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REPORT FROM THE COMMISSION

TO THE COUNCIL, THE EUROPEAN PARLIAMENT
AND THE ECONOMIC AND SOCIAL COMMITTEE

FIRST ANNUAL REPORT

ON PROGRESS IN IMPLEMENTING

THE ACTION PLAN FOR THE INTRODUCTION OF

ADVANCED TELEVISION SERVICES IN EUROPE

GENERAL INTRODUCTION 5

I Summary of key data 5
II The attraction of 16:9 and the challenge 6
III Resumé of objectives, approach and targets 9

SECTION A: BROADCASTING 13

1. THE LAUNCH OF 16:9 BROADCASTING IN EUROPE 13
1.1 Snapshot of services as at 30.12.94 13
1.2 Call 93 13
1.3 Call 94/1 16
1.4 Evaluation methodology 18
1.5 Allocation of hours by Member State 19

2. IMPACT 19
2.1 The French market 20
2.2 Germany: first indications 22
2.3 Availability of studio equipment 23
2.4 Public visibility and press impact 23

3. FUTURE PROSPECTS 23
3.1 Resource overview 23
3.2 International comparisons 26
3.3 16:9 analogue 27
3.4 16:9 digital 27

SECTION B: PRODUCTION AND CONVERSION OF PROGRAMMES 29

1. INTRODUCTION 29
1.1 The Action Plan, an integral part of the European Union's audiovisual policy 29
1.2 Promoting 16:9: consistency of Community measures 31

2. THE RESULTS OF A SECTORAL FINANCIAL STRATEGY 33
2.1 Community aid 33
2.2. The overall results, expressed in hours and ECU 35

3. THE EFFECTS OF THE ACTION PLAN 41
3.1 The programmes, a qualitative evaluation 41
3.2 The impact of the Action Plan: developing the equipment market and the audiovisual catalogue 46

JOINT CONCLUSIONS 48

ANNEX 50

First Annual Report on Progress in Implementing the Action Plan for the Introduction of Advanced Television Services in Europe

GENERAL INTRODUCTION

Pursuant to Article 6 of the Council Decision on an Action Plan for the Introduction of Advanced Television Services in Europe,[1] this report marks the first complete year of wide-screen services and programme production assisted by the Action Plan[2]. The Commission is especially pleased to take up the opportunity to report on the first year of operations because the outcome is generally very positive, even if it is too early to proclaim outright success on a European scale.

I Summary of key data

The headline facts are as follows:

Broadcasting :

- 150,000 wide-screen 16:9 TV sets sold in 1994;
- 430,000 projected for sale in 1995;
- 22 services funded in eight Member States;
- 30,000 hours to be transmitted up to 1 July 1995;

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1 93/424/EEC, Council Decision of 22 July 1993 on an Action Plan for the Introduction of Advanced Television Services in Europe. O.J L 196, 5.8.1993, P.48

2 The results of the allocation of funds detailed and analysed in the present report concern the reference period 22/7/93 to 31/12/94.

<u>Programme production</u>

- 13,200 hours of 16:9 production funded, of which 65% are long shelf-life, stock programmes.

- New programme production funded, by type :
  - 2,500 hours of live recording
  - 2,000 hours of sport
  - 1,400 hours of documentaries
  - 900 hours of cultural event
  - 700 hours of drama

- - 5,600 hours of conversion of programmes

This report will develop the context around this data so that the Council, and Parliament are informed upon progress to date.

The report is structured as follows.

- This **General Introduction**, which summarises the rationale, objectives and main operational procedures of the Action Plan.

- **Section A: Broadcasting**

- **Section B: Programme Production and Conversion**

- **Joint Conclusions**

This report is a collaboration between Directorate-General XIII, Telecommunications, Information Market and Exploitation of Research and Directorate-General X, Information, Communication, Culture, Audiovisual. DG XIII has operational responsibility for the broadcasting part of the Action Plan; DG X has operational responsibility for the programme production and conversion part of the Action Plan.

II The attraction of 16:9 and the challenge

The Action Plan is one component in a three element reorientation of Community policy with regard to the introduction of advanced television, away from an exclusive focus on the introduction of high definition television services by the fastest possible route, and towards a broader policy embracing a number of different service possibilities, including those made possible by digital technologies. This policy is itself an integral part of the Community Audiovisual Policy which includes other instruments such as the MEDIA programme and the Television without Frontiers Directive.

The Action Plan's role is *promotional*, namely to accelerate market penetration of 16:9 consumer electronics equipment by stimulating broadcast services and programme production. The second element in the reoriented policy is *legislative*, consisting of a draft Directive on the Use of Television Transmission Standards[3], intended to replace the earlier "MAC Directive"[4]. Unlike its predecessor, the new directive does not seek to set market objectives, but to provide a supportive framework for market development, by underpinning areas of consensus, including transmission standards and the 16:9 format itself. The third element is the *focus on digital broadcasting*, essentially preparing the ground for the market introduction of digital services and associated products through standardisation and consensus forming among the market parties. The Commission set out its approach in the Communication on Digital Video Broadcasting[5] and the main lines of that Communication were endorsed by Council and the European Parliament[6]. The modified policy orientation stresses the key role of the market actors themselves in defining market requirements. The work of the European Digital Video Broadcasting Group has supplied important inputs into both the legislative element and the focus on digital broadcasting, while the Action Plan is clearly market-led, both in its operation and objectives.

A market-led view of broadcast services suggests the following perspective on the earlier phase of the policy. The experience with High Definition Television (HDTV) highlighted the structural division between the market objectives of manufacturers and broadcasters. HDTV was considered too costly by broadcasters and programme producers and more appropriately as a digital service some time in the future, given the trend towards digital. Digital HDTV broadcasting, together with the manufacturing and introduction of consumer equipment at a price acceptable to the consumer, will be a later evolution of both digital technologies and the market itself. However, the introduction of HDTV services still remains an ultimate policy objective; meanwhile HDTV has an important role in programme production, particularly for "stock" programmes with long-shelf life. HDTV is consequently supported by the Programme Production part of the Action Plan[7]

Currently, European and American broadcasters prefer other cheaper service possibilities offered by digital techniques. Digital television's primary consumer

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3 Following the European Parliament's First Reading on 20.04.1994 (Ref PE 180.706), the Council adopted a common position on December 22, 1994.

4 Council Directive 92/38/EEC, OJ No L 137/17, 20.5.92, P.17

5 COM (93) 557 final, 17 November 1993

6 Council Resolution of 27 June 1994 on a framework for Community policy on digital video broadcasting, 94/C 181/02, OJ No C 181/3, 2.7.94; Resolution of the European Parliament, on the strategy to introduce digital HDTV, PE 180.707, 20.04.1994

7 Around one quarter of all programme hours supported by the Action Plan are in HD video 1250 lines. See section B, 3.1.3, Table 16, "New productions funded: breakdown per format"

benefits, obtainable from systems that are commercially and technically feasible today, is to increase the number of programmes transmitted, thereby broadening programme choice, and to make consumer access easier, typically through services like Near Video on Demand, which multiplies the number of possibilities to see a particular programme. Pay television broadcasters will be the first to offer such services, which can be introduced by adding a decoder box to existing television receivers. However, the different market parties have been able to agree that wide-screen television in the 16:9 format would be commercially feasible meanwhile and that 16:9 is attractive to consumers in its own right, no matter which transmission system is used.

There were a number of reasons why 16:9 emerged as a point of consensus:

- At consumer level, 16:9 improves the impact of programmes because of its superior ergonomics and its format promotes the convergence between cinema and TV already established by video recorders and pay-TV movie channels, reflected in the "Home Cinema" concept[8] already being used to market products and services;

- As a display format, it is technologically neutral; receivers can display wide-screen pictures transmitted in either analogue or digital form. This provides reassurance for the consumer since the display usually accounts for 2/3 of the value of a receiver;

- Given that the complete transition to digital will be over a long period, perhaps up to twenty years, there is scope to upgrade existing analogue services to wide-screen using systems like D2-MAC and PAL-Plus, as well introducing new digital systems.

This is an important point because existing analogue terrestrial services still account for the majority of television viewing and a market-led approach must take this into account; and:

- 16:9 is seen as the future format for television, facilitating the eventual introduction of HDTV; indeed, it is the only element on which everyone currently agrees.

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8 The "Home Cinema" approach was first used to sell audio processors capable of reproducing the multi-track surround sound encoded on many movie soundtracks, thereby enhancing realism and impact. "Home Cinema" is also being used to market 16:9 consumer equipment, bringing cinema-style wide-screen presentation into the home. The label could also be applied to HDTV in future, which would add the final element, the "Big Screen" experience.

The challenge was to translate this political consensus into action, by breaking the "chicken and egg" deadlock between the market parties. Broadcasters stated there would be no wide-screen programmes and broadcasting until there were wide-screen receivers while manufacturers argued that broadcasts should precede receivers. The deadlock resulted in a "market failure" which would have blocked the introduction of 16:9. Market forces could not therefore *initiate* a solution themselves, given this structural difficulty; the problem was how to trigger them.

Simply stated, the role of the Action Plan is to trigger the market and to overcome the structural deadlock between different groups of market actors. The Action Plan is one element of a three part policy towards Advanced Television. This report outlines progress during the Action Plan's first year of operation.

III Resumé of objectives, approach and targets

"In order to contribute to market penetration by receiver equipment in the 16:9 format, the objective of the Action Plan is to ensure the accelerated development of the market for advanced television services in Europe in the 16:9 format using 625 or 1250 scanning lines."[9]

The approach is based on stimulating the broadcasting and programme production elements in the value chain so that all the different actors and elements in the television service chain necessary to deliver 16:9 services to the home could fall into place. This is a condition for achieving the accelerated development of the market for 16:9 services. In the light of this approach, the Action Plan lays down two indicative targets to be achieved during its life of the Action Plan:

(i) "a critical mass of advanced television services in the16:9 format;

(ii) a sufficient and increasing volume of programming in the 16:9 format and with high technical quality both in picture and sound and of such a nature as to facilitate an optimum audience rating, such programming to be broadcast in the above mentioned services".

The key insight is that there had to be a coherent and synchronised offering by the market parties, particularly the broadcasters and the programme makers, if 16:9 were to succeed. Although manufacturers are excluded from receiving any financial support made available under the Plan[10], industry's role in making equipment available on the market is also crucial. The Plan's approach is clearly posited on taking into account the complete audiovisual "value chain" rather than considering any individual sector.

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9 Annex of Council Decision of 22 July 1993 on an Action Plan for the Introduction of Advanced Television Services in Europe. O.J L 196/48, 5.8.93

10 ibid, Art 1

The funding approach targets the additional costs of introducing wide-screen incurred by broadcasters for *broadcasting* 16:9 services and by programme makers (including broadcasters) for *producing* wide-screen programmes. These additional costs have been calculated as hourly flat rate payments.

Figure 1A

Broadcasting Costs

	Flat rate (ecus per hour)
First 50 hours	6 000
From the 50 first hours	2 500

Figure 1B

Programme Making Costs

Programme Type	**Flat rate (ecus per hour)**
Programmes remastered from existing material, suitable for broadcasting in 16:9 and in 625 lines	3 000
Programmes remastered from existing material, suitable for broadcasting in 16:9 and in 1250 lines	5 000
Super 16 mm and 16:9 video production	12 000
35 m and HD - video (1250 lines) production	25 000

Figure 1B reproduces the programme making costs in the Council Decision. These were applied to the 1993 Call. Figure 1C shows the modified programme production costs applied in subsequent calls.[11]

11 See Section B 2.1.2 for a discussion of the modifications to the hourly rates for programme making.

Figure 1C

Revised Programme Making Costs

Programme Type	Flat rate (ecus per hour)
Programmes remastered from existing material, suitable for broadcasting in 16:9 and in 625 lines	3 000
Programmes remastered from existing material, suitable for broadcasting in 16:9 and in 1 250 lines	5 000
Super 16 mm	12 000
16/9 625-line video production	
a) stock programmes	12 000
b) flow programmes hours 1 to 20	12 000
21st and following hours	6 000
35 mm production	30 000
HD-video production (1250 lines)	
a) stock programmes	60 000
b) flow programmes hours 1 to 20	20 000
21st and following hours	10 000

During the first year of the Action Plan, the Union contributed 50% of the above rates. It should be recalled that the Action Plan adopts a hybrid funding approach, with a proportion of the additional costs being found by the broadcaster or producer, typically from combinations of own resources, national funds[12], and other market actors.

Total Union funds allocated to the Action Plan are 228 MECU, including a reserve of 68 MECU to be committed after 1.1.95, with a Union contribution of up to 80% of the flat rates, in Member States whose markets are not fully served in the early stages of the implementation of the Plan. The Action Plan's total resources, including the Union's contribution, will be 405 MECU.

