.eu/information\\_society/media/overview/evaluation/reports/index\\_en.htm](http://ec.europa.eu/information_society/media/overview/evaluation/reports/index_en.htm).

#### 4.5.4. Specific Objective 4 - Reach new audiences and promote film literacy

These operational objectives would implement the fourth specific objective, i.e. reaching new audiences and promoting film literacy. It is closely linked to the issues raised about viewing habits and the need to raise awareness and visibility for European and foreign audiovisual works. It is important in terms of the (long term) development of the circulation of audiovisual works.

- **Operational Objective / Action Line 4.1. - Support to festivals:** Support would cover programming of European and third country audiovisual works and film education activities.
- **Operational Objective / Action Line 4.2. - Support to special events:** Support would cover events like *ex-Cinedays*<sup>86</sup>, and *Picture Europe*<sup>87</sup>, to raise awareness and create "market space" for the promotion of European audiovisual works and vice versa. Support could also be awarded in favour of "European film screenings" organised in third countries (for example in delegations).
- **Operational Objective / Action Line 4.3. - Networks for targeting young audiences including education activities:** A focus on young audiences, including film education activities in cinemas, could have a lasting impact on viewing habits. This point was frequently raised by stakeholders.
- **Operational Objective / Action Line 4.3. - Support for TV programmes dedicated to young audiences:** Special support to children's programmes. A focus on young audiences could have a sustainable impact on the viewing habits. Children's films were highlighted as an area where consumer choice was extremely limited.

#### Impact of Specific Objective 4

This specific objective is of particular importance in order to support and to give a sustainable, long-term effect to Community action. It was demonstrated above (see section 2.3), that a change in viewing habits would be important in terms of a long term effect for the intervention. There would in addition be an impact on competitiveness in the long run resulting from behavioural change, whereas the impact on cultural diversity and consumer choice would be immediately visible. Also, having films selected in festivals is a good starting point for later sales and marketing.

#### Exhibit 17: Potential impact of Specific Objective/ Action Line 4

| Area of impact           | Description of impact                                      | Festivals | Special events | Young Network | Young TV programmes |
|--------------------------|--|-----------|----------------|---------------|---------------------|
| <i>Economic</i>          | Increasing circulation                                     | ++        | ++             | ++            | ++                  |
|                          | Reaching a wider audience                                  | ++        | ++             | ++            | +++                 |
|                          | More consumer choice                                       | +         | +              | ++            | +++                 |
| <i>Social/cultural</i>   | Educating audiences in terms of cultural diversity         | ++        | ++             | +++           | +++                 |
|                          | Enhanced dialogue about audiovisual cultures               | ++        | ++             | ++            | ++                  |
|                          | Culturally more diverse offer of films                     | ++        | ++             | +++           | +++                 |
| <i>Environmental</i>     | No impact on CO2-Emissions from increased volume of travel | -         | -              | 0             | 0                   |
| <i>Short term effect</i> |  | +         | +              | +             | +                   |
| <i>Long term effect</i>  |  | ++        | ++             | +++           | +++                 |

<sup>86</sup> Cinedays = Organised for the first time in 2002, CINEDAYS consisted of a Europe wide programme of major European films in cinemas, TV and film libraries, with special showings organised, particularly for schools.

<sup>87</sup> [http://www.pictureeurope.eu/2008/en/flashintro\\_PE.php](http://www.pictureeurope.eu/2008/en/flashintro_PE.php).

## 5. SECTION 5: COMPARISON OF OPERATIONAL OBJECTIVES / ACTION LINES/ OPTIONS

A comparison of scenarios/ options is carried out in two steps. First, the above described operational objectives/action lines will be assessed regarding their cost-effectiveness, i.e. expenditure (costs) and expected outcomes (effects). A budget allocation is presented first, taking into account the different scenarios. On the basis of the scenarios, the assumptions regarding the cost effectiveness of the different operational objectives/action lines is compared in section 5.2., taking into account the impacts (section 4). Subsequently, after identifying which action lines are most effective and should be pursued (sections 5.4 and 5.5), the two possible policy options "extending MEDIA 2007" or "creating a new programme MEDIA Mundus" will be assessed to establish which would be most effective for implementation (section 5.6).

### 5.1. Cost implications of the programme over 3 years

#### 5.1.1. Scenario 1

Exhibit 18 does not include the administrative costs which are laid out in full in Annex 10 b.

*Exhibit 18: Cost implications of a new programme, 2011 to 2013 in million Euro for Scenario 1*

| <b>MEDIA Mundus (commitment appropriations)</b>                   | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>TOTAL</b> |
|---|-------------|-------------|-------------|--------------|
| <b>Specific Objective 1: Information exchange and market</b>      |             |             |             |              |
| 1) Building up Websites and Databases                             | 2           | 1,2         | 0,8         | 4            |
| 2) Network of contact points                                      | 1,5         | 1,5         | 1,5         | 4,5          |
| 4) Initial training   | 2           | 3           | 3,5         | 8,5          |
| 5) Continuous training  | 6           | 8           | 10          | 24           |
| 6) Market access mechanisms                                       | 8           | 8           | 8           | 24           |
| <b>Specific Objective 2: Facilitating international co-</b>       |             |             |             |              |
| 1) Development  |             |             |             |              |
| Development fund for co-productions                               | 4           | 4           | 4           | 12           |
| Co-production markets   | 2           | 3           | 3           | 8            |
| 2) Co-production  |             |             |             |              |
| a) Co-production fund for feature films                           | 2           | 2,5         | 2,5         | 7            |
| b) Co-production fund for animation films                         | 0,5         | 0,7         | 0,8         | 2            |
| c) Co-production fund for documentary films                       | 0,5         | 0,7         | 0,8         | 2            |
| c) Gap financing  | 0,5         | 1           | 1,5         | 3            |
| <b>Specific Objective 3: Distribution and circulation support</b> |             |             |             |              |
| 1) Support to sales agents  | 3           | 4           | 5           | 12           |
| 2) Automatic distribution support                                 | 9           | 10          | 12          | 31           |
| 3) Selective distribution support                                 | 13          | 14          | 15          | 42           |
| 4) Cinema network   | 7           | 7,5         | 7,5         | 22           |
| 5) Support to broadcasters and digital platforms                  | 8           | 8           | 8,5         | 24,5         |
| <b>Specific Objective 4 : Reach new audiences and promote</b>     |             |             |             |              |
| 1) Festivals  | 4           | 5           | 5           | 14           |
| 2) Special events   | 4           | 3           | 2           | 9            |
| 3) Networks for targeting young audiences including               | 2           | 2           | 2,5         | 6,5          |
| 4) Support for TV programmes dedicated to young audiences         | 2           | 2,5         | 3           | 7,5          |

|                                |    |      |      |              |
|--------------------------------|----|------|------|--------------|
| <b>Total (in million Euro)</b> | 81 | 89,6 | 96,9 | <b>267,5</b> |
|--------------------------------|----|------|------|--------------|

### 5.1.2. Scenario 2

Exhibit 19 shows the cost implications of the specific and operational objectives for the second scenario, reallocating the budget of the scenario 1. Exhibit 19 does not include the administrative costs which are laid out in full in Annex 10 a.

#### *Exhibit 19: Cost implications of a new programme, 2011 to 2013 in million Euro for Scenario 2*

| <b>MEDIA Mundus (commitment appropriations)</b>               | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>TOTAL</b> |
|---|-------------|-------------|-------------|--------------|
| <b>Specific Objective 1: Information exchange and market</b>  |             |             |             |              |
| 1) Building up Websites and Databases                         | 2           | 1,2         | 0,8         | 4            |
| 2) Network of contact points                                  | 1,5         | 1,5         | 1,5         | 4,5          |
| 4) Initial training   | 2           | 3           | 3,5         | 8,5          |
| 5) Continuous training  | 6           | 8           | 10          | 24           |
| 6) Market access mechanisms                                   | 8           | 8           | 8           | 24           |
| <b>Specific Objective 2: Facilitating international co-</b>   |             |             |             |              |
| 1) Development  |             |             |             |              |
| a) Script development   | 3           | 3           | 3           | 9            |
| b) Co-production markets/partner search (pitching)            | 3           | 4           | 4           | 11           |
| 2) Co-production  |             |             |             |              |
| a) Supplement existing co-production funds                    | 3           | 4           | 5           | 12           |
| b) Access to finance  | 0           | 1           | 1           | 2            |
| <b>Specific Objective 3: Distribution and circulation</b>     |             |             |             |              |
| 1) Support to partnerships of right holders, sales agents and | 27          | 29          | 29          | 85           |
| 2) Cinema network   | 7           | 7,5         | 7,5         | 22           |
| 3) Support to broadcasters and digital platforms              | 8           | 8           | 8,5         | 24,5         |
| <b>Specific Objective 4 : Reach new audiences and promote</b> |             |             |             |              |
| 1) Festivals  | 4           | 5           | 5           | 14           |
| 2) Special events   | 4           | 3           | 2           | 9            |
| 3) Networks for targeting young audiences including           | 2           | 2           | 2,5         | 6,5          |
| 4) Support for TV programmes dedicated to young               | 2           | 2,5         | 3           | 7,5          |
| <b>Total (in million Euro)</b>                                | <b>82,5</b> | <b>90,7</b> | <b>94,3</b> | <b>267,5</b> |

### 5.1.3. Scenario 3

In order to take current economic crisis into account , scenario 3 is based on a smaller budget than that of scenarios 1 and 2. Such an option aims at ensuring continuity following the preparatory action and at paving the way for a larger programme under the new financial perspectives. Exhibit 20 shows the cost implications of the specific and operational objectives for scenario 3. Exhibit 20 does not include the administrative costs, which are laid out in full in Annex 10 a.

