TRENDS OF THE EUROPEAN AUDIOVISUAL MARKET

Contribution to the Conference of the Italian Presidency of the Council of the European Union

Audiovisual Market and Regulations: an Industry at the Crossroad
(Rome, 23-24 October 2014)

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BREAKDOWN OF THE AUDIOVISUAL WORLDWIDE MARKET (2009-2013): EU COMPANIES HAVE LOST 5.3% OF MARKET SHARE IN 5 YEARS

Film-TV-Radio-Recorded Music – Video games

Source: European Audiovisual Observatory

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>EUR</th>
<th>JP</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>59.0%</td>
<td>61.8%</td>
<td>65.3%</td>
<td>66.8%</td>
</tr>
<tr>
<td>2010</td>
<td>16.8%</td>
<td>16.1%</td>
<td>13.4%</td>
<td>11.8%</td>
</tr>
<tr>
<td>2011</td>
<td>20.7%</td>
<td>19.7%</td>
<td>17.5%</td>
<td>17.4%</td>
</tr>
<tr>
<td>2012</td>
<td>15.4%</td>
<td>15.4%</td>
<td>15.4%</td>
<td>15.4%</td>
</tr>
<tr>
<td>2013</td>
<td>15.4%</td>
<td>15.4%</td>
<td>15.4%</td>
<td>15.4%</td>
</tr>
</tbody>
</table>
WORLDWIDE AUDIOVISUAL REVENUES OF 4 LEADING US INTERNET PLAYERS (2009-2013) – USD million

Source: European Audiovisual Observatory
« BRICK AND MORTAR » vs ONLINE DISTRIBUTION OF CULTURAL GOODS

OPERATING REVENUES OF THE 5 EU LEADING RETAILERS (2009- 2013) – EUR billion

- FNAC
- HMV Group
- Amazon.co UK
- Virgin Stores
- CDON
- Blockbuster Entertainment
"BRICK AND MORTAR" vs ONLINE SALES OF DVD/BD
IN THE EU (2009-2013) – EUR billion

Source: IHS / IVF
OPERATING REVENUES OF MAIN DIGITAL CONTENT PROVIDERS IN EUROPE (2008-2013) – EUR million

Source: AMADEUS database / OBS

Not available: Google (YouTube, Google Play Movies)
EVOLUTION OF THE VoD MARKET IN THE EU (2009-2013) EUR million
Source: IVF/IHS
RATE OF GROWTH OF THE VARIOUS VoD SEGMENTS IN THE EU (2009-2013)
Source: IHS / IVF / OBS
SVoD MARKET SHARE IN THE UK (2013)
Source: BVA
QUESTIONS

• Will the market allow various major players on the SVoD segment?
• Will SVoD cannibalize other segments of the VoD market, in particular the TV VoD?
• Will SvOD cannibalize linear TV pay channels?
RATE OF GROWTH OF PAY-TV CONSUMERS’ EXPENSES AND OF SVoD EXPENSES (2009-2013)
Source: IHS / IVF / OBS
CONSUMERS’ EXPENSES IN THE EU (2009-2013)
EUR million
Source: IHS and OBS

- Pay-TV (TV + TV VOD)
- Box Office
- Physical video
- Online VoD
PAY-TV vs SVoD

• Some pay-TV distributors try to compete with Netflix on the SVoD market:
  • BSkyB > Sky Now
  • Canal Plus > Canal Infinity
  • but Vivendi wishes to sell Watchever in Germany

• Most of the pay-TV distributors will look for deals with Netflix, but they will probably continue to provide their own transactional VoD service or third services (France, Nordic countries)

• Arrival of other major SvoD players (HBO, CBS,…)?
QUESTIONS ON THE TRANSACTIONAL VoD MARKET

- Strategy of Apple / iTunes? Will iTunes go on the SVoD?
- Will Google Play Movies and Microsoft Xbox take advantage of their first choice position on tablets?
- What role for the video game consoles?
- What audience through Apps for Smart TV and tablets?
- What access for the various VoD services specialising in national/European films to the distribution platforms?
EVOLUTION OF ADSPEND IN THE EU (2009-2013) EUR million
Source: Warc
BREAKDOWN OF ADSPEND IN THE EU (2009-2013)
In %
Source: Warc / OBS
IN EUROPE, VIDEO ADSPEND IS STILL A TINY PART OF INTERNET ADSPEND: 3.4% in 2012, 4.5% in 2013

Source: OBS on eMarketer and Warc data
QUESTIONS ON THE AV ON DEMAND SERVICES FINANCED BY ADVERTISING

• What are video adpsend market shares between the various players?
  – Youtube, DailyMotion
  – Facebook
  – Broadcasters websites
  – Newspapers websites with video
  – Portals (MSN, Yahoo,…)
  – Free VoD (Viewster)

• Level playing field between free TV and Ad financed online services?