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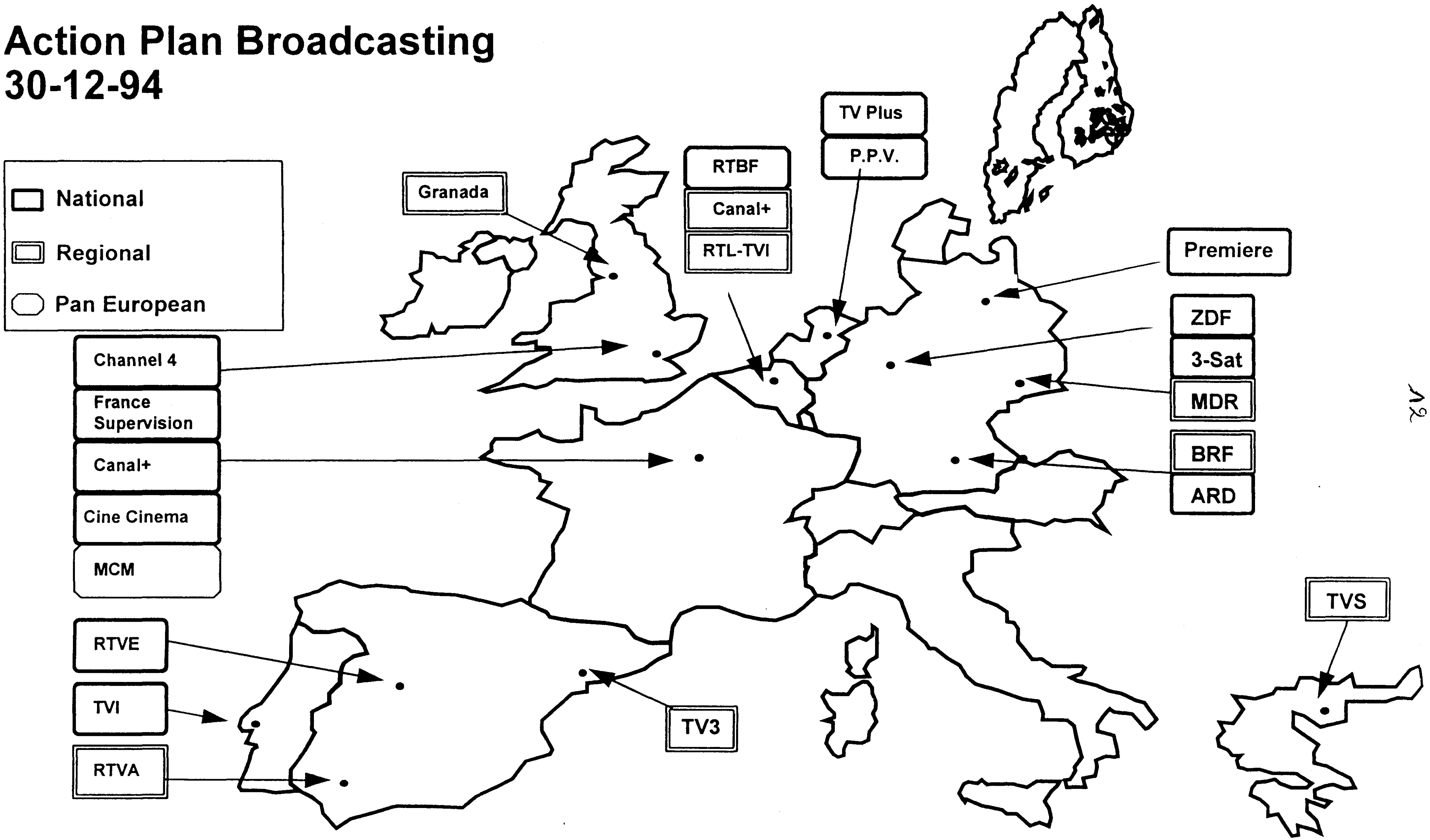
12 Under the 50% funding régime, at least half of the non-Community funding must come from the applicant's own resources or some other economic operator, before projects can receive the Community contribution; see Annex to the Council Decision 5.1(i). From 1.1.95, the start of the 80% funding régime for late-starting markets, projects eligible for 80% require only 20% non-Community funding. Such funding can be from public funds exclusively; See Annex 5.4.

Action Plan Broadcasting
30-12-94



12

SECTION A: BROADCASTING

1. THE LAUNCH OF 16:9 BROADCASTING IN EUROPE

1.1 Snapshot of services as at 30.12.94

See Figure 2: Action Plan Broadcasting Map as at 30.12.94.

Figure 2 is a map of the European Union with all 22 broadcast services supported by Action Plan funding shown. It illustrates the point that there is a reasonable choice of 16:9 services in France and Germany, following the first two calls for broadcast services, and consumers can select both publicly available services and pay television services funded by subscription. In the six other Member States, 16:9 is still in the "break-out" stage. With the exception of Greece, there is at least one national service in each of these Member States, supplemented by one or more regional services.

The following two sections explain how the Action Plan has developed following the 1993 and 1994 broadcast calls for proposal, by explaining some of the practical constraints faced by the Commission and the Member State Committee in implementing the Action Plan. Perhaps the most important point to be underlined in advance is that the Action Plan is market-led, in accordance with the Council's intentions set out in the decision. The broadcasting part depends entirely on the quality of the proposals submitted by the broadcasters. The Commission's role is first to apply the project quality criteria to individual projects and second to apply the "spread and balance" criteria to the package of projects proposed to the Committee for funding. These are intended to prevent undue concentration or the creation or cartels; to ensure a wide distribution of services across the Union; and to involve independent producers.

1.2 Call 93

This was a joint call with the programme production side of the Action Plan. Opening on 1 September 1993 and closing on 15 October[13], the broadcast services side attracted sixteen proposals. Sixteen broadcasters in six Member States offered over 100,000 hours of transmissions over the four year life of the Action Plan. This was ten times the number of broadcast hours for which financial resources were available under this first call.

Application of the "spread and balance" criteria

The first challenge was how to reconcile the excellent response with the limited resources available. Clearly, the Action Plan's "spread and balance"

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13 93/C 237/06, OJ C237/23, 1.9.1993

criteria contain a Community imperative to cover as many Member States as possible; but this had to be satisfied without excessively reducing the range of services per market or the hours allocated to each broadcaster. If either were to be compromised too far, the market impact would be reduced.

The Commission considered that the only way of satisfying all these criteria was to adopt a short funding period of no more than one year to stretch the budget over the widest possible range of services. The Committee of Member States' representatives[14] agreed to a modified version of the Commission's original proposal: a nine month funding period from 1 October 1993 to 30 June 1994 for 16:9 broadcasters in France and the Netherlands using D2-MAC; and a nine month funding period from the start of service for PAL-Plus broadcasters in the other Member States, with the possibility to apply for supplementary hours in the 1994 broadcasting call for the period after 1 July 1994.

Two important themes lay behind the discussion of these issues. First, the Commission saw that two requirements had to be fulfilled, the need to encourage the "pioneer" D2-MAC broadcasters in France and the Netherlands who had been waiting for the Action Plan for some time and second the necessity of sending a clear signal to manufacturers planning the launch of PAL-Plus consumer receivers. Although the Action Plan is transparent to standards and mandates no single technological approach to delivering 16:9 transmissions, the implementation of this principle needed to take into account the differing situations of the delivery systems.

Clearly D2-MAC broadcasters, using a system that had been available for several years and with rapid time-to-market for consumer equipment, were better placed to deliver significant numbers of hours than the PAL-Plus broadcasters at this point. The proposed allocation of broadcast hours between Member States inevitably reflected this unbalanced situation. The discussion of how the "spread and balance" criteria should be applied led the Committee to adopt the following declaration:

"...This principle must accommodate the differing development levels of national markets during the launch phase and must evolve towards a balanced distribution of the total Community contribution, which takes into account the differing Member State markets and responds to their evolution, in order to assure the Community dimension."

The most important achievement of the first call was to permit the two major elements of the 1993 broadcast proposals to be supported with Action Plan funding, namely an attractive selection of services in France and Germany, despite the differing circumstances of those markets. In the

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14 Set up by Art. 3 of the Council Decision in order to assist the Commission in the implementation of the Action Plan

Commission's view, the first call would have been less successful if it had only launched one of the Community's major markets; to have launched two meant a very positive start for the Action Plan and the prospect of boosting confidence in the market.

Project quality criteria

Table 1 shows the eleven projects that were ultimately funded. Of the sixteen projects offered, two were rejected for clear-cut reasons of non-compliance with the project quality criteria. The Commission's initial proposal comprised fourteen proposals in all six Member States from which proposals were received. Three proposals were withdrawn during subsequent contractual negotiations.

Figure 3

ACTION PLAN 16:9 BROADCAST SERVICES FINAL ALLOCATION (1ST CALL 1993)

	COUNTRY	COMPANY	HOURS
1.	**France**	Canal+	2000
		MCM	800
		France Supervision	2000
		Ciné Cinémas	1000
			5800
2.	**Netherlands**	TV+	1090
			1090
3.	**Germany**	Première	900
		ARD	300
		BRF	300
		ZDF	400
			1900
4.	**Spain**	RTVE	350
			350
5.	**Portugal**	TVI	210
			210
	TOTAL		**9350**

A crucial selection criterion for allocating resources among eligible projects is the achievement of high audience ratings. The Commission's guiding selection principle in applying the "Project quality" criteria in the annex of the decision was therefore to achieve maximum market impact by targeting projects which offered large audiences, considered to have the potential to drive the market.

This criterion was refined to take into consideration Pay TV services, which offer smaller audiences in general, but compensate for this with a more focused audience whose characteristics include a high percentage of "early adopters" of new technology products. Pay-TV broadcasters have also made films their flagship service offering; this offers an obvious promotional synergy for 16:9, positioned by manufacturers as the "Home Cinema" format.

1.3 Call 94/1

This was also a joint call with the programme production side of the Action Plan. Opening on 5 February 1994 and closing on 15 March[15], the broadcast services side attracted twenty nine proposals. Twenty five broadcasters in eight Member States offered over 125,000 hours of transmissions over the remaining three year life of the Action Plan. This was five times the number of broadcast hours for which financial resources were available under this second call for broadcast funding. The main characteristics of the response were as follows:

- All the broadcasters funded by the 1993 call responded to Call 94/1;
- Additional services were proposed in all but one of the Member States covered by the 1993 call;
- Broadcasters in three further Member States offered services: Belgium, Greece and United Kingdom;
- Three broadcasters submitted more than one proposal; and there was one transfrontier proposal.

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15 94/C 37/09, OJ C37/7, 5.2.1994

Application of the "spread and balance" criteria

The financial resources available for broadcasting in this call were equivalent to over 20,000 hours of transmissions. This was more than double the resources available in 1993. Call 94/1 marked the peak of Action Plan funding in those early markets with the strength to drive the Community as a whole.

The Commission advocated an eighteen month funding period for two reasons. The longer funding period would favour "late starters", by allowing them to build up more hours over an extended period. It would therefore help to widen the distribution of resources across Member States' markets by narrowing the gap between the "pioneer" services and those which started later.

The second reason was linked to the future Action Plan budget. From 1 January 1995, the resources available to the early markets, - funded at 50% of the flat rates - would be halved owing to the start of the 80% funding regime, for which the sum of 68 MECU was reserved in the Council Decision. The longer funding period would help reduce the impact of a 50% reduction in resources following call 95/1. To this end, it was also proposed that successful applicants be permitted to request further resources for 1995, by applying for them in call 95/1.

Project quality criteria

22 broadcasters ultimately received Action Plan funding for 24 service projects. Four projects were rejected: two for reasons of minimal audiences and low market impact; another because a digital pay-TV service was felt to be premature, since standards had not been fixed and there was consequently no commitment by industry to provide receivers during the period covered by the call, which stipulated that services had to start by 31 December 1994; a fourth was discarded because it was presented as an alternative to a project which was included in the funding proposal. One broadcaster decided not to persist with a proposal at the contractual negotiation stage.

3)

Figure 4

ACTION PLAN 16:9 BROADCAST SERVICES FINAL ALLOCATION (CALL 94/1)

	COUNTRY	COMPANY	HOURS
1.	**France**	Canal+	2100
		MCM	1300
		France Supervision	4000
		Ciné Cinémas	1100
			8500
3.	**Germany**	Première	2900
		ARD	450
		BRF	300
		ZDF	600
		3-Sat	1000
		MDR	300
			5550
2.	**Netherlands**	TV+	1458
		Philips Media	750
			2208
5.	**Portugal**	TVI	500
			500
4.	**Spain**	RTVE	350
		TV3	320
		RTVA	500
			1170
5.	**Belgium**	RTBF	1000
		Canal+	950
		RTL-TVI	600
			2550
6.	**UK**	Channel 4	550
		Granada	200
			750
7.	**Greece**	TVS	400
			400
	TOTAL		**21628**

The Commission's approach to the evaluation of individual projects was similar in the 1993 call and call 94/1; it is described briefly in the next section.

1.4 Evaluation methodology

The Commission engaged a firm of consultants to assist with the technical evaluation of both calls. Their tasks were first to assess eligibility of proposals against the "project quality" criteria; second, to provide a ranking of the projects with particular emphasis on the likely attractiveness of the services to audiences;

third, to identify omissions and weaknesses in the proposals so that the Commission could address these in contractual negotiations.