#### *Exhibit 20: Cost implications of a new programme, 2011 to 2013 in million Euro for Scenario 3*

| <b>MEDIA Mundus (commitment appropriations)</b>              | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>TOTAL</b> |
|--|-------------|-------------|-------------|--------------|
| <b>Specific Objective 1: Information exchange and market</b> |             |             |             |              |

|   |            |            |            |             |
|---|------------|------------|------------|-------------|
| 1) Continuous training  | 0,9        | 0,9        | 0,9        | 2,7         |
| <b>Specific Objective 2: Competitiveness and distribution</b> |            |            |            |             |
| 1) Co-production markets / partner search                     | 0,6        | 0,6        | 0,6        | 1,8         |
| 2) Support to partnerships of right holders, sales agents and | 1,1        | 1,1        | 1,1        | 3,3         |
| <b>Specific Objective 3 : Circulation</b>                     |            |            |            |             |
| 1) Cinema network   | 0,9        | 0,9        | 0,9        | 2,7         |
| 2) Support to broadcasters and digital platforms              | 0,7        | 0,7        | 0,7        | 2,1         |
| 3) Audience support   | 0,3        | 0,3        | 0,3        | 0,9         |
| <b>Total (in million Euro)</b>                                | <b>4,5</b> | <b>4,5</b> | <b>4,5</b> | <b>13,5</b> |

## 5.2. Assumptions on the cost effectiveness and the European added value regarding the different operational objectives; Scenarios 1 and 2

The following exhibits present the assumptions regarding unit costs and outputs and assess the added value of each proposed activity in relation to the proposed budget.

### 5.2.1. Specific objective 1: Information exchange and market intelligence – Scenarios 1 and 2

**Exhibit 21: Outputs and unit costs for specific objective 1, Scenarios 1 and 2, 2011 to 2013**

| Assumption   | Assessment  |
|--|---|
| <p><b>1) Building up Websites and Databases</b><br/>Based on discussions with stakeholders and global market analyses, the needs in the context of MEDIA Mundus would consist in ca. 6 websites and databases covering geographic zones, and in these zones certain film genres and topics related to right holders and market structures. The average cost per unit over three years amounts to 200 000 Euro.</p> | <p>The unit costs have been determined on the basis of previous experiences with the establishment of different databases and websites, for example under the MEDIA 2007 programme: The cost range from 85.000 Euro for a database aimed at European professionals (Cinando) to 375.000 Euro for a website dedicated to information on the European industry (Cineuropa) and 235 000 Euro for the integration of databases (such as the Pro2Film). An average of 200.000 Euro per unit can be considered as low.</p> <p>The costs will be co-financed at 80%; such a high intervention guarantees an impartial, for the user cost-free service at high level. The envisaged output of 6 websites/databases is a minimum for global geographical (Latin America, Asia, MEDA, North America, India, ACP and "Neighbourhood policy area") and content coverage. The costs for the establishment of websites and databases are decreasing over time. Once the websites and databases have been established only the costs for updating will be necessary.</p> <p>There is an added value, in that no such comprehensive websites for international markets exist. In the public consultation professionals stressed the necessity of such an information tool. Synergies could be expected for professionals on a European as well as on a global level. The websites will partly be supplemented with information collected under other actions of MEDIA Mundus.</p>   |
| <p><b>2) Network of contact points</b> In this context payments to the MEDIA Desks &amp; Antennae (co financed with 10.000 Euro per unit) for providing information to stakeholders are taken into account. In parallel 6 contact points (unit costs of 183 333 Euro) would be established in third countries.</p>   | <p>The network of 43 MEDIA Desks &amp; Antennae in the EU and 6 contact points in third countries (for example Latin America, Asia, India, MEDA, ACP and "Neighbourhood policy area") would provide stakeholders with all relevant information regarding the respective markets and the trustworthiness of potential partners. The costs are based on the experience with the MEDIA Desks. Community support would amount to annually 10.000 Euro per desk/antenna and should cover the additional costs for providing the stakeholders with information. The MEDIA Desks and antennas are established bodies already co-financed at 50% by Member States; they already form a network and have a sector knowledge from which the professionals can benefit. Therefore similar results could not be obtained at a lower price.</p> <p>In parallel 6 contact points would be established in third countries, the costs per unit were calculated at 183 333 Euro, including costs for personnel and infrastructure. , in regions with emerging or strong audiovisual markets. The envisaged output of 6 contact points is a minimum for global geographical coverage (Latin America, Asia, MEDA, North America, India, ACP and "Neighbourhood policy area").</p> <p>This would be complementary to actions by the Member States and actions under the MEDIA 2007 programme (i.e. the network of MEDIA Desks). It should be noted that MEDIA Desks &amp; Antennae are attached to national structures; therefore there is complementarity with national support schemes as well as with European audiovisual support. It would be more difficult, and much more expensive to establish such a network at the level of Member States, in particular for smaller Member States. Hence, there is an European added value.</p> |

| Assumption  | Assessment  |
|---|---|
| <p><b>3) Support for initial training</b><br/>150 individual scholarships (12 000 Euro 24 000 Euro for postgraduates) and 50 other initial training measures like exchange and cooperation between film schools on more specific topics (with costs of 106.000 Euro per unit). On this basis, the average unit costs amount to 40.000 Euro.</p> | <p>In order to attract the most talented students, the programme has to offer competitive scholarships. A comparison with similar international scholarship programmes in the field confirms these figures<sup>88</sup>. Although the programme could benefit from having a system to pick students according to their educational background and study destination, the administrative costs of such a system (and the risk of fraud) would be likely to out-weigh its benefits and would not be cost-effective. The output of 150 scholarships over a three year period, covering Europe and third countries, is a minimum output for the creation of global networks and a sustainable effect.</p> <p>For the initial training measures, unit costs are based on experience with MEDIA 2007 and the ex post evaluation of MEDIA Training (2001-2006). The EU financial contribution would be between 40% and 80% of the eligible costs, depending on the geographical origin of the applicants. The output of 50 other initial training measures is necessary in order to reach the critical mass of participants and to create sustainable networks and the necessary transfer of know how for future cooperation between professionals and projects.</p> <p>There is European added value in the creation of global networks, which can generate important synergies between professionals. This is particularly important for professionals from smaller Member States.</p>   |
| <p><b>4) Support for continuous training</b><br/>140 trainings over 3 years, with an average unit cost of 170.000 Euro (including scholarships). Some (between 20% and 30 %) of the supported measures will consist in an extension of training measures supported under MEDIA 2007.</p>  | <p>Unit costs are based on experience with MEDIA 2007 (Euro 267.000 per unit) and the first year of the Preparatory Action MEDIA International (out of the 11 supported projects, two were extensions of continuous training projects supported under MEDIA 2007. The average costs of these extensions were 35.000 Euro, the costs of the non-extension projects amounting on average to 123.000 Euro.)</p> <p>A minimum investment is required to set up the training, rent the premises, pay the trainers etc. Support would amount to 50% 80% depending on the locations for the training and the geographic origin of the partners and participants. This rule was already successfully applied in the first year of the Preparatory Action MEDIA International.</p> <p>The number of trainings would be increasing over time; in order to give the sector the time necessary to develop the relevant training measures and to address the relevant partners and professionals. The total output of 140 trainings over 3 years is necessary in order to create a critical mass of potential partners and to attract professionals specialising in the various international aspects of production, distribution and circulation. The number of 140 outputs was calculated on the basis of the feedback in the context of the public consultation and the first year of the Preparatory action MEDIA International. Further to that experience from MEDIA 2007 regarding the diversity of efficient training modules was taken into account.</p> <p>A comparable global approach does not exist in national support systems, However awareness and knowledge of global markets is a precondition for players to make the most of their potential and to improve global circulation of works. In order to achieve these objectives only a pan –European approach can ensure added value.</p> |
| <p><b>5) Facilitation of market access</b><br/>Under the market access mechanisms, support is awarded for the participation in festivals and markets. Eligible costs cover (umbrella) stands and travel costs. The costs per unit amount to</p>   | <p>Unit costs were determined on the basis of MEDIA 2007 experience and experts' opinions (e.g. evaluation committee of Lot 2 of the Preparatory Action MEDIA International).</p> <p>Under MEDIA 2007 the costs for a (average) stand vary between 300.000 and 600.000 Euro; the price for market access mechanisms varies between 50.000 and 450.000 Euro. The costs calculated here are below the average MEDIA 2007-costs because in some of the most important markets (like Cannes and Berlin) MEDIA is already supporting stands. A MEDIA Mundus contribution would cover between 50% and 80%, depending on the relevance of the festival/market and the geographical origin of the respective partners.</p> <p>The number of supported projects (output of 85 actions) would enable the programme</p>  |

<sup>88</sup>

See also Impact assessment ERASMUS Mundus, page 43  
[http://ec.europa.eu/governance/impact/docs/ia\\_2007/sec\\_2007\\_0949\\_en.pdf](http://ec.europa.eu/governance/impact/docs/ia_2007/sec_2007_0949_en.pdf)

| Assumption                               | Assessment  |
|--|---|
| 280.000 Euro. Total output of 85 actions | <p>to cover the most important international film festivals and markets. Similar results could not be achieved at lower costs or with fewer outputs.</p> <p>Umbrella stands would enable European professionals to participate in (very expensive) international markets. This is in particular relevant for professionals from small Member States, who cannot afford an individual presence on all big international markets. The complementarity and European added value is high since these actions would give European professionals the opportunity to join forces and to be more visible at major events.</p> |