• Role of those services in financing the production?
THE ROLE OF THE ON-DEMAND AUDIOVISUAL SERVICES AND PLATFORMS IN THE PROMOTION AND PRODUCTION OF EUROPEAN WORKS

• The European Audiovisual Observatory is currently handling a questionnaire send to providers of operators: around 60 answers received so far

• "15 to 20% of programmes are local; 80 to 85% are provided by Hollywood studios or other international sources" (Ted Sarandos, MIPCOM, 14 October 2014)

• A report on the role of providers of VoD services and distribution platforms in the financing of production is also in preparation
ORIGIN OF FEATURE FILMS IN THE CATALOGUE OF 7 VoD SERVICES (October 2014)
Source: ROVI / European Audiovisual Observatory
## MANDATORY CONTRIBUTIONS TO FILM FUND

<table>
<thead>
<tr>
<th>Country (CFR)</th>
<th>Exhibitors</th>
<th>Public broadcasters</th>
<th>Private broadcasters</th>
<th>Services distributors</th>
<th>Distributors video</th>
<th>Providers VoD</th>
<th>Open video platforms</th>
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</thead>
<tbody>
<tr>
<td>BE (CFR)</td>
<td></td>
<td></td>
<td>X (or co-prod invest.)</td>
<td>Cable X (or co-prod invest.)</td>
<td></td>
<td></td>
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<td>CZ</td>
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<td>X</td>
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<td>DE</td>
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<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td>No</td>
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<td>GR</td>
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<td>X</td>
<td>X</td>
<td></td>
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<td>HR</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Cable, IPTV (fixed and mobile), ISP</td>
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<td></td>
<td>No</td>
</tr>
<tr>
<td>PL</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Cable, digital platforms</td>
<td>X</td>
<td></td>
<td>No</td>
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<tr>
<td>PT</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>No</td>
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<td>X</td>
<td></td>
<td></td>
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<td>No</td>
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</table>
TABLE 5: Dépenses déclarées par les SMAD soumis aux obligations financières pour l’exercice 2011

<table>
<thead>
<tr>
<th>Montants déclarés en M€</th>
<th>Œuvres audiovisuelles</th>
<th>Œuvres cinématographiques</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>européennes</td>
<td>européennes</td>
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<td></td>
<td>dont EOF</td>
<td>dont EOF</td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canal Play VOD</td>
<td>0,422</td>
<td>0,377</td>
</tr>
<tr>
<td></td>
<td>2,098</td>
<td>1,633</td>
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<tr>
<td></td>
<td>2,520</td>
<td>2,010</td>
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<td>SFR Club Vidéo</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>L’éditeur n’établit pas de distinction entre les types d’œuvres</td>
<td>3,371</td>
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<td>Vidéo à la demande d’Orange</td>
<td>2,661</td>
<td>0,645</td>
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<td></td>
<td>7,563</td>
<td>5,745</td>
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<tr>
<td></td>
<td>10,224</td>
<td>6,390</td>
</tr>
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<td>Total</td>
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</tr>
<tr>
<td></td>
<td>16,115</td>
<td>10,903</td>
</tr>
</tbody>
</table>

(Source : CSA).
THE ISSUE OF DE-LOCALISATION vs FREE CIRCULATION OF SERVICES

• TV services, i.e.: RTL-TVi established in LU, but targeting the French Community of Belgium
• Distribution platforms, i.e.: Télésat, established in LU, but targeting the French Community of Belgium
• VoD services:
  – iTunes and Xbox, established in LU
  – Netflix established in NL
  – Google Play Movies established in the US
  – Viewster established in CH
• Open platforms:
  – YouTube established in the US
  – Facebook established in the US
ESTABLISHMENT OF AVAILABLE VoD SERVICES IN EU COUNTRIES (2013)
Source: European Audiovisual Observatory / MAVISE database

60% of VoD services established outside of the country of reception
THE ISSUE OF THE LEVEL PLAYING FIELD
EXAMPLE: PRIVATE BROADCASTERS USE THE ARGUMENT OF EXTERNAL COMPETITION TO OBTAIN REVIEW OF THE OBLIGATIONS

• Mid-February: Letter of the 3 Presidents of major private TV groups (TF1, M6, Canal+) to the Minister asking review of the regulation

• « Comment appréhendez-vous l’arrivée de Netflix, qui en s’implantant au Luxembourg, contournera la réglementation française ?

• Je lui souhaite la bienvenue ! En nous percutant, l’iceberg Netflix révèle à quel point notre réglementation est obsolète et qu’il est urgent de l’adapter. »
   (Nonce Paolini, CEO, TF1, Interview in Le Film Français, 23 mai 2014)
THE OBJECTIVE TO ENSURE THE CONTINUED EXISTENCE OF PUBLIC FUNDING: THE HYPOTHESIS OF ASKING TO FOREIGN SERVICES TO CONTRIBUTE TO THE FINANCING OF THE NATIONAL FILM FUND

- Germany: draft amendment to the Film Law; proposal of a levy on foreign services revenues if they do not contribute in the country of establishment (decision taken by the EC on 17 October 2014, but not yet made public).

- France: Tax proposed by the Lescure report and recommended by the CSA (December 2013).

Projet de loi de finances rectificative pour 2014 : market share of foreign companies (physical and digital video: 25%.
Revenues estimated of the tax for 2015: 1.5 million EUR Notification to the Commission (October 2014).

To be discussed in panel 2.
TRANSPARENCY ISSUES FOR UNDERSTANDING THE MARKET ANALYSIS AND FOR ENHANCING A REAL LEVEL PLAYING FIELD

- Identification of the services and of the providers
- Catalogue analysis
- Potential audience of services: number of subscribers to distribution platform
- Households' expenditures
- Modalities of access by platforms and screens
- Audiences
- Companies' revenues for on-demand services
- Analysis of revenue flows between distributors, providers of services and content providers
- Success of individual titles
- Need for a European regulation on transparency of the AV activities?
THANK YOU!

- http://www.obs.coe.int
- http://mavise.obs.coe.int
- http://www.ivf-video.org/

- European Audiovisual Observatory Report published by the European Commission in July 2014
- Yearbook 2013
- Yearbook 2014 (forthcoming)

- andre.lange@coe.int