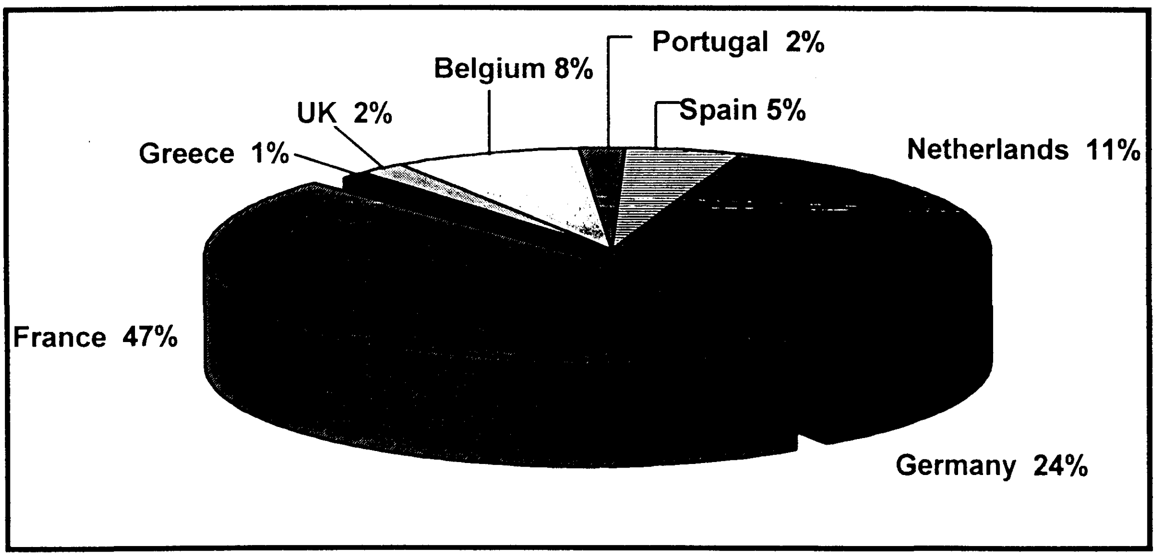
The second task, ranking the projects, was an important input into the Commission proposal for both calls. Consequently, the Technical Evaluators' Summary report was made available to the Committee. However, application of the "spread and balance" criteria was carried out by the Commission exclusively before formulating its proposal to the Committee.

1.5 Allocation of hours by Member State

Figure 5 shows how the resources available for broadcasting under the 1993 Call and Call 94/1 have been allocated by Member State. It is calculated in terms of broadcast hours, not money terms.

Figure 5

ALLOCATION OF HOURS BY MEMBER STATES UNDER THE 1993 AND 1994/1 CALL



2. IMPACT

To help assess the impact, the Commission undertook its own research and systematically consulted industry. In autumn 1994, the Commission also contacted broadcasters and industry for their views on how the Action Plan was working and for their suggestions.

One vital element to determine the success of the Action Plan is the sale of receivers. In most member states, it is too early to provide definitive analysis, either because 16:9 is still in "break out" mode with perhaps a single service or because broadcasting began very recently. Call 94/1 stipulated that services had to begin by 31 December 1994; the new PAL-Plus services funded by that call could not begin until near the end of the year because of the lead-time for supplying the encoders.

This section will present some early results from the more mature French market, - where 16:9 services started first - and where Action Plan resources have been focused, together with some early indicators from Germany.

2.1 The French market

Figure 6

SALES OF 16:9 RECEIVERS IN THE FRENCH MARKET

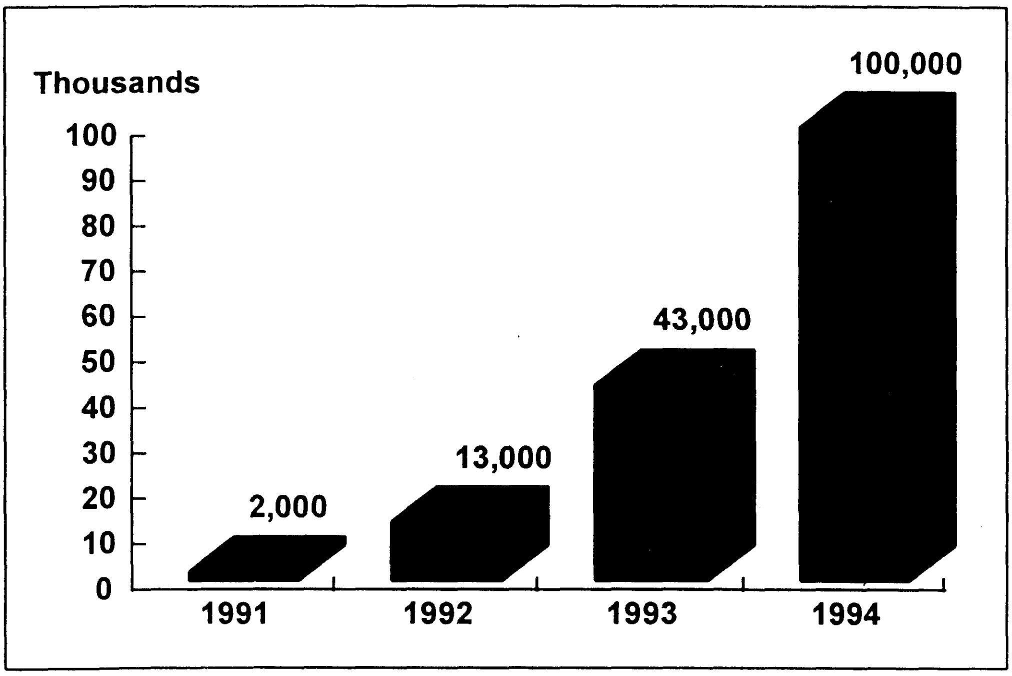


Figure 6 shows the sales of 16:9 receivers in the French market, with cumulative sales of around 160,000. In 1994, industry estimates that 100,000 16:9 receivers were sold, more than double the 1993 total. Sales began to increase sharply in autumn 1993, more or less at the time when the Action Plan enabled a significant increase in 16:9 broadcasting. This also coincided with one manufacturer reducing prices on the less expensive 16:9 sets - pricing to achieve sales in volume - so that they became much more competitive against "high end" 4:3 models. A 28" wide-screen receiver can be bought for ECU 1200 in France. This has enabled retailers to convert customers replacing 4:3 sets into 16:9 prospects, a task rendered much easier thanks to the presence of broadcasting. Meanwhile, larger, high end 16:9 receivers command a premium both for their screen size and the heavy digital featuring they carry, which includes 100Hz up conversion to reduce flicker and various expansion modes for reprocessing 4:3 pictures into 16:9. Note that most receivers are sold without integrated D2-MAC decoders since these are supplied by pay-TV operators as part of their service. The standard is not an issue in France for two reasons: PAL-Plus will not be used because SECAM is the existing system; and D2-MAC is the only currently available 16:9 system.

French retailers are now convinced that 16:9 is the future. "The committed support of the retail trade is a crucial factor that has been achieved in France", according to one industry source, "This only comes about as a result of consumer interest because retailers do not waste floor space on products that do not sell or are even slow moving". Empirical sampling of the French retail distribution network has shown that electrical retailers in provincial France now stock 16:9 receivers, from Evreux, Normandy, to small *bastides* in the Perigord. Branches of multiple retailers[16] in central Paris report an even stronger trend, with up to 10% of all receivers sold being 16:9 format.[17] Given the strong role of the multiples in the value chain that stretches from programme producers via broadcasters and manufacturers to the consumer, their enthusiastic participation in the marketing of 16:9 cannot be underestimated. A recent catalogue issued by one important multiple carried three pages of 16:9 receivers covering ten models, compared with five pages devoted to 4:3. It is unlikely that the multiples would have supported wide-screen enthusiastically without broadcasting and programmes in the volumes made possible by the Action Plan.

Industry singles out for praise the sole French public broadcaster funded by the Action Plan for its wide range of attractive programmes and the volume of broadcasting. France Supervision itself considers that the main benefit of the Action Plan has been an increase in daily 16:9 output to around nine hours, which has made the service more attractive to cable operators, thereby widening coverage. France Supervision's 16:9 schedules contain many cinema films and sport, considered to be the programmes where the 16:9 format is most attractive. Considerable resources have been devoted to promotion. Canal Plus is another important broadcaster which also shows many films. Although Canal Plus has broadcast the hours allocated, it has not promoted the service as strongly as the Commission would have hoped. The intention of replacing D2-MAC decoder boxes with digital ones in the near future, at the start of digital services, has acted as a brake on their 16:9 effort. The other two French services are thematic and widen the choice of services available. Ciné-Cinémas is a film channel. MCM is a pan-European music channel, with a young audience for whom 16:9 is attractive.

The importance of cinema films for launching 16:9 is underlined by French broadcasters and industry. The "Home Cinema" concept is significant and 16:9 enables it to evolve one step further towards simulating the cinema experience at home. The existence of the French film industry together with the increasing role

16 Multiple retailers have numerous outlets. Examples are FNAC, Darty (France); Dixons (UK). They account for an increasing percentage of sales in the larger Member States.

17 The Wider View Newsletter, June 1994, published by Vision 1250

of television finance in funding French feature film production[18] means that the Action Plan is complementing an existing synergy. French broadcasters have reported no difficulty in obtaining 16:9 copies of films unlike broadcasters in some other countries with a greater dependence on non-European productions.

France Supervision's experience also underlines the importance of strongly promoting wide-screen services, testifying the importance which the Commission has attached to promotion in project evaluations. The thematic music service MCM has also undertaken some significant promotions and collaborates with other 16:9 broadcasters outside France.

2.2 Germany: first indications

Broadcasting of PAL-Plus got off to a good start in 1994. The pay-TV film channel Premiere is transmitting a substantial number of 16:9 feature films, using the "Home Cinema" concept in its promotion. There are wide-screen "windows" established in the prime time schedules of the two national terrestrial broadcasters, together with a cable pay-TV film channel, two regional broadcasters and a satellite channel. Multiple distribution means that the terrestrial services are available on cable and satellite as well. Promotion includes a 16:9 logo to identify 16:9 transmissions; the logo is visible to those viewing in 4:3 and 16:9.

The Commission has evidence that 16:9 broadcasting in Germany in 1994 has raised the confidence of the market actors and enabled broadcasters to confront and master the operational realities, both by offering services to the public and through promotional effort. This first phase of broadcasting services to the public in advance of the Berlin IFA - the consumer electronics show in August 1995 at which PAL-Plus receivers were originally scheduled for commercial launch - can therefore be considered as more than just pump-priming activity.

Industry reacted favourably to the announcement of Action Plan services by bringing forward its plans to launch PAL-Plus receivers by six months. One manufacturer succeeded in launching receivers a year ahead of schedule in September 1994. Three others were also able to put a few thousand receivers on to the German and UK markets in order to capitalise on the Christmas trade.[19] These receivers sold out very rapidly, a promising indication of latent demand. German sales of wide-screen receivers totalled around 30,000 units in 1994, according to an industry estimate, including those equipped to receive PAL-Plus.

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18 See Jean-Noel Dibie, "La 51ème étoile LEurope de l'audiovisuel", FEMIS, 1992, P.31.

19 By configuring semi-custom components ahead of the availability of a specialised PAL Plus chipset. This technical approach is more expensive but balanced by the very rapid time-to-market achieved in this case. The integrated chipset opens the possibilities for cheap volume production, leading to significant cost reductions and price reductions. Integration is the process of replacing many discreet components with one or more microchips having the same functionality.

2.3 Availability of studio equipment

The Commission has received no indications from Action Plan broadcasters that non-availability of 16:9 studio equipment has been a problem. In particular, PAL-Plus encoders were available in October and November for those broadcasters who had ordered them immediately after the results of Call 94/1 were made public in June 1994.

The 1994 International Broadcasting Convention, Amsterdam, revealed a comprehensive selection of 16:9 equipment, including 4:3/16:9 switchable CCD cameras from European and other manufacturers.

2.4 Public visibility and press impact

Public and press reactions to wide-screen 16:9 has been favourable with a respectable volume of press articles. Awareness is rather high in France. The launch of PAL-Plus broadcasting was marked with press articles in all countries where the system is being used. The wider availability of PAL-Plus receivers in 1995 will trigger further rounds of promotional effort.

Awareness of the European Union's role in accelerating the 16:9 market has been noted by some publications, but the Commission considers that this should have a rather higher profile in 1995, as the Action Plan's role becomes more evident. The size and inertia of the television receiver market mean that there is a considerable lag between funds being committed and market impact being achieved. The Commission considers it prudent to await results before promoting the Action Plan itself.

3. FUTURE PROSPECTS

As of 1 January 1995, the Action Plan enters a new phase with a number of new elements.

Most significantly, there are three new Member States, bringing with them more broadcasters interested in launching 16:9 services. They will be able to apply for Call 95/1 in early 1995. As in 1994, this will be a a joint call with the programme production and remastering part of the Action Plan.