### 5.2.2. Specific objective 2: Facilitate international co-production activities - Scenario 1

#### Exhibit 22: Outputs and unit costs for specific objective 2, Scenario 1; 2011 to 2013

| Assumption  | Assessment  |
|---|---|
| <b>1) Development</b>   |   |
| <p><b>a) Development fund for co-productions</b><br/>300 outputs (supported film-projects), 40.000 Euro each</p>                                  | <p>Unit costs under the MEDIA 2007 programme amount to 80.000 Euro maximum. Under MEDIA Mundus costs would be 50% lower because the costs of international co-productions are on average lower than the costs for European films<sup>89</sup>.</p> <p>The development of approximately 100 co-production projects per year would be supported. Not all films financed under development enter into production, but in any case this will result in a selection of "quality" films and the learning effect for producers of films not going into production is also considerable.</p> <p>Development of international co-productions is only to a very limited extent supported by some Member States (some of the international co-production funds integrate development support, see Annex 8), and if so with a national focus. Therefore there is a European added value. However, the administration of such a fund is very resource intensive, because a lot of documents need to be read and evaluated by different experts in various languages. It can therefore not be considered to be sufficiently cost-effective.</p>               |
| <p><b>b) Organisation of co-production markets and partner search events (pitching)</b><br/>110.000 Euro per event. Total output of 73 events</p> | <p>Under the Preparatory Action MEDIA International costs for similar actions were on average 110.000 Euro.</p> <p>Financing would amount to 50-80%, depending on the nature of the event, for example whether it is taking place in the context of a festival (50% only), and also depending on the geographical origin of the partners and the country where the event would take place.</p> <p>The number of events would increase in the second and third year of the programme. 73 events over a three year period is a minimum number in order to ensure the selection of high quality projects (i.e. not a quantitative approach) and to cover all geographical zones of interest.</p> <p>The action is complementary to actions in Member States, which mostly have a national focus. Here, Europe will be presented at pitching events in all its cultural diversity and can offer access to a large market, and this will guarantee the interest of strategically important international investors. The added value for the participants is the possibility to meet various investors from strategic markets, willing to invest.</p> |

<sup>89</sup> For example, the average cost of French co-productions involving (a) partner(s) from (a) third country (ies) amount to 1,98 million Euro, against 5,4 million Euro for other French films.

| Assumption   | Assessment  |
|--|---|
| <b>2) Co-production</b>  |   |
| <b>a) Co-production fund for feature films</b><br>Unit costs: 50.000 Euro, outputs over three years: 140 films         | <p>Unit costs were calculated on the basis of funds awarded by existing international co-production funds (see Annex 8), and are comparatively low. The output number of 140 films over the three year period of the programme was established following discussions with and needs assessment of existing international co-production funds. Support would amount to a maximum of 20% of the production costs.</p> <p>Several Member States consider production as funding falling into their exclusive competence and being subject to the principle of subsidiarity. Furthermore, the administration of such a fund would be very resource intensive and complicated, i.e. with regard to the contracts to be concluded with the different financiers, the script which would need to be read entirely and evaluated in any language, control of receipts/costs afterwards from different territories around the world and finally exchange rate fluctuations. Therefore, there are doubts as to the cost-effectiveness of a co-production fund for feature films.</p> |
| <b>b) Co-production fund for animation films</b><br>Unit costs: 60.000 Euro, output over three years: 33 films         | <p>Unit costs were calculated on the basis of reports from the animation industry. They very low compared to the average budget of animation films.</p> <p>The output of 33 films over a three year period was established following market investigations. Financial support would amount to a maximum of 25% of the production costs.</p> <p>Member States do not run such international funds focused on animation films. Animation films have an important potential for export and circulate well. They are costly and therefore produced mainly by few countries. The existence of such a fund could increase the production of animation films and improve competitiveness. However, several Member States consider that production funding falls into their exclusive competence and is subject to the principle of subsidiarity (see above).</p>   |
| <b>c) Co-production fund for documentary films:</b><br>40.000 Euro unit costs with 50 outputs (films) over three years | <p>Unit costs were calculated on the basis of expert opinions. They are low compared to the average budget of documentary films (for example around 0,6 million Euro for a French documentary film).</p> <p>The output of 50 films over a three year period is low as regards the current level of production and the strong interest in documentary films (thematic channels for example) and their educational and cultural impact. It reflects the choice to focus on high quality and ambitious projects. Support would amount to a maximum of 30% of the production costs.</p> <p>Member States do not run such international funds focused on documentary films. Documentary films have an important potential for export, in particular on TV, and circulate well. However, several Member States consider that production funding falls into their exclusive competence and is subject to the principle of subsidiarity (see above).</p>  |
| <b>d) Gap financing of production costs</b><br>30 000 Euro per unit, 100 outputs (films)                               | <p>In order to incite banks to provide gap financing to co-productions, the EU would cover part of the loans and interest costs. The average costs would amount to 30.000 Euro. Over the three years of the programme, 100 international co-productions could benefit from this tool.</p> <p>However, the Commission, not being a financial institution itself, could not administer such a fund. It could only award part of the financing costs (see i2i under MEDIA 2007) to banks. Experience from MEDIA 2007 shows that the administration of such funding would be particularly resource intensive. In the case of international cooperation it would be further complicated, in particular regarding the evaluation of proposals (scripts to be read in all languages), contracts with different banks and ex-post control. This would significantly counterbalance the leverage effect. It can be concluded that gap financing of production costs is not sufficiently cost-effective.</p>  |

### 5.2.3. Specific Objective 2: Facilitate international co-production activities - Scenario 2

#### Exhibit 23: Outputs and unit costs for specific objective 2, Scenario 2; 2011 to 2013

| Assumption   | Assessment  |
|--|---|
| <b>1) Development</b>  |   |
| <p><b>a) Script development training</b> amounts to 113.000 Euro per unit. Total output of 70.</p>   | <p>Unit costs are based on experience with MEDIA 2007 and the Preparatory Action MEDIA International. Script development trainings already supported by MEDIA receive contributions ranging from 50.000 to 300.000 Euro, the proposed cost per unit of 113.000 Euro is therefore reasonable. Script development training can to a large part take place interactively via the Internet. These unit costs are therefore lower than the costs calculated for continuous training (see exhibit 18).</p> <p>An average output of 23 trainings per year is appropriate to develop co-productions, considering the failure rate of film projects at the development stage.</p> <p>Co-financing would amount to 50 - 80% of the eligible costs, depending on the geographical origin of the partners and the country where the event is going to take place.</p> <p>Most script development trainings offered by Member States require that the plot takes place on their respective territory. Such restrictions are a constraint for the development of artistic international co-production and the subsequent circulation of films. Under this action, the training would have a focus on "international script development", i.e. international co-productions and how to reach international audiences by adapting the script; a field which is not covered by Member States. The training would be complementary to actions pursued by Member States and would in the follow-up enable professionals to obtain financing for their projects from diverse national and international sources. Thus, there is a clear European added value.</p> |
| <p><b>b) Organisation of co-production markets and partner search events (pitching)</b> is financed up to 110.000 Euro per event. Total output of 100 events</p>               | <p>Under the Preparatory Action MEDIA International costs for similar actions were on average 110.000 Euro.</p> <p>Financing would amount to 50-80%, depending on the nature of the event, for example whether it is taking place in the context of a festival (50% only), and also depending on the geographical origin of the partners and the country where the event would take place.</p> <p>The number of events would increase in the second and third year of the programme. The output of 100 events over a three year period is a minimum number in order to ensure the selection of high quality projects (i.e. not a quantitative approach) and to cover all geographical zones and genres (feature, animation and documentary films) . (Under the first scenario a smaller number of outputs was proposed, because the setting-up of a development fund is considered to have a similar effect in part).</p> <p>The action is complementary to actions in Member States, which mostly have a national focus. Here, Europe will be presented at pitching events in all its cultural diversity and can offer access to a large market, and this will guarantee the interest of strategically important international investors. The added value for the participants is the possibility to meet various investors from strategic markets, willing to invest.</p>   |
| <b>2) Co-production</b>  |   |
| <p><b>a) For supplementing existing co-production funds</b><br/>Unit costs of 500.000 Euro. 24 outputs would go over the three years period of the programme to ca.8 funds</p> | <p>The unit costs were calculated on the basis of the budget of the existing public international film funds (see Annex 8). By supporting approximately eight funds (with 24 outputs over the three years period) the action would obtain global coverage, both in terms of European and non-European professionals. 500.000 Euro is a small amount, and is based on the average budget and intervention level of these funds, investing in productions with a low budget (on average less than 1 million Euro per film). Thus, even small contributions (for instance 50 000 Euro per film) can make an important difference. The funds would be administered by existing funds in the Member States. In comparison to the first scenario, under which the Commission would run the fund, the supplementing of existing co-production funds is much more cost effective. The budget for this action would increase over the three year period.</p> <p>Most of the funds are fighting for their budget and their existence, for instance because they do not have an important economic effect in the Member States, but are significantly contributing to global cultural diversity. Therefore Community action</p>  |

| Assumption  | Assessment   |
|---|--|
|   | would be complementary to action by Member States and there would be important European added value in terms of the implementation of the UNESCO convention on cultural diversity and international exchange.  |
| <b>b) Access to finance:</b><br>Unit costs: 500.000 Euro, 4 outputs | This action would for administrative reasons start in the second year of the programme. The costs of 500.000 Euro per unit, (4 outputs over 2 years) are very low for the start of this action. Financial institutions would be encouraged to facilitate access to finance; for example award guarantees to banks for international co-productions; guarantee funds would have a very important leverage effect <sup>90</sup> .<br>The selected bodies will have an obligation to reinvest the funding.<br>The majority of Member States do not have national or international funds, facilitating access to finance. Among European professionals there is a strong demand and need for more commercial finance and therefore there is an important European added value when encouraging banks to invest in international film production. |