3.1 Resource overview

This year 1995 will also initiate the special funding régime foreseen for Member States' markets not fully served in the early stages of the Action Plan[20]. By enabling 80% of the hourly flat rates to be paid - from a reserve of 68 MECU established by the Council Decision - this new element should disperse the funding on a wider basis and facilitate the fulfilment of the "spread and balance

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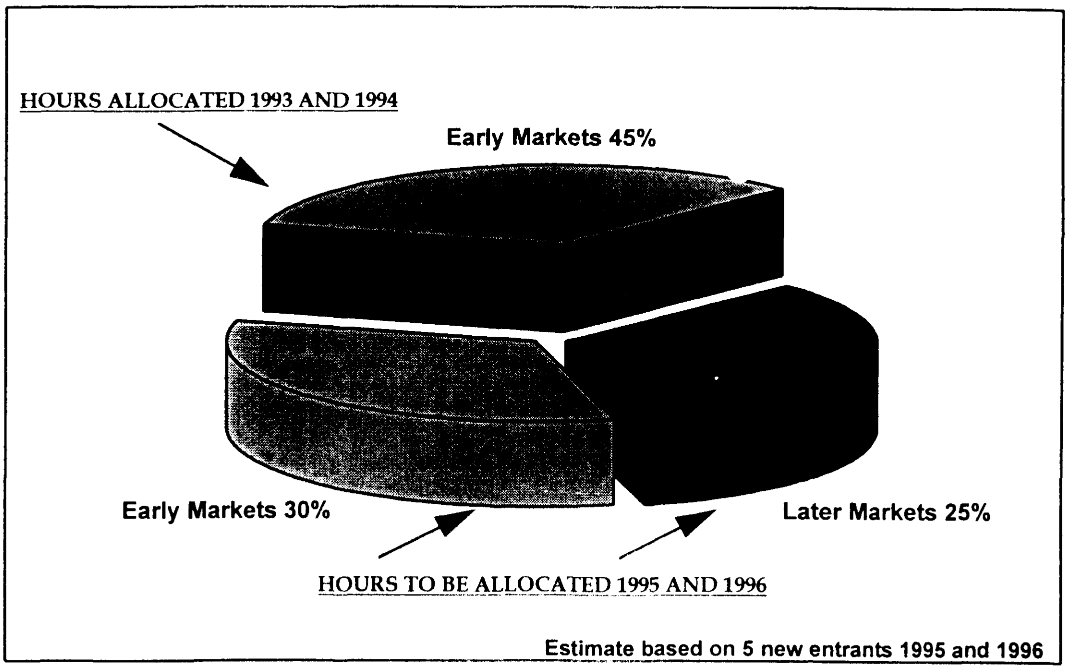
[20] Paras 5.2.ii and 5.4 of the Annex of Council Decision of 22 July 1993 on an Action Plan for the Introduction of Advanced Television Services in Europe. O.J L 196/48, 5.8.1993

criteria" over the life of the Action Plan. The only drawback is that certain broadcasters in some Member States well able to launch services at the 50% rate may have delayed their start date in order to benefit from 80% funding. The Commission has no hard evidence of the 80% funding having had this effect; but if this were true, it would be contrary to the Action Plan's general objective of accelerating market development.

Figure 7

ALLOCATION OF THE TOTAL ACTION PLAN BUDGET

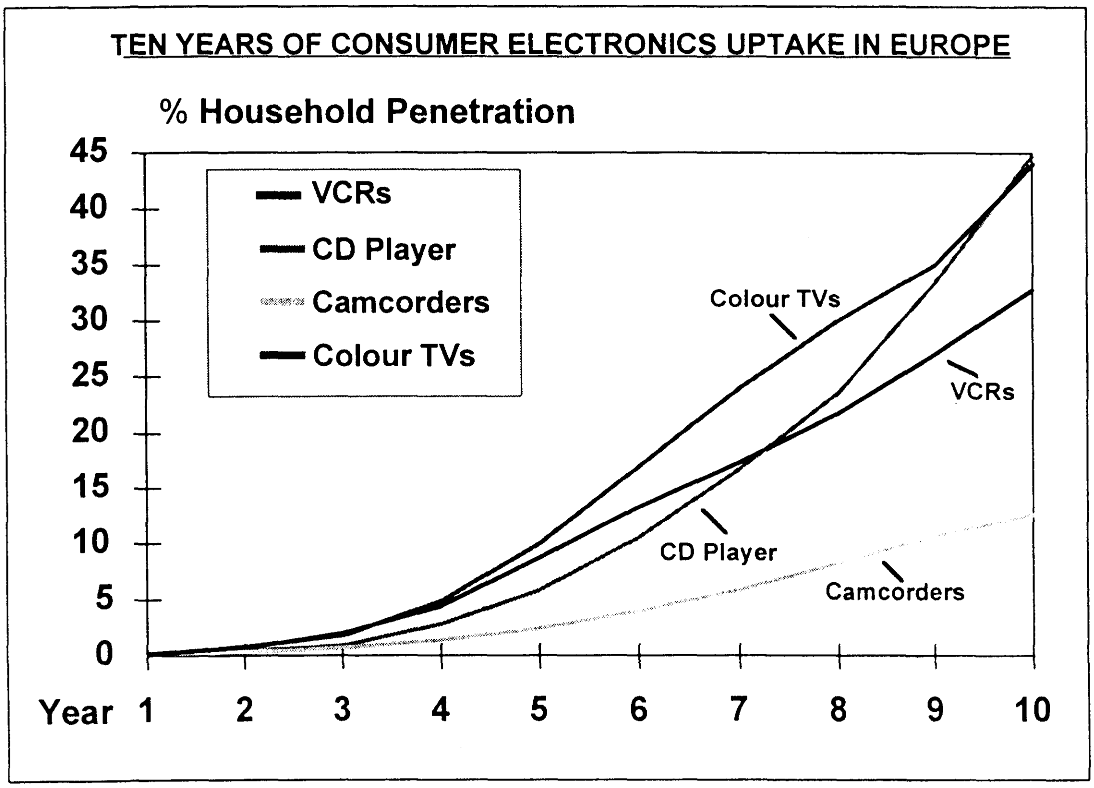


The pie chart shows that around 45% of the Action Plan's broadcasting budget has already been committed in Calls 1993 and 94/1. This does not mean that the impact of this funding has been exhausted in the market to achieve the results described above; as one manufacturer describes this, "During the take-off phase, the consumption of resources and energy is disproportionately high, compared with actual progress achieved".

Call 94/1 will achieve its greatest impact during 1995. However, implementation of the 80% funding will inevitably reduce the number of broadcast hours funded by the Action Plan from June 1995. Resources available for broadcasting will be the same as for Call 94/1 in money terms, but up to half is reserved for 80% funding. Assuming that this funding is fully taken up by a number of eligible projects, this will represent a very significant reduction in the resources available to the 22 broadcasters currently funded at 50%. In view of the great inertia of consumer markets with a high installed base of existing equipment, the Commission would ideally have wanted another year of funding at the rate of 50% in the driver markets before launching the 80% régime.

On the positive side, total European wide-screen receiver sales increased by 72% in 1994 compared with 1993. This is excellent news and in large measure due to the consumer confidence created by Action Plan broadcasting. However, this growth is from a very low level. Industry estimates that only 2.4% of 1995 European receiver sales will be 16:9 and this volume is fragmented across a number of markets. The wide-screen share of TV receiver sales is currently less than 1% in all the large driver markets, except for France. Even in France, wide-screen penetration of the installed base of TV receivers will only pass 1% in 1995. This is the minimum threshold for achieving mass-market lift off, according to some sources.[21] Figure 8 shows the launch trajectories of other products for comparison.

Figure 8



21 See for instance C. Irwin in Journal of the Royal Television Society, November/December 1988. A BBC comparison of the historic penetration curves for monochrome TV, colour TV and videorecorders in the UK showed that these products took 8 years to achieve 50% household penetration after 1% of households had acquired them.

3.2 International comparisons

Compared with the launch curves for other consumer electronics products, 16:9 is back on track in Europe, but aggregated sales and current penetration should provide no grounds for complacency.[22] Japanese sales of 16:9 wide-screen sets reached 1.5m units in 1994, the breakthrough year for 16:9 in Japan. The Japanese had earlier concentrated all their efforts on launching HDTV, until Europe introduced 16:9 as an objective in its own right and a necessary precursor to the difficult and costly task of introducing HDTV. Japanese manufacturers were then quick to reorientate their efforts towards 16:9 during the long gestation of the Action Plan.[23]

The Japanese introduction of 16:9 has been facilitated by manufacturers' control over consumer electronics retail distribution in Japan, long denounced as a non-tariff barrier by European industry. The vertical integration between manufacturers and retail has enabled Japanese manufacturers to introduce 16:9 without broadcasting. The onerous European task of consolidating retailers' confidence in the new format through broadcasting has no equivalent in Japan. The introduction of 16:9 in Japan should not therefore be represented as a triumph of "market forces", compared with the Action Plan in Europe. Moreover, the European approach is more respectful to the consumer since it ensures that suitable high quality 16:9 programming is available through broadcast services at the outset. Broadcasting using the 16:9 EDTV 2 transmission system[24] is however expected to start in 1995.

The United States has made little progress towards introducing 16:9, either with standard definition or as HDTV. Despite the high level of publicity generated previously by the Grand Alliance digital HDTV transmission system, no US broadcaster is planning to introduce HDTV services. System testing is still in progress, but terrestrial broadcasters are focusing on other service possibilities - notably the possibility of using digital compression to provide more programmes in standard definition or even telecommunications services - for the extra channel originally offered for HDTV by the Federal Communications Commission.[25]

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22 "Experience curves" calculated for previous consumer electronics products suggests that prices decline between 15% and 35% each time the cumulative manufacturing volume doubles. Volume, cost and price are therefore closely linked. For 16:9 Cathode Ray Tube displays, cost reductions will accumulate across all receivers manufactured, whatever the transmission system.

23 According to a Japanese source, "HDTV itself is not good business until now, but it has made the foundation for today's 16:9 market".

24 EDTV 2 is a compatible upgrade to the existing 525 line NTSC system used in USA and Japan. Its technical approach is comparable to PAL-Plus.

25 DirecTV has already started transmitting 150 channels of digital television in 4:3 format by satellite. The intention is to compete with cable TV as a delivery mechanism. It has the capability to transmit 16:9, a built-in parameter of the globally-agreed MPEG digital video and audio compression systems. The digital broadcasting systems to be used in Europe and USA and Asia all feature MPEG.

Tremendous market potential exists for introducing 16:9, but it will probably be necessary for Americans to establish 16:9 outside the HDTV context, if this potential is to be realised in the short to medium term.

3.3 16:9 analogue

It is clear that those Action Plan broadcasters using D2-MAC have been able to introduce and develop 16:9 services by satellite and cable without any of the birth pains associated with new systems. D2-MAC decoders are normally made available by the service provider separately from the 16:9 television receiver itself. This will facilitate migration to digital at some point in future since only the decoder will need to be replaced by the service provider. Meanwhile, D2-MAC broadcasters will continue to make considerable progress in developing their 16:9 audiences.

The year 1995 will be important for PAL-Plus services since receivers will become generally available. Prior to, and following, the Berlin IFA show, it will be important to increase hours of broadcasting in Germany and to monitor the uptake of receivers by the German retail distribution network. The importance of the German market is twofold. First, it is the largest consumer electronics market in Europe and a driver for the whole Union. This has been emphasised by several industry contributions, which stress the importance of the Single Market for 16:9 equipment, however fragmented the broadcasting and production markets may be.

Favourable development of the German market is therefore a condition for the success of the 16:9 format in Europe. This is quite independent of the transmission system used. However, Germany is also the cradle for PAL-Plus, the system selected by the majority of Action Plan broadcasters so far. A successful launch for PAL-Plus in Germany will certainly contribute to the success of PAL-Plus elsewhere.

Industry has already demonstrated a willing response to the Action Plan by bringing PAL-Plus receivers to market ahead of the target set for the Berlin IFA show in August 1995. Availability of the first generation PAL-Plus integrated chipset is tied to large-scale mass distribution following this event. The Commission has received information that three companies are planning second generation silicone by the end of 1996. These are major investments and will be a key indicator for PAL-Plus and the expansion of the installed base of 16:9 receivers.

3.4 16:9 digital

The year 1995 may also see the first digital 16:9 service proposals able to have an impact on the market being proposed for Action Plan funding. The European Digital Video Broadcasting Group has defined specifications for satellite and cable transmission and these are now ETSI standards and have achieved global recognition as ITU Recommendations. Several broadcasters have been investigating prices for bulk acquisition of decoders. Moreover, certain submissions to the Commission's request for feedback on the first year of the Action Plan underline the important benefits that 16:9 could bring to digital services.

There is a risk of confusion here; if competing broadcasters start to claim that one technical approach is superior to the other. The Commission will uphold the generic approach to 16:9 set out in the Council Decision, that the screen format is independent of the technology used to deliver the service, and to encourage Action Plan broadcasters to adopt a positive approach in their promotion. The Commission takes the view that analogue services will continue to be transmitted for fifteen to twenty years[26]. In particular, PAL-Plus is a logical extension of existing PAL services via integrated receivers. Digital television represents the future of television broadcasting and will start soon on a limited scale, probably for Pay-TV services delivered by satellite and cable to outboard decoder boxes. These will be new services starting with audiences of zero; the circumstances are therefore very different. The choice lies with broadcasters; their strategies will differ according to current circumstances and future objectives.

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[26] For a discussion of the issues relating to the transition to digital television, see Communication from the Commission to the Council and the European Parliament on Digital Video Broadcasting, COM (93) 557 final, 17 November 1993, especially pp 11-14 and Part 3, A Framework for Community Policy.

SECTION B: PRODUCTION AND CONVERSION OF PROGRAMMES

1. INTRODUCTION

1.1 The Action Plan, an integral part of the European Union's audiovisual policy

1.1.1 The challenges of the new technologies

The introduction of new technologies cuts across the audiovisual sector who is facing two challenges - one quantitative, the other qualitative. In response to the emergence of new cable and satellite broadcasting services and the new requirements resulting from the advent of the Information Society, European producers will have to make many more programmes in order to meet the increase in the demand, otherwise non-European countries seeking to conquer world markets will strengthen their positions on the Community market and restrict the variety of audiovisual programmes. The audiovisual industry will also have to prepare itself for the digital revolution and a new generation of television and new advanced television services.

1.1.2 The existing instruments of European Union audiovisual policy

As part of its audiovisual policy, the European Union has developed a strategy to increase the competitiveness of the audiovisual sector and has two instruments designed to meet the challenges involved. The aim of the MEDIA programme is to improve the content and expand the number of European programmes, placing the emphasis on the pre-production and distribution of films and TV programmes. The aim of the 16:9 action plan is to encourage the introduction of new television services in Europe on the assumption that "the success or failure of the new television technologies will be determined by the availability of programmes for broadcasting using the new television standards",[27] the availability of programmes for viewers being, at the start of the broadcasting service chain, a source of legitimacy for television services since viewer choice is based on the content of the services. Further along the chain, broadcasters also stand or fall by their programmes since, in choosing whether or not to watch them, the viewers endorse or reject the services which broadcast them.

Consequently, with a view to supplying the new 16:9 services which the European Union wishes to promote on a Community scale, the Action Plan encourages the development of new programmes on production media compatible with the 16:9 format, while ensuring that existing and current programmes can continue to be broadcast in the new format.

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27 Recital A of European Parliament Resolution A3-0389/92 on encouraging audiovisual production in the context of the strategy for high-definition television (OJ C 42/1993; p. 209).

1.1.3 Encouraging the programme industry to use production media compatible with the 16:9 format for new productions

The 16:9 Action Plan is an integral part of the European Union's audiovisual policy which set out clearly the strategic objectives for the Community programme industry in the Green Paper.[28] Europe is not making the most of its cultural diversity, where the audiovisual sector is concerned, and it is a victim of its differences. The dispersion of production and distribution units makes it difficult for the sector to become more competitive and build up audiovisual catalogues which will play a vital role in relation to the "content" circulating on the networks of the Information Society.

The audiovisual catalogue is based to a large extent on stock programmes, which have two features: they can be reprogrammed and they can be used on markets other than their market "of origin" and on various media. With a shelf life of several years, they can be broadcast several times and circulate in different markets, generating operating revenue. Documentaries and drama are good examples. Stock programmes are a lasting and regular part of the activity of production companies provided that they hold the rights to use the programmes in question. In this respect, they form an audiovisual catalogue which is an economic asset for the programme industry.

In this context, the 16:9 Action Plan encourages European producers systematically to use production media compatible with the 16:9 format and with a technical quality which makes it possible to prolong the shelf life of stock programmes in order to build up high-quality audiovisual catalogues. A catalogue also needs to have a sufficient number of programmes in order to ensure that it is worthy of the name given "the fundamental importance of production of stock programmes in the context of a forward-looking programme policy".[29] It will take some time to achieve this objective, which is one reason why the Action Plan seeks to upgrade the existing catalogue by providing for a financial contribution for the remastering of programmes.

1.1.4 Remastering or prolonging the shelf life of existing catalogues

Remastering means putting an existing programme (e.g. in 35 mm) on a video medium (either 625 or 1250 lines) or another medium enabling it to be broadcast in 16: 9 format. Remastering is a complex technical operation calling for adjustment of the film on the original medium before transfer to the new analogue or digital master. At the end of this operation, programmes on a digital support are suitable for all types of broadcasting and use which this format makes possible.

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28 Strategy options to strengthen the European programme industry in the context of the audiovisual policy of the European Union - Green Paper (COM(94) 96 final of 6 April 1994).

29 Point 7 of the European Parliament Resolution - see footnote 27.

1.1.5 Flow programmes

The programme section of the Action Plan also encourages the production of flow programmes (live recordings, sporting events, etc.) which are liable to attract a large number of viewers, especially in the case of major sporting events, and thus helps to arouse consumers' interest in acquiring new 16:9 televisions. The impact of these programmes, which are for the most part broadcast live, is all the greater in that the high-quality pictures and sound associated with the 16:9 format add extra gloss to their "big-event" nature.

The broadcasters' decision to offer more and more flow programmes in 16:9 can be seen as an indication that they have accepted this new format.[30]

1.1.6 Generalization of 16:9 services

The Action Plan therefore seeks to encourage technological adjustment by producers as a result of cost-effective investment in the television of the future since "the field of programmes is currently the weakest element in comparison with those of technology and broadcasting standards, but it is necessary to further the interests of all fields by coordinated and synchronized action".[31]

Coordination and synchronization with the broadcasting sector are organized within the Community programme itself. The Action Plan's approach - an original one - of establishing a link between the two ends of the broadcasting chain encourages producers and broadcasters to work together during the pump-priming phase for the 16:9 market. Subsequently, measures in relation to stock programmes, which are by definition programmes which will circulate, will make it possible to achieve an adequate volume of 16:9 - compatible programmes to promote the generalization of 16:9 services beyond those supported by the European Union under the action plan.

1.2 Promoting 16:9: consistency of Community measures

1.2.1 The link between the production and broadcasting of programmes in 16:9

In order to obtain a financial contribution in respect of the production or remastering of programmes, programme producers must agree to broadcast the programmes in question in 16:9, i.e. the Action Plan makes the granting of contributions subject to a duty to achieve a given result, namely broadcasting in 16:9.

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30 See also Section 3.1.1.

31 Recital B of the European Parliament Resolution - see footnote 27.

1.2.2 Mobilizing the economic operators

The method of allocating the Community aid is original and is by no means a sectoral subsidy. As the Action Plan has the strategic structural objective of promoting the 16:9 market, the method chosen is based on the joint financing of new technological investments. The additional technical costs generated by shooting, post-production and broadcasting in 16:9 are shared between the European Union and the non-Community parties in order to maximize the impact of the Community assistance on the programme market.

During the launch phase for the 16:9 market, efforts must be made to involve all those with a commercial interest in the new technologies (chiefly the broadcasters and producers but also the cable operators, satellite operators, equipment manufacturers, banks, communication groups, and the public sector). This launch phase entails large-scale initial investment before economies of scale, a degree of autonomy and financial profitability are attained. The Commission is therefore directly involved in the launch phase, but together with those who will be able to take over the reins when the objectives are achieved.

The mobilization of non-Community financial resources is a precondition for financial assistance from the Community, but also a means of ensuring the widespread dissemination of information on the 16:9 Action Plan so that all potential sector operators are reached.

In addition, "this prior commitment of funds will be seen as an essential validation of the value of the project"[32] and is therefore the only factor in the qualitative assessment of new projects, since financial assistance from the European Community is based on objective eligibility criteria which do not take programme quality into account. Use of the 16:9 format is in itself already an indication of quality.

1.2.3 The impact of the Action Plan on the industry

The impact of the Action Plan derives from the specific growth potential in the audiovisual industry and its influence on related sectors. The new television services constitute a strategic industry with an enormous potential for growth and technological development. Europe's investment strategy in these areas will generate considerable economic benefit.

The Action Plan is of paramount importance to the consumer electronics industry,[33] and one of the anticipated effects of the Action Plan is that it will have a knock-on effect in this sector of industry. For each ecu of Community aid a number of ecus will be invested by the sector to meet a new demand for

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32 Council Decision, Annex, point 4(i).

33 "The Community ... recognized the strategic importance of HDTV for the consumer electronics industry" - first recital of the Council Decision.

consumer and professional equipment generated by the offer of the provision of 16:9 services, since "no funding will be devoted to support manufacturers of receiver equipment for consumers".[34] Professionals will have to procure the new equipment of their choice (16:9 cameras) and the public can purchase new television sets,[35] and decoders to receive the new high-quality television services.

2. THE RESULTS OF A SECTORAL FINANCIAL STRATEGY

2.1 Community aid

Financial contributions are granted on the basis of calls for proposals published in the Official Journal of the European Communities.[36] Applications for contributions are sent in on forms published and updated for each call. They are systematically forwarded to the correspondents for the professional circles and are available on request from the Commission.

Financing takes the form of an ad hoc sectoral financial contribution based on flat rates per hour of programme.

2.1.1 Joint financing of the additional cost

The principle of sharing the additional cost between the European Union and the non-Community sector is designed to increase the involvement of economic operators. According to the rule applied uniformly until 1 January 1995, at least 50% of the non-Community funding must come from economic operators and not public resources.

2.1.2 Scale of flat rates

The principle underlying the assistance is that, on the basis of a production proposal, the Community aid covers half of the additional cost, the maximum amount of which is determined in advance on the basis of flat rates per hour set by the Commission after consulting the Committee of Member States' Representatives in accordance with the procedures adopted.[37] These rates represent the ceiling for assistance per hour of programme submitted to the Commission.

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34 Last paragraph of Article 1 of the Council Decision.

35 "The Action Plan will contribute to market penetration by receiver equipment in the 16:9 format" - Article 1 of the Council Decision.

36 The Annex to the Council Decision sets out the implementation procedures for the Action Plan. A joint services-programmes call plus two calls solely for programmes have been issued over a 12-month period.

37 Articles 3 and 4 of the Council Decision.

The scale of additional technical costs is based on actual production costs. 1250-line video production has the highest hourly rate: ECU 60 000, compared with ECU 30 000 for 35 mm production, and ECU 12 000 for super 16 mm and 625-line video. The Action Plan rates initially set in the Council Decision have been adjusted to take account of actual costs.[38] If the additional cost is lower than the flat rate, the Community financial contribution must not exceed 50% of the additional cost reported by the applicant.

Where remastering is concerned, the "additional cost" consists of the costs of manufacturing a new medium. Remastering to a 1250-line medium[39] qualifies for a rate of ECU 5 000 and remastering to a 625-line medium[40] qualifies for a rate of ECU 3 000.

Distinction between stock programmes and flow programmes

When the rates were altered, a distinction was made between stock programmes and flow programmes, and this has applied since the second call for proposals in order to reflect the actual costs more correctly, since a stock programme requires more complex and expensive shooting and post-production than most flow programmes.

While the flat rates in force for flow programmes are suitable for ordinary live programmes, they are unsuitable for the coverage of major sport events such as finals, Olympic Games and world championships in view of the considerable expense involved with this type of production. The Committee of Member States' Representatives is aware of this, and has indicated that it wishes to provide support in respect of the 1996 Atlanta Olympic Games as was the case with the 1994 Lillehammer Winter Olympics.

2.1.3 Allocation of Community aid

To be eligible, projects have to meet the criteria deriving from the Action Plan. There are three objective conditions:

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38 The table of production costs in the Council Decision was amended following the first call for proposals, as provided for in point (vi) of Section 4 (the funding approach) of the Annex to the Decision. Originally, there was only a distinction between 1250-line video/35 mm and 625-line video/super 16 programmes. See Figures 1B and 1C in the General Introduction.

39 Given that there are no 1250-line broadcasting services at present, this is a theoretical rate.

40 The average cost of remastering, on the basis of supporting documents provided by recipients, on a digital 625-line video medium is as follows: for a 1h30 film, digital D1 (Home Cinema) costs between ECU 1 500 and 2 000 (figures provided by one of the biggest European laboratories) for a total remastering cost of approximately ECU 3 000. The flat rates of the Action Plan therefore correspond to the digital remastering costs, and encourage producers to invest in a medium which is highly profitable in all its potential uses.

- producers of new programmes have to be established in one of the European Union Member States,

- a 16:9 broadcaster established in the European Union has to undertake to broadcast the programme,

- joint financing must be provided from sources other than the Action Plan.

Only rights holders can apply for a financial contribution for the remastering of programmes. Moreover, the granting of aid for remastering is conditional upon the transmission of the programmes in question by means of a 16:9 service receiving aid under the Action Plan.

If too many proposals are received compared with the budget available, preference may be given to projects:

- submitted by producers in Member States with a low production capacity or whose language covers a limited area,

- submitted by independent producers,

- where the matching funds come exclusively from economic operators.

In the case of the remastering of existing programmes, priority is given to European programmes.

These criteria strengthen the structural objectives of the Action Plan and guarantee its effectiveness and relevance. As a result of them, the success that the Action Plan has had with producers is thus geared to the desired objectives and maximizes its impact.

2.2. The overall results, expressed in hours and ECU

2.2.1 Situation as at 31 December 1994

The total Community aid granted amounts to ECU 64 million on the basis of three calls for proposals.[41] Of these ECU 64 million, 40 million were for the production of new programmes and 24 million for the remastering of programmes.

These ECU 64 million co-financed a total of 13 200 hours, as follows:

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41 Calls 1/93 published on 1 September 1993, 1/94 published on 1 February 1994 and 2/94 published on 1 July 1994.