#### 5.2.4. Specific objective 3: Distribution and circulation support - Scenario 1

#### Exhibit 24: Outputs and unit costs for specific objective 3, Scenario 1; 2011 to 2013

| Assumption  | Assessment   |
|---|--|
| <b>1) Support to sales agents</b> average of 50 000 Euro per project. Support would be awarded for MG, P&P and P&A costs. 240 outputs over the three years period | Support would be awarded for groupings of sales agents assembling rights for different territories and films. Unit costs comprise a maximum of 10.000 Euro per film and territory and up to a maximum of 250.000 Euro per grouping, consisting of at least 2 sales agents covering at least 10 territories and at least 2 films. Unit costs were calculated on the basis of MEDIA 2007 projects. Support could finance up to 50% of the eligible costs, depending on the territory (Costs would cover: MG = minimum guarantee; P&P= prints and production; P&A = promotion and advertising).<br>Given the complexity of releasing films in various regions of the world, these are low costs. Over the three year period 240 consortia (minimum 480 films) would be supported. Fewer outputs would not lead to a sustainable effect on the market to reach the critical mass for distribution.<br>The logic of this approach was inspired by the MEDIA 2007 programme and achieves good results in the context of the internal market. However, for an international cooperation programme the implementation based on partnerships (groupings) does not reflect the realities of the sector, and is therefore unlikely to sufficiently contribute to increasing the market share to 7% and thus any European value added is questionable. |
| <b>2) Automatic distribution support</b> unit cost of 70.000 Euro per film and 442 films supported over the three year period                                     | Support would be awarded to a grouping of distributors from at least two territories and with at least 2 films. The exact amount of potential support is based on the receipts from the films, origin and the countries of distribution. Unit costs per film would not exceed 70.000 Euro (a figure much lower than the funding potentially awarded under MEDIA 2007- ca. 300 000 Euro per film- this difference because of the lower ticket prices in third countries). The distributor would be obliged to reinvest the financial support in co-production or distribution of audiovisual works. The output is very low, because – to start the generation system - only films having had a minimum amount of admissions would be eligible. This barrier is particularly high, also compared to the automatic support under MEDIA 2007.<br>Support could finance up to 50% of the eligible costs (depending on the territory, comprising MG = minimum guarantee; P&P= prints and production; P&A = promotion and advertising).   |

<sup>90</sup> See for example IFCIC: <http://www.ifcic.fr/infos/communiqués-bilan-de-l-annee-2007.html>

| Assumption  | Assessment  |
|---|---|
|   | <p>The logic of this approach was inspired by the MEDIA 2007 programme and achieves good results in the context of the internal market. However, for an international cooperation programme it would be difficult to obtain the necessary data to run an automatic support system. Furthermore an European distributor does not usually have contact with a foreign distributor and has no interest in having commercial relationships with him. Thus, it is questionable whether such an action could lead to a significant increase in market share and contribute to European value added .</p>  |
| <p><b>3) Selective distribution support</b><br/>140.000 Euro with 300 outputs</p>   | <p>Support would be awarded for groupings of distributors assembling rights for different territories and audiovisual works. The unit costs comprise a maximum of 20.000 Euro per film and territory and up to a maximum of 300.000 Euro per grouping, consisting of at least 2 distributors and at least 5 films. Unit costs were based on MEDIA 2007 experience. Support could finance up to 50% of the eligible costs, depending on the territory (Costs would cover: MG = minimum guarantee; P&amp;P= prints and production; P&amp;A = promotion and advertising).</p> <p>Given the complexity of releasing films in various regions of the world, these are low costs. Over the three year period 300 consortia (minimum 600 films) would be supported.</p> <p>The logic of this approach was inspired by the MEDIA 2007 programme and achieves good results in the context of the internal market. However, in the current context of an international programme, this action does not appear to be promising in terms of increasing the market share of 7% market share for EU works in third countries and vice versa over the three years.</p> |
| <p><b>4) Cinema network:</b><br/>The unit costs (per network) amount to 1.47 million Euro. 15 outputs over the three years period (5 networks).</p>   | <p>The unit costs are based on the experience from MEDIA 2007 and in particular from Lot 3 (cinema networks) from the first year of the Preparatory Action MEDIA International (700 000 Euro for putting in place one network). Discussions with experts confirmed the desirability to support new and additional networks, so that the different segments of the exhibition market and different audiences can be reached.</p> <p>Considering the number of cinemas participating in such networks and the direct effect on the value chain, the unit costs are very low. Compared with the only existing cinema network on an European level, which receives 7 million Euro from MEDIA for 1500 screens, this action will be able to support an average of 300 screens in each network. The support would encourage cinemas to show a certain rate of European and third countries' films, by subsidising 50% of the exhibition costs.</p> <p>Member States are not running such networks on an European or international level. Therefore there is an important added value in that films are exhibited beyond their national borders.</p>           |
| <p><b>5) Support to broadcasters and digital platforms:</b><br/>The average unit costs amount to 390.000 Euro for the support of 63 projects associating European and non-European broadcasters and VOD platforms over three years.</p> | <p>Unit costs are based on the MEDIA 2007 experience with the VOD support scheme and on discussions with experts.</p> <p>Considering the rigidity of the broadcasting market (high competition between programmes, risk adversity in particular relating to non national and non US-productions), groupings of broadcasters could tackle these problems and obtain a price lower than the average market price. This goes hand in hand with the new Audiovisual Media Service Directive<sup>91</sup>, which qualifies co-productions as European works.</p> <p>For VOD platforms, the average unit cost is lower than the MEDIA-supported VOD platforms (average unit cost of 411.000 Euro).</p> <p>The financial contribution would cover 50% of the costs so as to ensure the commercial viability and visibility of the selected projects, which is a key element in a very competitive environment.</p> <p>Member States are not financing similar projects and, apart from national and US</p>   |

<sup>91</sup> See footnote 2

| Assumption | Assessment  |
|------------|---|
|            | productions, films are not widely distributed. Therefore there is an important added value in terms of consumer choice. |

5.2.5. *Specific objective 3: Distribution and circulation support - Scenario 2*

**Exhibit 25: Outputs and unit costs for specific objective 3, Scenario 2; 2011 to 2013**

| Assumption  | Assessment  |
|---|---|
| <p><b>1) Support to partnerships of right-holders, sales agents and distributors</b> 160.000 Euro per project, 540 outputs</p>                  | <p>Support is awarded to groupings of distributors, sales agents/ right-holders assembling rights for audiovisual works in different territories and on different formats/platforms. Unit costs comprise a maximum of 30.000 Euro per film and territory and up to a maximum of 550.000 Euro per grouping, consisting of at least 2 distributors and 2 sales agents/right-holders covering at least 10 territories (= country) and at least 5 audiovisual works. Unit costs were calculated on the basis of MEDIA 2007.</p> <p>Support could finance up to 50% of the eligible costs (depending on the territory, comprising MG = minimum guarantee; P&amp;P= prints and production; P&amp;A = promotion and advertising). These are the lowest possible costs in view of the complexity of releasing audiovisual works in various regions of the world. Over the three year period 540 consortia (minimum 2700 audiovisual works) should be supported. As per the MEDIA evaluations, fewer outputs would not lead to a sustainable effect on the market to reach the critical mass for distribution. This action is complementary to MEDIA 2007; and export strategies exist only on a unilateral level in Member States.</p> <p>The European added value lies in the mutuality of the approach, to the benefit of visibility and diversity of films and consumer choice: By providing concentrated support to groupings of distributors, sales agents/ right-holders, this action is expected to considerably contribute to the objective of 7% market share for EU works in third countries and vice versa over the three years.</p> |
| <p><b>4) Cinema network:</b> The unit costs (per network) amount to 1.47 million Euro. 15 outputs over the three years period (5 networks).</p> | <p>The unit costs are based on the experience from MEDIA 2007 and in particular from Lot 3 (cinema networks) from the first year of the Preparatory Action MEDIA International (700 000 Euro for putting in place one network). Discussions with experts confirmed the desirability to support new and additional networks, so that the different segments of the exhibition market and different audiences can be reached. Hence, the envisaged output of 5 networks per year.</p> <p>Considering the number of cinemas participating in such networks and the direct effect on the value chain, the unit costs are very low. Compared with the only existing cinema network on an European level, which receives 7 million Euro from MEDIA for 1500 screens, this action will be able to support an average of 300 screens in each network. The support would encourage cinemas to show a certain rate of European and third countries' films, by subsidising 50% of the exhibition costs.</p> <p>Member States are not running such networks on European or international level. Therefore there is an important added value in that films are exhibited beyond their national borders, significantly contributing to global cultural diversity. Therefore there would be important European added value in terms of the implementation of the UNESCO convention on cultural diversity.</p>  |
| <p><b>5) Support to broadcasters and digital platforms:</b> The average unit costs</p>  | <p>Unit cost is based on the MEDIA 2007 experience with the VOD support scheme and on discussions with experts.</p> <p>Considering the rigidity of the broadcasting market (high competition between programmes, risk adversity in particular relating to non national and non US-</p>  |

| Assumption  | Assessment   |
|---|--|
| <p>amount to 390.000 Euro for the support of 63 projects associating European and non-European broadcasters and VOD platforms over three years.</p> | <p>productions), groupings of broadcasters could tackle these problems and obtain a price lower than the average market price. This goes hand in hand with the new Audiovisual Media Service Directive<sup>92</sup>, which qualifies co-productions as European works.</p> <p>For VOD platforms, the average unit cost is lower than the MEDIA-supported VOD platforms (average unit cost of 411.000 Euro).</p> <p>The envisaged output of 63 projects would be split between broadcasters and VOD platforms reflecting the new technological challenges and opportunities to internationally distribute content.</p> <p>The financial contribution would cover 50% of the costs so as to ensure the commercial viability and visibility of the selected projects, which is a key element in a very competitive environment.</p> <p>Member States are not financing similar projects and, apart from national and US productions, films are not widely distributed. Therefore there is an important added value in terms of consumer choice.</p> |