Figure 9

Call for proposals	Hours of programmes financed	Community aid (in ECU)
Call 1/93	2 900 hours	11.6 million
Call 1/94	4 700 hours	19.4 million
Call 2/94	5 600 hours	33 million

Figure 10

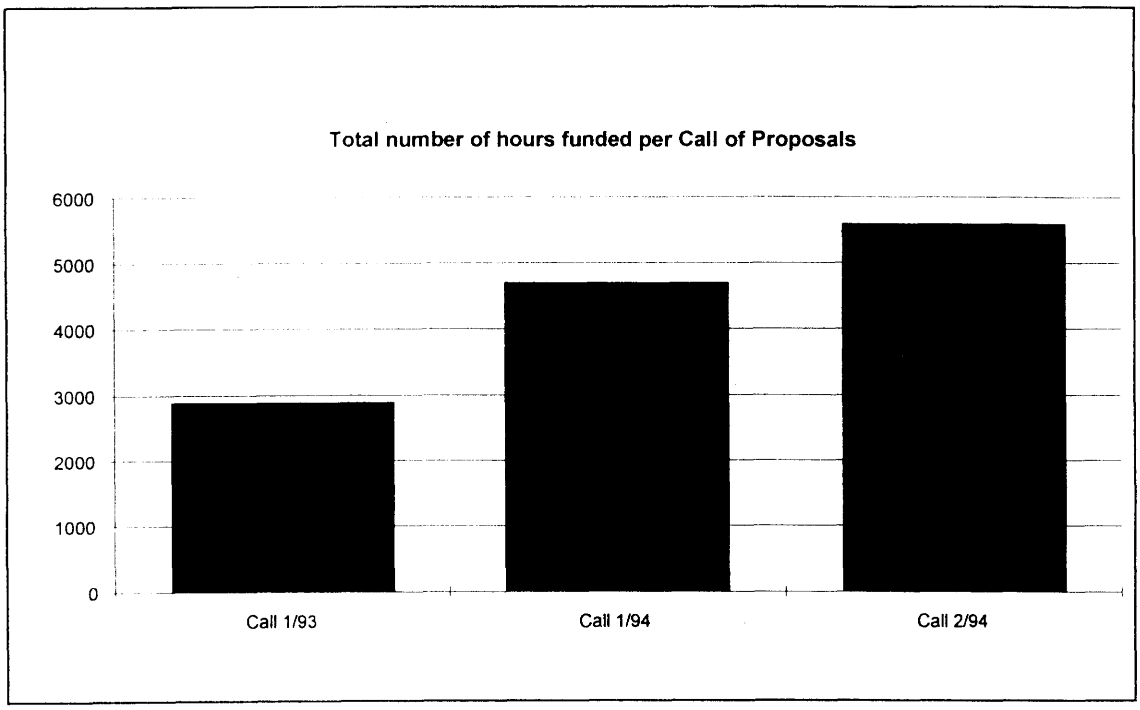
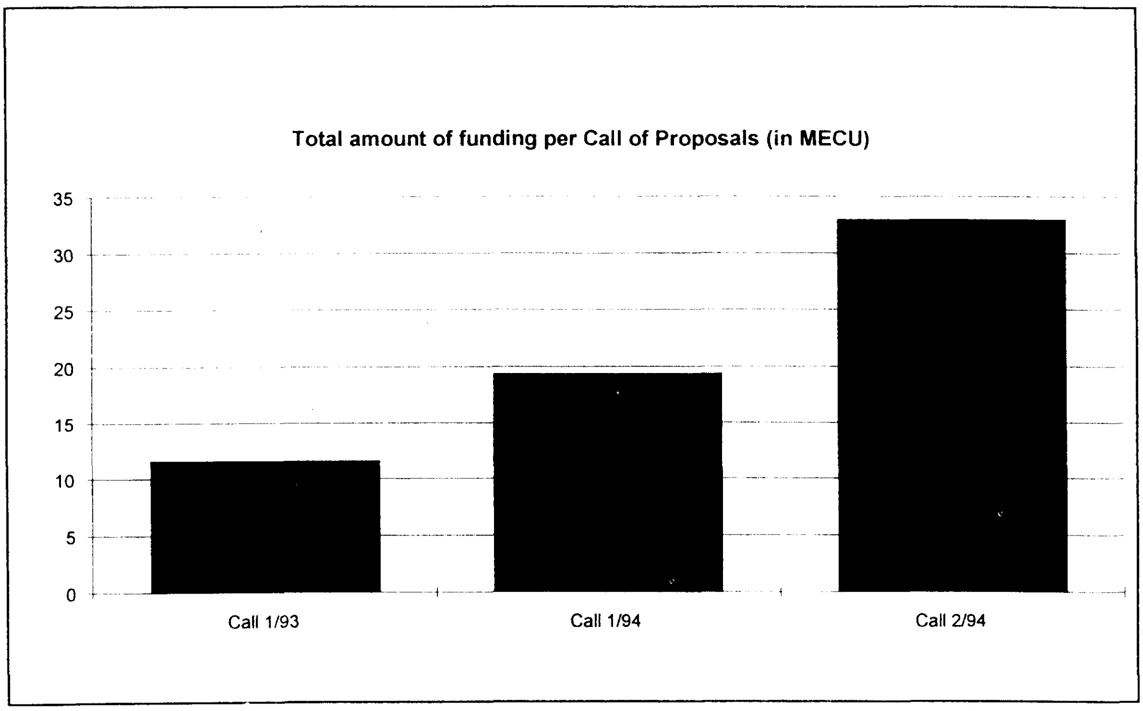


Figure 11



These figures illustrate the increasing effectiveness of the Action Plan. The first call for proposals made it possible to test the market and make the various parties in the sector aware of the Action Plan which, it should be repeated, is not just a source of funding for an audiovisual production sector with limited finances but, and especially, a means of developing a 16:9 market which existed only in an embryonic form.

The total number of hours breaks down as follows: 7 600 for new programmes and 5 600 for remastered programmes. For the first three calls for proposal, 60% of the total hours for new productions concern flow programmes and 40% stock programmes.

Let us now examine how the Community aid breaks down between broadcasters and independent producers.

2.2.2 Choice of investment by the two main types of parties involved

The breakdown for recipients of aid for new programmes is as follows:

Figure 12

Call	Expressed in numbers of hours		Expressed in ECU	
Call	Broadcasters	Independent producers	Broadcasters	Independent producers
1/93	63%	37%	63%	37%
1/94	78%	22%	63%	37%
2/94	56%	44%	53%	47%

Figure 13

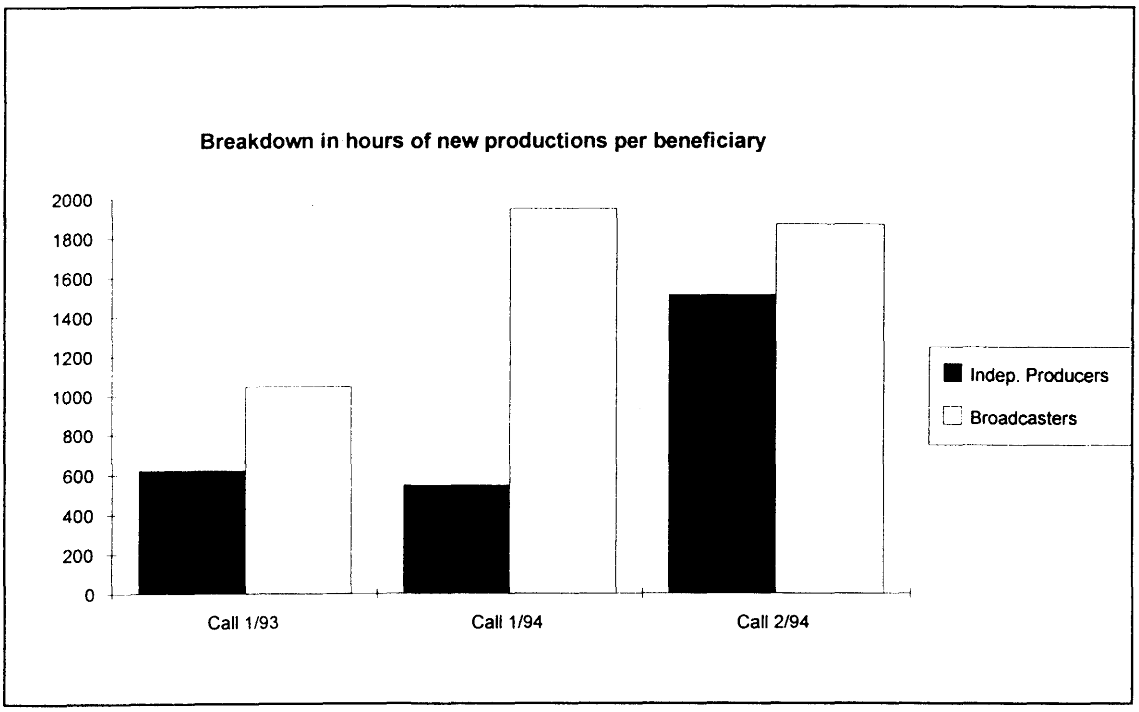
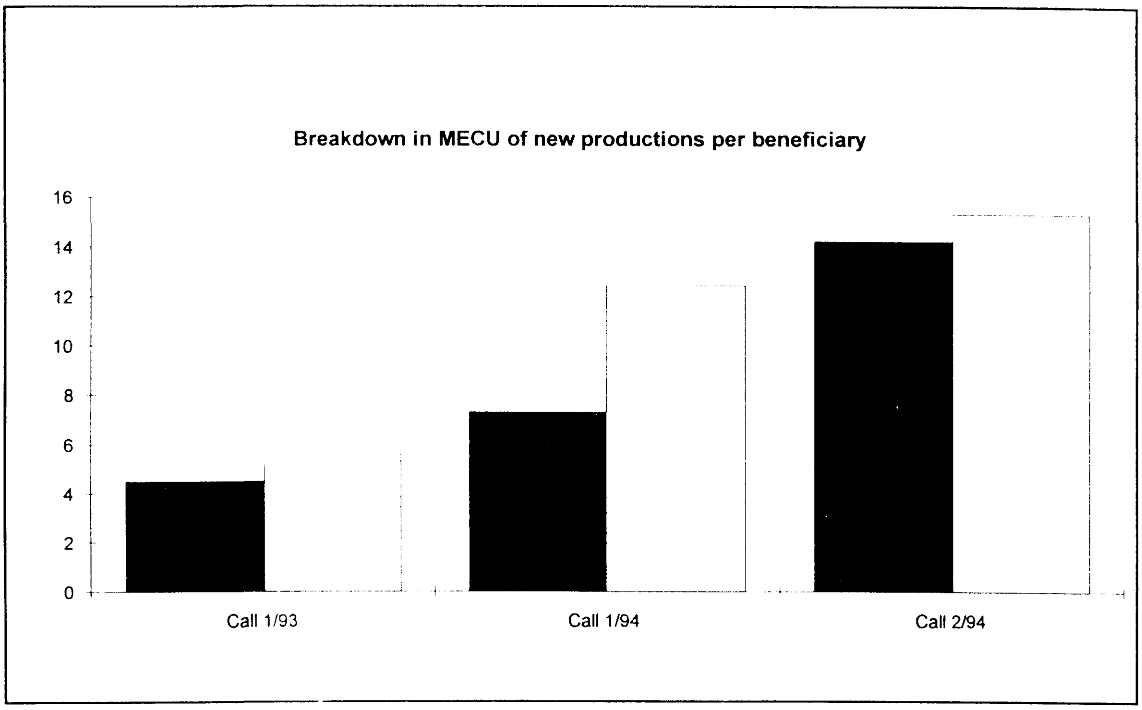


Figure 14



Where the broadcasters are concerned, the Action Plan plays a considerable role since they are helped both as broadcasters and as programme producers. After the first three calls, on average they account for two-thirds of new 16:9 productions, but only 60% of Community aid.[42] Their new productions are two-thirds flow programmes and one-third stock programmes.

A distinction should be made between 16:9 broadcasters who already had services in place when the Action Plan came into force and those who were not then broadcasting in that format. The pioneers[43] of 16:9 immediately benefited from the Action Plan and were therefore able to fill their programme schedules with flow programmes.

The broadcasters who entered the 16:9 market later[44] broadcasted only a few hours per day to begin with and started by broadcasting remastered films in order to start filling their programme schedule almost immediately using the existing catalogue, before broadcasting new programmes. Their image subsequently developed and they became more competitive. As the demand for the production

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42 This is due to the fact that the stock programmes, for which the rate of assistance is higher, are to a large extent submitted by independent producers.

43 Three channels in France and one in the Netherlands.

44 E.g. Channel Four, ARD, ZDF and RTBF.

of flow programmes grew, the range of programmes became more varied and optimum ratings were ensured.

The theme channels[45] and certain pay-TV channels are rather special cases given that their audience is more targeted and liable to act as pioneers by being the first to invest in new television sets.

The independent producers are working with the broadcasters to implement the Action Plan which is designed to strengthen this sector of production, a source of European audiovisual creativity. The first results are encouraging:

- the breakdown of production of new programmes between broadcasters and independent producers is tilting in favour of the latter,

- the independent producers have mainly produced stock programmes (94% of the total number of hours). The greater priority given to the stock programmes in the hourly rates works in favour of the independent producers.

The Action Plan is a genuine decision-making aid since the investment required for technological upgrading would often have been out of the question without the Commission's contribution given that the companies in question are often small and their finances are limited. An examination of the contributions from economic operators indicates that in the majority of cases the independent producers use their own funds to finance the additional cost of 16:9. They also sometimes call upon the industry, i.e. the broadcasters.

Apart from the strategic sectoral aspects, the Action Plan has had very favourable reactions from audiovisual professionals (cameramen, sound engineers, editors) who are very enthusiasic about working in 16:9 which has revamped and enhanced their craft. The European Commission has recieved several comments along these lines. The high image resolution, the great sound quality, the realistic colour, and the new image adjustment necessitated by the new format prompt audiovisual programme producers to go in for high-quality production techniques hitherto reserved for the cinema.

45 E.g. the music channel MCM.

3. THE EFFECTS OF THE ACTION PLAN

The objectives of the Action Plan are to achieve a sufficient volume of programming in Europe and to develop the consumer electronics equipment market there.

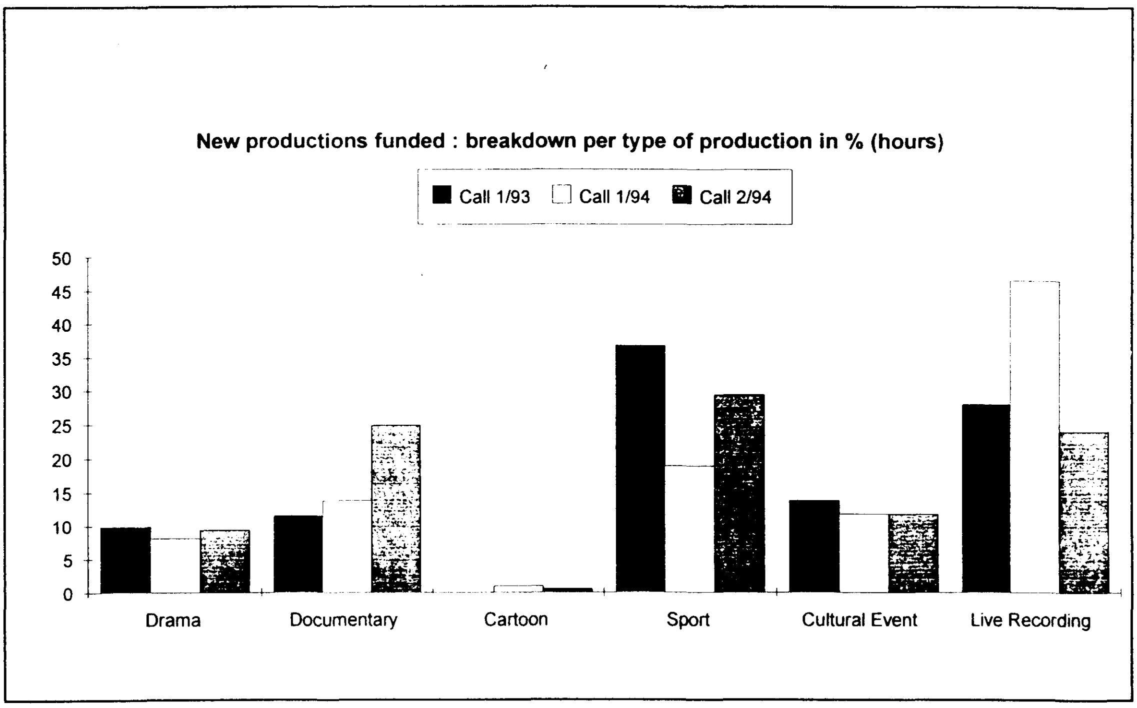
3.1 The programmes, a qualitative evaluation

Let us first examine the breakdown of the 13 200 hours of programmes for which a financial contribution had been allocated by 31 December 1994 (7 600 hours of new programmes and 5 600 hours of remastered programmes) before considering the geographical distribution of the recipients.

In order to get a clearer idea of the allocation of the financial contributions to new productions, various categories of programmes have been established and applicants have to indicate the category to which their programme belongs, i.e. drama, documentary, cartoon, cultural event, sport, live recording. An additional analysis can be carried out by production formal.

3.1.1 Breakdown of hours of programmes supported by programme category

Figure 15



If we examine the results expressed in terms of numbers of hours, sport and live recordings are the main categories. These two categories consist of flow programmes. After a peak as a result of the coverage of the Lillehammer Winter Olympics, sport on average accounts for 30% of new-programme hours. This high figure reflects sport's leading place in the ratings in most European countries, taking all the channels together. [46]

The broadcasters are almost exclusively produced responsible for the production of these programmes, accounting for 96% of the hours.

Two categories have been stable since the beginning of the Action Plan, each representing some 10 and 12% of the total programme hours, namely drama and cultural events. While independent producers produce the vast majority of hours of drama (88%) the broadcasters produce most of the cultural events programmes (82%).

It is interesting that the producers of some of the most popular drama programmes (e.g. 'Maigret' and 'Tatort') have taken the initiative of producing these programmes in the 16:9 format. The new Belgian television series 'Le chagrin des belges', produced in 16:9, a Belgian-French-Dutch co-production, had excellent ratings when screened in Belgium in December 1994 (22.5% market share). The success of these quality programmes with the European public is encouraging.

Where the cultural events category is concerned, the Action Plan has provided support for prestigious productions in the HD 1250-line format (e.g. classical music concerts and ballets).

The increase in the production of documentaries gives grounds for satisfaction where the Action Plan is concerned. A symbol of audiovisual creativity, documentaries have been steadily expanding: from 11% they now account for some 20% of new-programme hours. Documentaries constitute the hard core of the European audiovisual catalogue with a long shelf life. In addition, it is interesting to note that documentaries are mainly produced by independent producers (78% of total hours) and that they represent half of their production funded by the Action Plan (23% under call 1/93 and 51% under call 1/94). The topics for the documentaries are often cultural (architectural and artistic heritage). The quality of 16:9 is fundamental to these European and international scale projects great cultural value.

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46 In Germany in the first half of 1994 the five best audience figures were for football matches (approximately 19 million viewers watched the World Cup matches). In 1993, without the influence of the World Cup, sport was in sixth position (14.8 million viewers) after an American feature film and a German TV series.

In France in 1993 the European Cup football matches also occupied the first and second positions in the ratings (34 and 33 million spectators respectively) followed by two feature films (one American and one French).

In Spain in 1993 football was also ahead in the ratings followed by political debates and variety programmes.

Sources: EU TELEVISIONS of 12 January 1994, 3 February 1994 and 16 March 1994.

On the other hand, there is a virtual absence of cartoons as they are very expensive to make and the aid procedures of the Action Plan do not seem to offer sufficiently attractive incentives.

In the light of these results, it would seem that the distribution of roles between independent producers and broadcasters is balanced. The stock programmes are produced by independent producers which the European Union's audiovisual policy wishes to defend and make more competitive. The flow programmes, which attract a large audience are produced by the broadcasters, who pursue a strategy of trying to increase their ratings and winning over their audience by broadcasting major world events.

3.1.2 Breakdown of hours of programmes supported in financial terms

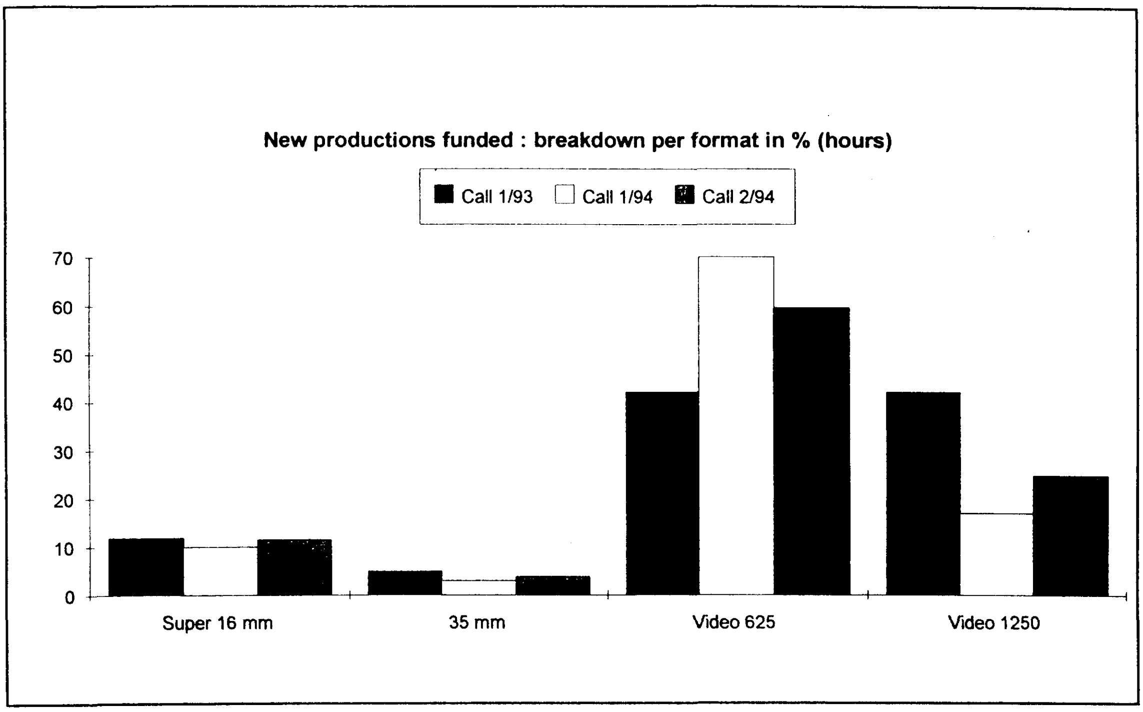
An examination of the breakdown of categories expressed in ECU gives a different result since the amount of aid allocated derives automatically from two factors (production medium and flow or stock classification), as explained earlier in connection with the flat rates. Sport and live recordings account for only 36% of the Community aid. Where these categories are concerned, the impact of the Community financial contribution is reflected more in terms of hours than in financial terms.

On the other hand, the marginal effectiveness of Commission assistance is greater for cultural events programmes and documentaries, for which the production costs are very high. While, proportionally, Community aid is greater for documentaries than for sports programmes, the initial investment will be recovered to a large extent since a stock programme is liable to be broadcast several times and sold on the European and world market. As a result of this snowball effect, the Action Plan acts as a springboard for Community investment in 16:9 productions

3.1.3 Analysis by format

There are four production formats which are compatible with broadcasting in 16:9 and regarded as eligible under the Action Plan, namely super 16 mm, 35 mm, 16:9 format 625-line video and 1250 - (i.e. high definition) video.

Figure 16



Super 16 mm has maintained its starting position with on average 11% of programmes, and 35 mm has failed to break through and has to content itself with only 4%, confirming that programme producers have not resurrected this format in the European programme industry (the situation in the United States is quite different; there 35 mm was never abandoned in favour of cheaper production formats). This particular format, which is used especially for the production of films shown first of all in the cinema, is among the most "future-proof" in view of its high resolution; however, European television producers have abandoned it and do not seem prepared to return to it, preferring instead the 1250-line HD format for their prestigious productions.

The main beneficiary of the introduction of the 16:9 format is undoubtedly 625-line 16:9 video. Programmes made in this format account on average for two-thirds of the contributions allocated.

1250-line HD video is becoming increasingly successful and now accounts on average for one-quarter of all the programme hours for which financial aid has been granted.

If we examine the choice of production formats according to the origin of the various productions, the situation is quite different. The independent producers use the entire range of formats: one-third of productions being 1250-line video, one-quarter 625-line video, one-quarter super 16 mm and the rest 35 mm (10%). Broadcasters, on the other hand, are less eclectic in their choice and overwhelmingly prefer 625-line video (83%) without excluding 1250-line video entirely (12%). 625-line video is therefore for the most part a production medium for flow programmes while super 16, HD video, and 35 mm are used for stock programmes.

3.1.4 Remastering programmes and prolonging the shelf life of the audiovisual catalogue

Two-thirds of the remastered programmes are existing ones, confirming the "asset" investment role of remastering since, in asking for the programmes to be converted, producers are investing in the future. They are sure of improving their financial position which, without this investment, would be jeopardized by audiovisual supports not geared to the future.