Under both these scenarios almost 50% of the budget would be devoted to specific objective 3. Firstly, in relation to the problems identified and to the general objectives pursued by the programme MEDIA Mundus (circulation/diversity), it is reasonable to concentrate a large part of the intervention on the activities' segment dedicated to international circulation and distribution of audiovisual works. Such a strategy is justified by the results of the ex-post evaluations of the MEDIA programmes and the results of the public consultation. The MEDIA evaluations show the excellent cost-effectiveness ratio of the interventions on this segment and their short-term impact on the circulation of non-national European works inside the European Union (2/3 of the non national European films circulating in Europe have benefited from the distribution support of MEDIA 2007). In line with the objectives of MEDIA Mundus, all actions contributing significantly to their achievement have been included: In addition to the distributors, the sales agents, the right-holders and the cinemas, they include schemes for television networks and for new distribution supports (VOD platform). In view of the above, the proportion of the MEDIA Mundus budget devoted to distribution/circulation is moderate (see also section 5.6 and 5.8 below).

#### 5.2.6. *Specific objective 4: Reach new audiences and promote film literacy*

#### **Exhibit 26: Outputs and unit costs for specific objective 4, Scenarios 1 and 2; 2011 to 2013**

| Assumption   | Assessment   |
|--|--|
| <p><b>1) Festivals</b> are supported with average unit costs of 50.000 Euro. 280 outputs</p> | <p>Costs were calculated on the basis of experience with MEDIA 2007, where 100 festivals receive an average of 35 000 Euro yearly. To focus the support in the context of MEDIA Mundus on the most important festivals throughout the world, only 90 festivals would receive support (280 outputs over three years). An average amount of 50 000 Euro would be allocated in order to incite festivals to participate.</p> <p>Circulation of audiovisual works in the context of festivals is one important condition to give a platform to audiovisual works and make them interesting for international distribution. The costs calculated are the lowest costs possible in order to give an incentive to present a culturally diverse offer of films. Eligible festivals would have to show at least 25% of European films in third countries and vice versa. Support would cover up to 50% of the eligible costs, i.e. those related to showing the films (approx. 8-10% of the festival costs) and support would not exceed 80.000 Euro where several festivals introduce a joint request, and 35.000 Euro if the application is made by an European intermediary.</p> |

<sup>92</sup> See footnote 2

| Assumption  | Assessment  |
|---|---|
|   | <p>The financing of festivals has an important leverage effect. There is a European added value, in that festivals with a diverse programme in Europe contribute to cultural diversity and consumer choice and outside the Union the visibility of European films would be strengthened.</p>  |
| <p><b>2) Special events</b><br/>Support is planned for 30 promotional events over a three year period with an average unit cost of 300.000 Euro.</p>  | <p>Support would cover events like ex-Cinedays<sup>93</sup> and Picture Europe<sup>94</sup> to raise awareness and create "market space" for the promotion of European films and vice versa. Events would for example include "European film festivals" organised by a subcontractor for at least 10 EU delegations (or other public bodies) in third countries. The eligible costs would include the buying of the rights and the transport of the prints. The organiser of the festival would need to provide the facilities and the infrastructure.</p> <p>These actions would enable spectators to see a cultural diverse sample of films. The costs are the lowest possible and have been calculated on the basis of past experience. Such festivals will not generate income, the promotional aspect is at the very fore.</p> <p>The output of 10 promotional events per year is a minimum to allow a number of focused events via different media and in different geographic zones.</p> <p>Currently it is very difficult to organise such screenings, because for each film individually rights and prints need to be obtained. To have a subcontractor organising all this is of important added value.</p>   |
| <p><b>3) Network for targeting young audiences including education activities.</b><br/>Over the three year period 30 such networks and partnerships would be financed at a unit cost of 220.000 Euro.</p>       | <p>The costs and the number of outputs (30 over the three year period) are based on experience with cinema networks, festivals and the organisation of events in the context of various generations of MEDIA programmes. Feature films, children's documentaries, short films and animations would be presented to young audiences, in each case combined with an educational programme. Eligible costs would cover 60% of the exhibition costs (including acquisition of rights and dubbing of the films) and 60-80% of the educational programme and of transport costs for children, depending on the location. With a lower co financing rate it would be difficult to find the respective partners with a similar international focus and investment capacity.</p> <p>In Europe children would see films from third countries and in third countries European films would be screened. Similar activities exist at national level but not promoting international cinema. The long term impact on viewing habits and the early education to cultural diversity, as well as the exhibition of films beyond their national borders are of added value and justify the intervention. Therefore there would be important European added value in terms of the long-term implementation of the UNESCO convention on cultural diversity.</p> |
| <p><b>4) Support for TV programmes dedicated to young audiences.</b><br/>Over the three year period this action would co-finance the dubbing of 260 films to be broadcast, with a unit cost of 30.000 Euro.</p> | <p>Costs were calculated on the basis of experience with distribution support schemes and a study on dubbing and subtitling<sup>95</sup>.</p> <p>The ceiling of the MEDIA 2007 contribution for dubbing is fixed at 40 000 Euro, an average of 30 000 Euro would encourage quality dubbing. Support under MEDIA Mundus would amount to 50% of the dubbing costs.</p> <p>Broadcasters need an incentive for broadcasting more international programmes for children. The envisaged output is 260 films, a lower intervention rate would not be a sufficient incentive and fewer outputs would not provide for sufficient global media coverage.</p> <p>There is an added value in that European broadcasters would show more third country films and broadcasters from third countries more European films. This cannot be achieved at Member State level and contributes to the implementation of the UNESCO convention on cultural diversity.</p>  |

<sup>93</sup> Cinedays = Organised for the first time in 2002, CINEDAYS consisted of a Europe wide programme of major European films in cinemas, TV and film libraries, with special showings organised, particularly for schools.

<sup>94</sup> [http://www.pictureeurope.eu/2008/en/flashintro\\_PE.php](http://www.pictureeurope.eu/2008/en/flashintro_PE.php) .

<sup>95</sup> [http://ec.europa.eu/information\\_society/media/overview/evaluation/studies/index\\_en.htm](http://ec.europa.eu/information_society/media/overview/evaluation/studies/index_en.htm)

### 5.3. Assumptions on the cost effectiveness and the European added value regarding the different operational objectives; Scenario 3

The following exhibits present the assumptions regarding unit costs and outputs and assess the added value of each proposed activity in relation to the proposed budget.

#### 5.3.1. Specific objective 1: Information exchange and market intelligence – Scenario 3

**Exhibit 27: Outputs and unit costs for specific objective 1, Scenario 3, 2011 to 2013**

| Assumption   | Assessment   |
|--|--|
| <p><b>1) Support for continuous training</b><br/>45 trainings over 3 years, with an average unit cost of 60.000 Euro (including scholarships). Some (between 20% and 30 %) of the supported measures will consist in an extension of training measures supported under MEDIA 2007.</p> | <p>Unit costs are based on the first year of the Preparatory Action MEDIA International (out of the 11 supported projects, two were extensions of continuous training projects supported under MEDIA 2007. The average costs of these extensions were 35.000 Euro, the costs of the non-extension projects amounting on average to 123.000 Euro.)</p> <p>A minimum investment is required to set up the training, rent the premises, pay the trainers etc. Support would amount to 50% 80% depending on the locations for the training and the geographic origin of the partners and participants. This rule was already successfully applied in the first year of the Preparatory Action MEDIA International.</p> <p>The total output of 45 trainings over 3 years was calculated on the basis of the first year of the Preparatory action MEDIA International (11 continuous training projects have been supported with a global community contribution of 0.78 Mio Euro.</p> <p>A comparable global approach does not exist in national support systems, However awareness and knowledge of global markets is a precondition for players to make the most of their potential and to improve global circulation of works. In order to achieve these objectives only a pan –European approach can ensure added value.</p> |

#### 5.3.2. Specific objective 2: Competitiveness and distribution - Scenario 3

**Exhibit 28: Outputs and unit costs for specific objective 2, Scenario 3; 2011 to 2013**

| Assumption  | Assessment   |
|---|--|
| <p><b>1) Organisation of co-production markets and partner search events (pitching)</b><br/>110.000 Euro per event. Total output of 16 events</p> | <p>Under the Preparatory Action MEDIA International costs for similar actions were on average 110.000 Euro.</p> <p>Financing would amount to 50-80%, depending on the nature of the event, for example whether it is taking place in the context of a festival (50% only), and also depending on the geographical origin of the partners and the country where the event would take place.</p> <p>The number of events would decrease in the second and third year of the programme. In regard with the first year of the preparatory action MEDIA International, 16 events over a three year period is a minimum number in order to ensure the selection of high quality projects (i.e. not a quantitative approach) and to cover all geographical zones of interest.</p> <p>The action is complementary to actions in Member States, which mostly have a national focus. Here, Europe will be presented at pitching events in all its cultural diversity and can offer access to a large market, and this will guarantee the interest of strategically important international investors. The added value for the participants is the possibility to meet various investors from strategic markets, willing to invest.</p> |
| <p><b>2) Support to partnerships of</b></p>   | <p>Support is awarded to groupings of distributors, sales agents/ right-holders assembling rights for audiovisual works in different territories and on different formats/platforms.</p>   |

| Assumption  | Assessment   |
|---|--|
| <p><b>right-holders, sales agents and distributors</b> 160.000 Euro per project, 21 outputs</p> | <p>Unit costs comprise a maximum of 30.000 Euro per film and territory and up to a maximum of 550.000 Euro per grouping, consisting of at least 2 distributors and 2 sales agents/right-holders covering at least 10 territories (= country) and at least 5 audiovisual works. Unit costs were calculated on the basis of MEDIA 2007.</p> <p>Support could finance up to 50% of the eligible costs (depending on the territory, comprising MG = minimum guarantee; P&amp;P= prints and production; P&amp;A = promotion and advertising). These are the lowest possible costs in view of the complexity of releasing audiovisual works in various regions of the world. Over the three year period 21 consortia (minimum 100 audiovisual works) should be supported. As per the MEDIA evaluations, fewer outputs would not lead to a sustainable effect on the market to reach the critical mass for distribution. This action is complementary to MEDIA 2007; and export strategies exist only on a unilateral level in Member States.</p> <p>The European added value lies in the mutuality of the approach, to the benefit of visibility and diversity of films and consumer choice: By providing concentrated support to groupings of distributors, sales agents/ right-holders, this action is expected to contribute to the objective of 7% market share for EU works in third countries and vice versa over the three years.</p> |

### 5.3.3. Specific objective 3: Circulation - Scenario 3

#### Exhibit 29: Outputs and unit costs for specific objective 3, Scenario 3; 2011 to 2013

| Assumption  | Assessment   |
|---|--|
| <p><b>1) Cinema network:</b><br/>The unit costs (per network) amount to 0.54 million Euro. 5 outputs over the three year period (2 networks).</p> | <p>The unit costs are based on the experience from MEDIA 2007 and in particular from Lot 3 (cinema networks) from the first year of the Preparatory Action MEDIA International (700 000 Euro for putting in place one network). Discussions with experts confirmed the desirability to support new and additional networks, so that the different segments of the exhibition market and different audiences can be reached. Hence, the envisaged output of 2 networks per year.</p> <p>Considering the number of cinemas participating in such networks and the direct effect on the value chain, the unit costs are very low. Compared with the only existing cinema network on an European level, which receives 7 million Euro from MEDIA for 1500 screens, this action will be able to support an average of 300 screens in each network. The support would encourage cinemas to show a certain rate of European and third countries' films, by subsidising 50% of the exhibition costs.</p> <p>Member States are not running such networks on European or international level. Therefore there is an important added value in that films are exhibited beyond their national borders, significantly contributing to global cultural diversity. Therefore there would be important European added value in terms of the implementation of the UNESCO convention on cultural diversity.</p> |
| <p><b>2) Support to broadcasters and digital platforms:</b> The average unit costs amount to 390.000 Euro for the support of</p>                  | <p>Unit cost is based on the MEDIA 2007 experience with the VOD support scheme and on discussions with experts.</p> <p>Considering the rigidity of the broadcasting market (high competition between programmes, risk adversity in particular relating to non national and non US-productions), groupings of broadcasters could tackle these problems and obtain a</p>   |

| Assumption   | Assessment   |
|--|--|
| 5 projects associating European and non-European broadcasters and VOD platforms over three years.  | <p>price lower than the average market price. This goes hand in hand with the new Audiovisual Media Service Directive<sup>96</sup>, which qualifies co-productions as European works.</p> <p>For VOD platforms, the average unit cost is lower than the MEDIA-supported VOD platforms (average unit cost of 411.000 Euro).</p> <p>The envisaged output of 5 projects would be split between broadcasters and VOD platforms reflecting the new technological challenges and opportunities to internationally distribute content.</p> <p>The financial contribution would cover 50% of the costs so as to ensure the commercial viability and visibility of the selected projects, which is a key element in a very competitive environment.</p> <p>Member States are not financing similar projects and, apart from national and US productions, films are not widely distributed. Therefore there is an important added value in terms of consumer choice.</p>   |
| <p><b>3) Support for networks/partnerships dedicated to film literacy:</b> Over the three year period 18 such networks and partnerships would be financed at a unit cost of 50.000 Euro.</p> | <p>The costs and the number of outputs (18 over the three year period) are based on experience with cinema networks, festivals and the organisation of events in the context of various generations of MEDIA programmes. Feature films, children's documentaries, short films and animations would be presented to young audiences, in each case combined with an educational programme. Eligible costs would cover 50% of the exhibition costs (including acquisition of rights and dubbing of the films) and 50-80% of the educational programme and of transport costs for children. With a lower co financing rate it would be difficult to find the respective partners with a similar international focus and investment capacity.</p> <p>In Europe children would see films from third countries and in third countries European films would be screened. Similar activities exist at national level but not promoting international cinema. The long term impact on viewing habits and the early education to cultural diversity, as well as the exhibition of films beyond their national borders are of added value and justify the intervention. Therefore there would be important European added value in terms of the long-term implementation of the UNESCO convention on cultural diversity.</p> |

Under scenario 3, most of the operational objectives and actions of specific objective 3 of scenarios 1 and 2 have been split into the two following objectives: "Competitiveness and distribution" and "Circulation". Hence, 60% of the budget would be devoted to distribution and circulation actions (vs around 50% in the case of scenarios 1 and 2). In relation to the problems identified, to the general objectives pursued by the programme MEDIA Mundus (circulation/diversity) and to the smaller budget of scenario 3, it is extremely important to concentrate a larger part of the intervention on these activity segments rather than that planned under scenarios 1 and 2.

#### 5.4. Comparison of alternative specific objectives / action lines

Exhibits 30 and 31 summarises the extent to which the different operational objectives detailed and assessed under sections 4.5 and 5.2 are cost effective in relation to the global objectives identified in section 3.

*Exhibit 30: Likely effectiveness of the different objectives, Scenarios 1 and 2*

|  |                               |
|--|-------------------------------|
| Specific Objective 1: Information exchange and market intelligence | RELEVANCE TO REACH OBJECTIVES |
|--|-------------------------------|

<sup>96</sup> See footnote 2

|   |  |
|---|--|
| 1) Building up Websites and Databases   | High   |
| 2) Network of contact points  | Moderate to high                             |
| 3) Certification of training establishments   | None   |
| 4) Initial training   | Moderate to high                             |
| 5) Continuous training  | High   |
| 6) Market access mechanisms   | High   |
| <b>OPTIONS Specific Objective 2: Facilitating international co-production activities<br/>Scenario 1</b> | <b>RELEVANCE<br/>TO REACH<br/>OBJECTIVES</b> |
| 1) Development  |  |
| a) Development fund for co-productions  | Moderate                                     |
| b) Co-production markets/partner search (pitching)  | High   |
| 2) Co-production  |  |
| a) Co-production fund for feature films   | Moderate                                     |
| b) Co-production fund for animation films   | Moderate                                     |
| c) Co-production fund for documentary films   | Moderate                                     |
| c) Gap financing  | Moderate                                     |
| <b>Specific Objective 2: Facilitating international co-production activities<br/>Scenario 2</b>         | <b>RELEVANCE<br/>TO REACH<br/>OBJECTIVES</b> |
| 1) Development  |  |
| a) Script development   | High   |
| b) Co-production markets/partner search (pitching)  | High   |
| 2) Co-production  |  |
| a) Supplement existing co-production funds  | Moderate to high                             |
| b) Access to finance  | Moderate to high                             |
| <b>Specific Objective 3: Distribution and circulation support<br/>Scenario 1</b>                        | <b>RELEVANCE<br/>TO REACH<br/>OBJECTIVES</b> |
| 1) Support to sales agents  | Moderate                                     |
| 2) Automatic distribution support   | Moderate                                     |
| 3) Selective distribution support   | Moderate                                     |
| 4) Cinema network   | High   |
| 5) Support to broadcasters and digital platforms  | High   |

|  |  |
|--|--|
| <b>Specific Objective 3: Distribution and circulation support<br/>Scenario 2</b> | <b>RELEVANCE<br/>TO REACH<br/>OBJECTIVES</b> |
| 1) Support to partnerships of right holders, sales agents and distributors       | High   |
| 2) Cinema network  | High   |
| 3) Support to broadcasters and digital platforms                                 | High   |
| <b>Specific Objective 4 : Reach new audiences and promote film literacy</b>      | <b>RELEVANCE<br/>TO REACH<br/>OBJECTIVES</b> |

|  |      |
|--|------|
| 1) Festivals   | High |
| 2) Special events  | High |
| 3) Networks for targeting young audiences including education activities | High |
| 4) Support for TV programmes dedicated to young audiences                | High |

**Exhibit 31: Likely effectiveness of the different objectives, Scenario 3**

|  |                                      |
|--|--------------------------------------|
| <b>Specific Objective 1: Information exchange and market intelligence</b>  | <b>RELEVANCE TO REACH OBJECTIVES</b> |
| 1) Continuous training   | High                                 |
| <b>Specific Objective 2: Competitiveness and distribution</b>              | High                                 |
| 1) Co-production markets/partner search (pitching)                         | High                                 |
| 2) Support to partnerships of right holders, sales agents and distributors | High                                 |
| <b>Specific Objective 3: Circulation</b>                                   | <b>RELEVANCE TO REACH OBJECTIVES</b> |
| 1) Cinema network  | High                                 |
| 2) Support to broadcasters and digital platforms                           | High                                 |
| 3) Support for networks/partnerships dedicated to film literacy            | High                                 |

## 5.5. Conclusion regarding the preferred operational objectives

### 5.5.1. Scenarios 1 and 2

In respect of specific objective 1: one action was discarded, the certification of training institution (see Section 4.5.1. for details).