Figure 17

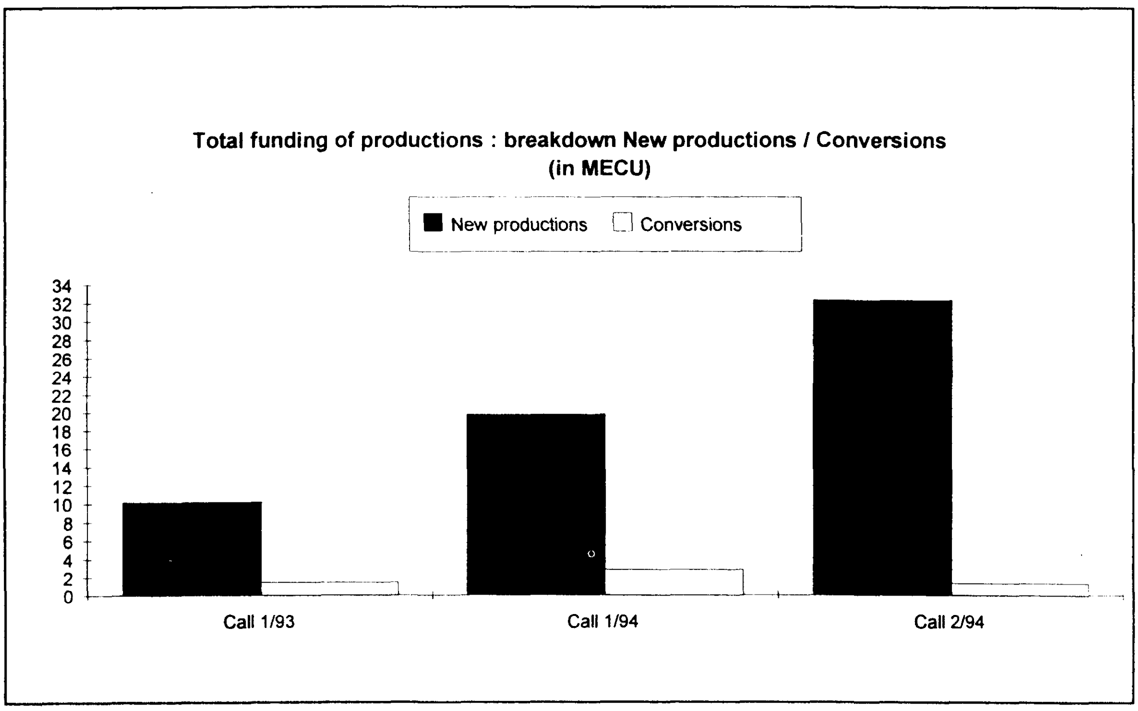
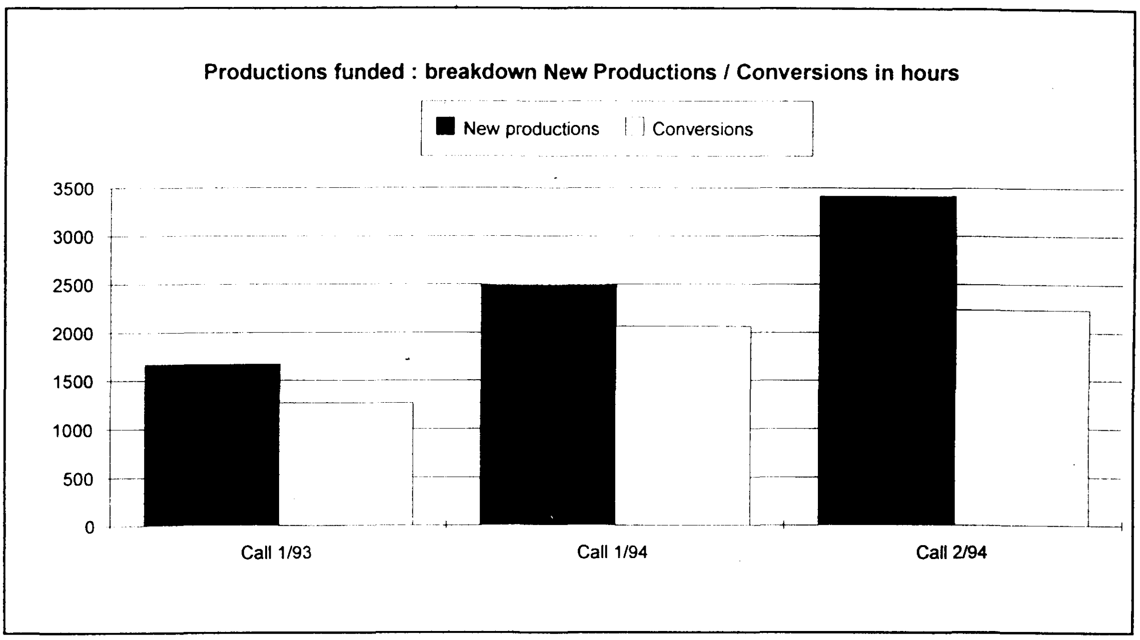


Figure 18



3.1.5 The geographical distribution of recipients

The situation was very imbalanced after the first call for proposals, favouring the pioneering countries in the sector - as explained above - but it is quickly stabilizing and the new 16:9 market entrants have steadily increased the number of programmes made in 16:9. As a result, programme producers in Germany, which were virtually unrepresented following the first call for proposals, were allocated a large number of programme hours in the following calls. However, so far no producers in Italy, Ireland or Luxembourg have applied for aid under the Action Plan.

3.2 The impact of the Action Plan: developing the equipment market and the audiovisual catalogue

3.2.1 The equipment market

After 18 months in operation, the objectives of the Action Plan have been realized and the long-term overall strategy has paid off. The Action Plan's knock-on effect on the TV-set market - as described in section 1 - and on the professional equipment market has been favourable.

For example, sales of switchable 4:3/16:9 studio and outside broadcast cameras took off from virtually zero in 1993 to half of all camera sales in 1994. The average price of a switchable 4:3/16:9 camera is ECU 54 000, representing an additional cost of 20% compared with 4:3 cameras. The only reason to invest in a 16:9 camera with a useful life of ten years is the certainty of buying equipment capable of adapting to future technological changes. While the camera market is regarded as stable in Europe (the industry forecasts an increase of around 5% over the next ten years),[47] the volume of sales of 16:9 cameras is on the increase, indicating anticipatory renewal of professional equipment. The impact of the Action Plan is therefore reflected in the swift reorientation of the professional camera market to 16:9 cameras.

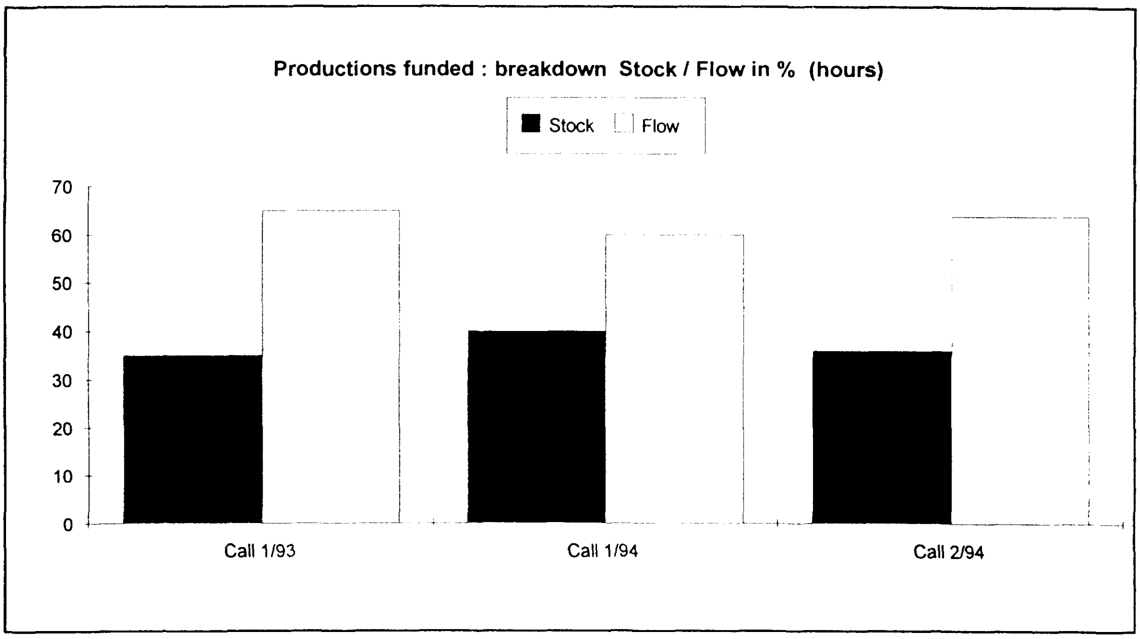
3.2.2 The 16:9 audiovisual catalogue

The audiovisual catalogue covered by the Action Plan comprises remastered films and stock programmes.

So far, the vast majority of the 5 500 hours of remastered programmes are available in digital format.

In the new-programme category, the split between stock programmes and flow programmes is stable. By 31 December 1994, 2 800 hours of stock programmes had been supported. The Commission's desire to encourage the production of stock programmes has produced results which are likely to get even better during the rest of the lifetime of the Action Plan.

Figure 19



[47] According to figures provided by Thomson's sales management.

JOINT CONCLUSIONS

Programme Production and Conversion

For the time being only preliminary conclusions can be drawn with regard to the performance of the Action Plan. Nevertheless, it can be concluded that:

- the Action Plan has made it possible to inform programme producers and broadcasters in Europe about the new technologies and the new generation of television. They have been encouraged to think European. The circulation of programmes in Europe is a crucial matter in a market where programmes are still very few and far inbetween in some countries;

- the independent production sector is showing encouraging signs of development;

- the European Union's contribution has helped to arouse the interest of and obtain support from economic operators, opening up other sources of funding.

However, the independent producers are still in a difficult economic position and their cash flow is often subject to constraints which make Community aid vital. Community measures to reinforce the diversity of this sector must go hand in hand with structural reinforcement.

These conclusions raise the question of how to make the most of the Action Plan. Certain conclusions could culminate in concrete proposals. How can the 16:9 market parties easily be brought into communication in order to enable the European Union to pool skills and transfer know-how?

Certain 16:9 services in small countries with a limited audiovisual capacity sometimes find it difficult to obtain programmes in 16:9 because right from the start they do not have the financial capacity to co-produce programmes and find it difficult to fulfil their obligations to broadcast in 16:9.

On the basis of a questionnaire drawn up after examining the applications for contributions, starting in March 1995 the European Commission will be compiling a simple database indicating all the European programmes available in 16:9 and specifying, for each programme, the rights holder in each country, the types of rights (cable, satellite, terrestrial) and their running times, original language, and the versions available. This database will be available on the Internet and can be consulted by anyone who needs such information simply by accessing the World Wide Web.

The Action Plan has proved to be part and parcel of the tactics of the 16:9 market players and a component of their overall strategy enabling them to address the future development of European audiovisual catalogues.

Broadcasting

From a supply side perspective, the achievement of 22 services in eight Member States testifies to the interest of the broadcasters and their willingness to participate in offering 16:9 to the public under the conditions set out in the Council's Decision. It is however too early to assess the impact of Action Plan broadcast funding. There is a lag between the time when broadcast funding is committed and when it affects the market. The impact on the consumer electronics market should become evident towards the end of 1995 and the first quarter of 1996. By then new technologies will probably be available in the market, further increasing the range of services available in 16:9. The formal end of the Action Plan on June 30 1997 will also be looming by then, perhaps suggesting that four years was too short a duration for the magnitude of the task. The new Member States in particular will have but a brief opportunity to benefit from the Action Plan. In addition, the extent of the Action Plan's capability to achieve market impact will have been reduced by the 80% funding provision; this will cut back the number of hours of broadcasting.

The Commission considers the introduction of the 16:9 format to be a strategic element which the audiovisual and consumer electronics market actors can offer the public in the convergent future of the Information Society, rich in new services and products. In particular, it reflects the long-standing convergence between cinema and television. The 16:9 format is therefore comparable with other important elements contributed by market actors in the telecommunications and computing industries. Consequently, the Action Plan is of continuing strategic importance for market actors in the audiovisual and consumer electronics industries. The Commission looks forward to its next opportunity to report on progress to the Council and to the European Parliament.

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ANNEX

Supplementary tables for Section B

Table 1

Total number of hours funded : breakdown of new productions per type of programme

Type of programmes	Call 1/93 in hours	%	Call 1/94 in hours	%	Call 2/94 in hours	%	Total hours : 1/93+1/94+2/94	%
Drama	165	10	202	8	322	9	689	9
Documentary	193	12	343	14	849	25	1385	18
Cartoon	0,3	0	23	1	19	1	42,3	1
Sport	613	37	471	19	1005	29	2089	28
Cultural Event	231	14	293	12	402	12	926	12
Live Recording	467	28	1158	47	822	24	2447	32
Total number of hours funded	1669.3	100	2490	100	3419	100	7578.3	100

Table 2

Total number of hours funded : breakdown of new productions per format of productions

Type of programmes	Call 1/93 in hours	%	Call 1/94 in hours	%	Call 2/94 in hours	%	Total hours : 1/93+1/94+2/94	%
Super 16 mm	197.2	11.8	259	10	396	11.6	852.2	11.143
35 mm	77.8	4.7	62.5	3	134.6	3.9	274.9	3.8697
Video 625	698	41.8	1755	70	2034	59.6	4487	57.154
Video 1250	695.2	41.7	415	17	847	24.8	1957.2	27.834
TOTAL	**1668.2**	**100**	**2491.5**	**100**	**3411.6**	**100**	**7571.3**	**100**

Table 3

Total number of hours funded : breakdown New programs / Conversions

Type of programmes	Call 1/93 in hours	%	Call 1/94 in hours	%	Call 2/94 in hours	%	Total hours : 1/93+1/94+2/94	%
New productions	1669	57	2490	55	3420	60.424	7579	57.475
Conversions	1269	43	2065	45	2240	39.576	5574	42.525
TOTAL	**2938**	**100**	**4555**	**100**	**5660**	**100**	**13153**	**100**

Table 4

Total funding : breakdown New programs / Conversions

Type of programmes	Call 1/93 in MECU	%	Call 1/94 in MECU	%	Call 2/94 in MECU	%	Total Funding : 1/93+1/94+2/94	%
New productions	10.195	57	19.742	55	32.239	96.1	62.176	69.357
Conversions	1.408	43	2.783	45	1.318	3.92765	5.509	30.643
TOTAL	**11.603**	**100**	**22.525**	**100**	**33.557**	**100**	**67.685**	**100**

Table 5

Total number of hours of new productions funded :

breakdown stock / flow

Type of programmes	Call 1/93 in hours	%	Call 1/94 in hours	%	Call 2/94 in hours	%	Total hours : 1/93+1/94+2/94	%
Stock	590	35	991	40	1219	47	2800	37.003
Flow	1079	65	1499	60	2189	53	4767	62.997
TOTAL	**1669**	**100**	**2490**	**100**	**3408**	**100**	**7567**	**100**

Table 6

Breakdown of hours and funding for new productions per category of beneficiaries

	In Hours			In MECU		
Type of programmes	**Call 1/93**	**Call 1/94**	**Call 2/94**	**Call 1/93**	**Call 1/94**	**Call 2/94**
Indep. Producers	**622**	**547**	**1512**	**4.5**	**7.3**	**14.2**
Broadcasters	**1047**	**1947**	**1868**	**5.6**	**12.4**	**15.3**
Total number	**1669**	**2494**	**3380**	**10.1**	**19.7**	**29.5**

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