In respect of specific objective 2: scenario 2 was considered to be the most cost-effective and all proposed actions were evaluated favourably. The proposed actions under scenario 1 were less effective and in addition had high administration costs. Facilitating international co-production activities, it is significantly less costly for the Commission to support existing funds compared to setting up funds for the development and the financing of co-productions. Furthermore, Member States have questioned whether direct funding of co-productions would be compatible with the subsidiarity principle. In addition the high administrative costs mean that cost effectiveness is further reduced.

In respect of specific objective 3: scenario 2 was considered to be the most effective and all proposed actions were evaluated favourably. For distribution support, one operational objective focusing on partnerships between right holders, sales agents and distributors appears to be more realistic to achieve the objectives of the initiative of 7% market share for EU works in third countries and vice versa over the three years, and would also follow the concept of mutual benefit. This takes account of differences in market structures inherent in European and international markets. On this basis exhibit 27 presents the preferred operational objectives:

In respect of specific objective 4: all actions were favourably evaluated as contributing to the achievement of and all proposed actions were evaluated favourably on this objective.

**Exhibit 32: Table of preferred operational objectives between the scenario 1 and the scenario 2**

|   |
|---|
| <b>Specific Objective 1: Information exchange and market intelligence</b> |
|---|

|  |
|--|
| 1) Building up Websites and Databases  |
| 2) Network of contact points   |
| 4) Initial training  |
| 5) Continuous training   |
| 6) Market access mechanisms  |
| <b>Specific Objective 2: Facilitating international co-production activities</b> |
| 1) Development   |
| <i>a) Script development</i>   |
| <i>b) Co-production markets/partner search (pitching)</i>                        |
| 2) Co-production   |
| <i>a) Supplement existing co-production funds</i>                                |
| <i>b) Access to finance</i>  |
| <b>Specific Objective 3: Distribution and circulation support</b>                |
| 1) Support to partnerships of right holders, sales agents and distributors       |
| 2) Cinema network  |
| 3) Support to broadcasters and digital platforms                                 |
| <b>Specific Objective 4 : Reach new audiences and promote film literacy</b>      |
| 1) Festivals   |
| 2) Special events  |
| 3) Networks for targeting young audiences including education activities         |
| 4) Support for TV programmes dedicated to young audiences                        |

### 5.5.2. Scenario 3

The "crisis" scenario has been built in a way to maximise the effectiveness of the intervention given the budgetary constraint. Hence, only the most effective operational objectives and actions have been selected. They have been gathered in a narrower framework limited to three specific objectives (against 4 in the case of scenarios 1 and 2).

**Exhibit 33: Table of preferred operational objectives, Scenario 3**

|  |
|--|
| <b>Specific Objective 1: Information exchange and market intelligence</b>  |
| 1) Continuous training   |
| <b>Specific Objective 2: Competitiveness and distribution</b>              |
| 1) Co-production markets/partner search (pitching)                         |
| 2) Support to partnerships of right holders, sales agents and distributors |
| <b>Specific Objective 3: Circulation</b>                                   |
| 1) Cinema network  |
| 2) Support to broadcasters and digital platforms                           |
| 3) Support for networks/partnerships dedicated to film literacy            |

## 5.6. Extension of MEDIA 2007 versus creation of a new programme MEDIA Mundus

The question arises whether "extending MEDIA 2007" or "creating a new programme MEDIA Mundus" would be more effective for implementing the above assessed actions.

From a procedural point of view both options would require a co-Decision procedure so there would be little difference between an amendment of the existing legal basis of MEDIA 2007 and the creation of a new programme.

MEDIA 2007 is a support instrument for the internal market and it is not the objective to replace this instrument for the internal market, which is now in its fourth generation and has been progressively adapted to the needs of the European audiovisual industry. Therefore one could only add the proposed actions to the already existing actions under MEDIA 2007 as new strands alongside the existing activities supported by the MEDIA 2007 programme. One major problem is that these new strands would not fit into the concept of MEDIA 2007. Although several of the proposed actions cover activities similar to those in MEDIA 2007 (Training, development, distribution, festivals...), the objectives pursued, their functioning, the professionals they concern are radically different from those of MEDIA 2007. The support amounts and intensities underline these strong differences. Other actions have been proposed under MEDIA Mundus but are not part of MEDIA 2007 (for example support to broadcasters, support to existing co-production funds, literacy activities). Therefore the integration into MEDIA 2007 would be counterproductive since it would create confusion amongst professionals and dilute the impact of the existing programme. Indeed, the separation of the MEDIA International preparatory action has shown how important a separate programme would be in terms of clearly defining objectives and support strands.

Furthermore, it would not be possible to "extend" in any event the activities under MEDIA 2007 since although some current beneficiaries would also submit international cooperation projects, the target group would not be the same and the impact is not achieved through the same mechanisms. Since wholly separate actions would be required to implement the proposals there are no advantages to extending the current programme but only drawbacks evidenced by the differences between the activities. For example, MEDIA 2007 supports (as a separate mechanism) automatic distribution based on entries certified by Member State authorities allocated to individual distributors whereas MEDIA Mundus would award funding to a grouping of distributors, sales agents and right holders on a selective basis covering a number of territories for different films. In addition certain priorities under the existing programme such as reducing the imbalances in the European audiovisual market have no relevance in an international context, highlighting the fundamental differences in the approach required for international cooperation.

From the point of view of costs, the costs of integrating the strands into MEDIA 2007 would be identical with the costs for a new programme. The executive agency EACEA, already dealing with the MEDIA 2007 programme would be entrusted with MEDIA Mundus. Therefore the synergies would be the same in both cases.

**Exhibit 34: Comparison of policy option 2 (extension of MEDIA 2007) and policy option 3 (creation of a new instrument)**

| Success criteria      | Policy Option 2.1.<br>Extension of MEDIA 2007 (article 8) (see section 4.4 above) | Policy Option 2.2.<br>Extension of MEDIA 2007 (integrating international activities) | Policy Option 3<br>Creation of a New Instrument |
|-----------------------|---|--|---|
| Feasibility of option | Low   | Low  | High  |
| Costs for EU budget   | Low   | Medium   | Medium  |

| <b>Success criteria</b>                                 | <b>Policy Option 2.1.<br/>Extension of MEDIA 2007 (article 8) (see section 4.4 above)</b>  | <b>Policy Option 2.2.<br/>Extension of MEDIA 2007 (integrating international activities)</b>   | <b>Policy Option 3<br/>Creation of a New Instrument</b>                                |
|---|--|--|--|
| Likelihood for achieving global and specific objectives | Low  | Medium   | High   |
| Time needed for implementation of options               | High   | Low  | Low  |
| Risks involved  | High   | Medium   | Low  |
| Contribution to better and transparent legislation      | Low  | Low  | High   |
| Overall assessment                                      | <b>Not recommended:</b><br>Unlikely to sufficiently contribute to achieving the objectives | <b>Medium:</b><br>Same costs and effects as option 3 but could be counterproductive since likely to create confusion amongst professionals and dilute the impact of the existing programme | <b>Recommended:</b><br>Most transparent and effective option to achieve the objectives |

## 5.7. Risks and counter measures

Risk management is fundamental for the further programme design. In the following section the risks that are likely to occur are identified and are assessed regarding the potential impact on the programme if the risk were to occur:

**1) Risk of dependency on public financing:** there might be a risk to increase the dependence of the audiovisual industry on public funding. However, the aim of the instruments to be developed is to provide a leverage effect and to create a favourable socio-economic environment for European companies to improve their competitiveness and therefore to enhance their financial sustainability. The actions to be implemented would to a large extent consist of incentives for companies to seek for “private” funding abroad, mainly upstream and downstream of the production stage For example: joint training measures would enable companies to build up networks with partners from third countries in order to “enlarge” the market for European companies or when opening new distribution markets, it would be the aim of the programme to expand the potential market of the works produced by European independent companies, consequently expanding the potential return on investments in the sector. This higher return on investment would provide them with additional working capital to develop new projects and to a certain degree make them less dependent on public interventions. The creation of a new fund (as already shown by the various generations of MEDIA programmes) does not create greater dependency but encourages the creation of networks and the inclusion of a European/global dimension in projects.

As a counter measure, co-financing will be the rule, obliging companies to co-finance with proper funding.

**2) Sectoral risks:** With its particular value chain and production cycle the audiovisual sector carries very high financial risks (see section 2.3). As a counter measure MEDIA Mundus would aim at reducing such risks by improving access to international finance for the sector’s small and medium

sized enterprises and by favouring networking in view of international co-productions. The latter can contribute directly by increasing the production budget and therefore the potential circulation of the works and indirectly by diminishing the investment risk thanks to the increase of revenues from exploitation, which would in turn attract private capital into production financing. As it requires massive investments upfront without any guaranteed results distribution is a particularly risky activity. That is why a substantial part of the budget would be dedicated to distribution activities.

**3) Risks of running the programme:** From a general point of view, flexibility to adapt the programme to changing economic and technological circumstances should be guaranteed by instruments for close monitoring of the European and international audiovisual sector: trend analysis studies and expert advisory groups and by regular audits (ca. 30 per year) of the beneficiary companies. As a counter measure a contact points network in various regions of the world should help reduce risks (1) by monitoring foreign audiovisual markets in terms of market opportunities, (2) by describing for each country the difficulties and structural risks likely to affect the effectiveness of MEDIA Mundus and (3) by identifying for each country the potential and the conditions, but also the risks for cooperation with the European audiovisual industry (i.e. information on reliability of potential partners).

**3) Risks of monitoring the programme:** There will be two levels of monitoring, the programme and the individual projects. In respect of the individual projects see "financial viability risks" below. In respect of the implementation of the programme objectives, counter measures will include close monitoring of the European and international audiovisual sector: trend analysis studies and expert advisory groups. This will enable the guidelines to be modified as required to ensure that the programme as implemented closely corresponds to the objectives set out.

**4) Financial viability risks:** in a very volatile sector, mainly made up of SMEs, risks of bankruptcies and non completion of the projects are real. It is all the more true as some companies might explore the international market for the first time with MEDIA Mundus. As a counter measure particular attention will be paid to financial viability check and, where appropriate, for example bank guarantees will be requested from beneficiaries or beneficiaries will not receive pre-financing but will only receive any grant after completion of the project and presentation of the final report.

**5) Risk of lack of response from the professionals:** there is always some uncertainty as to the reaction of the potential beneficiaries of a new initiative. As a counter measure professionals of the audiovisual sector have been extensively consulted (see section 1.2): they have clearly expressed their needs, their interest and their willingness to participate, which was confirmed by their response to the call for proposals for the Preparatory Action MEDIA International. As demonstrated above the instruments already in place (Euromed Audiovisual, ACP support programme, Ibermedia, international film funds...) will not prevent professionals from participating in MEDIA Mundus since they have a regional focus and/or a limited scope, a modest budget and no reciprocity dimension.

**6) Risk of overlap with MEDIA 2007 and EUROMED& ACP:** As explained above, the Programme objectives differ significantly from those of both MEDIA 2007 (internal market) and the two development programmes Euromed Audiovisual and ACP (see section 4.3.-4.4. above). Where beneficiaries could receive funding from more than one programme (as is currently the case under MEDIA 2007 and Euromed Audiovisual) counter measures will be put in place to ensure there is no duplication of costs claimed.

**7) Risk of losing incentives for third countries not to take WTO commitments:** since *MEDIA Mundus* would be WTO compatible third countries would be able to participate without taking exemptions to the Most Favoured Nation (MFN) rule. They might therefore lose a major incentive to do so in the future. While acknowledging the risk it has to be said that it is still necessary to take MFN exemptions to participate in the MEDIA 2007 programme, so third countries still have an incentive not to take WTO commitments.

## 5.8. Lessons from the past

The numerous evaluations (ex-ante, ex-post, interim) of the different generations of the MEDIA programme (MEDIA I, 1991-1995; MEDIA II 1996-2000; MEDIA+ and MEDIA Training, 2001-2006) had an impact on the set-up and design of the objectives and actions.

Frequent evaluations confirmed that a Community programme to assist the European audiovisual industry was fully justified by the economic situation in the audiovisual sector. The focusing of resources on development, distribution and training was appropriate for tackling the weaknesses of the European industry, the fragility and lack of competitiveness of European audiovisual products arising to a large extent from chronic under-investment both upstream (training, development) and downstream (distribution) of the production process. It also underlined the complementarity between national measures and the MEDIA programme. During the period 1996-2000, the bulk of national aid (84%) was for production, while MEDIA II focused on training, development and distribution. The few instances of national aid for distribution were chiefly in support of national films, while MEDIA II exclusively encouraged the distribution of non-national European films. In the area of cinema exhibition, national aid was chiefly for structures, while MEDIA II support was chiefly for cinemas to show European films. In the area of development, national aid was insignificant except in Germany, Finland and France. MEDIA II proved to be well suited to the specific needs of the European audiovisual sector, which comprises mainly small and medium-sized enterprises and is marked by an economic imbalance between countries with strong production potential and countries with a low production capacity and/or a restricted linguistic and geographical area.

The interim and final evaluation of MEDIA Plus and MEDIA Training confirmed the relevance and effectiveness of the MEDIA programmes, both in terms of strengthening the sector's competitiveness and promoting European linguistic and cultural diversity. The interim evaluation also reported "*that MEDIA acts to consolidate the Internal market and to improve its transparency, to facilitate trade. Community action enables European industry to break through where American competition is at its strongest, i.e. on cinema screens, and provides durable funding for the companies in the audiovisual sector. For example in the distribution sector, 98 films supported by the MEDIA Plus Programme made more than 50,000 entries outside their country of origin. 11 even exceeded one million entries in 2001. Overall, 9 films out of 10 distributed outside their country of origin benefited from the aid of MEDIA*". Furthermore, the MEDIA programmes supported the creation of Europa Cinemas: a cinema network of around 670 independent theatres with more than 1500 screens in some 300 cities within Europe. This network plays a key role in boosting the screening of European films (and especially non-national ones) within Europe. The final evaluation also confirmed the added value of the Community action and notes concrete and sustainable effects on the industry: each Euro spent within the programme thus generates an average some 6 Euro in the European audiovisual industry. It also concluded: "*The main mechanisms of MEDIA contribute effectively towards enhancing competencies (Training), developing the European dimension of works from the pre-production phase (Development), improving the competitiveness of the sector (Distribution, mainly, by reducing risks and strengthening the beneficiaries' financial capacities) and promoting the cross border circulation of works (Distribution et Promotion)*". Finally, the evaluation report of the MEDIA Plus programme<sup>97</sup> highlighted the importance of international markets to overcome the problems of the European audiovisual industry.

The results of these evaluations have influenced the definitions and to a certain extent the assessment of the proposed activities.

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<sup>97</sup> [http://ec.europa.eu/information\\_society/media/overview/evaluation/reports/index\\_fr.htm](http://ec.europa.eu/information_society/media/overview/evaluation/reports/index_fr.htm)

## 5.9. Comparison of policy options

A comparative assessment of the three basic policy options shows that "business as usual" does not address effectively the key problem of poor circulation of European audiovisual works on international markets or of foreign films on European markets. "Business as usual" does not entail new costs, but has a negative cost (which cannot be calculated in a credible way). Without a further initiative the revenues of European audiovisual industries will be limited to the saturating Internal Market and the European Audiovisual industry will lose out on international opportunities.

The options "extending the existing MEDIA 2007 programme" by amending it and adding the proposed actions (see exhibit 27 for selected actions after cost effectiveness discussion) would meet the Community's policy objectives and the industry's needs. Option 2 "extension of existing instruments" could include the activities proposed under Option 3 "creation of new instruments" if the legal basis of MEDIA 2007 were modified. This however was shown to be less effective than the creation of a new instrument (see sections 4.4 and 5.6 above).

Therefore the recommendation is to set up a new support programme, implementing the preferred actions (see exhibits 32 and 33 and details in annexes 11 and 12), in order to meet the specific and global objectives.

### *Exhibit 35: Comparison of policy options*

|                 | <b>Effectiveness</b> | <b>Costs</b> | <b>Risk</b> | <b>Overall assessment</b> |
|-----------------|----------------------|--------------|-------------|---------------------------|
| <b>OPTION 1</b> | 0                    | negative     | high        | Inoperable                |
| <b>OPTION 2</b> | Medium               | medium       | high        | Inadequate                |
| <b>OPTION 3</b> | High                 | medium       | moderate    | Winwin                    |

## 6. SECTION 6: MONITORING AND EVALUATION

Reliable data on implementation and results of Community intervention has to be the basis for the evaluation of the impact of a new programme. Therefore, the definition of monitoring and evaluation arrangements is essential for the potential new programme. The following sub-sections 6.1. and 6.2. describe the methodological approach for monitoring and evaluation:

### 6.1. Nature and frequency of the evaluation process

Any evaluation of the programme should be done externally and independently, addressing relevance, effectiveness, efficiency and utility of the programme.

In terms of the frequency of evaluations (the proposed programme should run between 2011 and 2013) one final evaluation should be carried out. A meaningful assessment of impacts and results in the context of the ex-post evaluation report would be submitted to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions by December 2015.

Any extension of the programme beyond 2013, would be subject to an ex ante evaluation and an external impact assessment study which would form the basis of a Communication on the continuation of the programme, to be presented to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions by 30 June 2012. This ex-ante evaluation would be based on the results of the first 12 months of the new (3 year) programme and also of the preparatory action. It would, therefore replace a mid-term evaluation of the programme. It would follow standard evaluation benchmarks. It would thus provide valuable input for deciding on adapting/modifying objectives/actions. Immediate/initial results analysed qualitatively and quantitatively in the ex-ante

evaluation would feedback into both: the third annual work programme of MEDIA Mundus (2011-2013) and the decision making process for a possible extension of the programme beyond 2013.

## **6.2. Monitoring - Choice of indicators**

For the potential new programme, systematic collection of monitoring data would be based on clearly established objectives and indicators.

Annex 15 illustrates the result indicators proposed per specific objectives and annex 16 shows the most important output indicators per operational objective / action line.

The Commission would continuously monitor the programme and results of the monitoring would be taken into account in the implementation of the programme.