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## **Antitrust: Commission closes probe into Hollywood studios after they change terms of contracts for digitisation of European cinemas**

*The European Commission has closed an antitrust investigation concerning the digitisation of European cinemas after several major U.S. Hollywood film studios revised contract provisions relating to the financing and installation of digital projection equipment in cinemas. The Commission had concerns that the original provisions might hinder small film distributors from getting access to digital cinemas which could be in breach of the EU rules that prohibit restrictive business practices (Article 101 of the EU Treaty). The revised provisions facilitate the release of independent and art house films in the new state-of-the-art cinemas.*

*"I am pleased that Hollywood studios considered our legitimate concerns and modified the contracts so that cinemagoers can watch both Hollywood blockbusters but also small budget and art house films with the latest state-of-the-art technology," said Joaquín Almunia, Vice-President of the Commission in charge of Competition Policy.*

Several Major Hollywood film studios have made changes to their contracts with third party intermediaries ("integrators") and cinema exhibitors for the financing and installation of digital projection equipment in European cinemas. This follows a preliminary investigation by the Commission into concerns that the contracts could restrict independent distributors' access to cinemas with digital equipment.

Like television, cinemas are switching to digital technology which - along with cost savings and the ability to maintain consistent high quality over time - provides better image and sound quality. It is estimated that over 18,000 screens, i.e. about 50% of all European screens, will be digital by the end of 2012.

The cost of digital projection systems (including installation, financing charges and warranties) is high. To encourage cinemas to install digital equipment, the major Hollywood film studios imported to Europe the commercial model they use in the U.S.. Under this so-called "virtual print fee" ("VPF") model both film distributors (including the major Hollywood film studios) and cinemas contribute towards the investment costs.

The way the VPF model typically works is that the "integrator" obtains financing, pays upfront for the digital equipment and installs it in cinemas. The film distributors pay the integrator (who remains the owner of the equipment until its repayment) over time: every time a digital film is shown in a cinema, the film distributor pays a VPF towards the recoupment of the equipment cost. VPF payments cover the majority of the costs, with the remainder paid for by the cinema exhibitors, which make an upfront payment to the integrator. Most VPF payments are expected to be made by the major Hollywood film studios.

The Commission opened an own initiative investigation into the contracts between the major Hollywood film studios and the integrators because many contracts gave the film studio the right to benefit from the most favourable terms, including lower VPF payments, that had been agreed between a given integrator and film studio or distributor. The stated rationale of these provisions was to ensure that competitors (primarily the other major Hollywood film studios) would not contribute less to the digital switchover while getting equal access to the digital projection equipment in European cinemas.

The Commission took the view that whilst the contracts provided incentives to the roll out of digital projection equipment in European cinemas, they could also hinder integrators from signing contracts with distributors of independent/art house films whose business models differed from the major Hollywood film studios. This is because under the original contract provisions, the integrators would have to offer major Hollywood film studios the same terms as those offered to independent/art house film distributors.

The changes proposed by major Hollywood film studios will make it easier for independent and art house distributors to have access to cinemas equipped with digital equipment.

As major Hollywood film studios addressed the preliminary competition concerns at an early stage, the Commission has closed its preliminary investigation (without having had to open formal proceedings).

It will continue to closely monitor the switch over from analogue to digital cinema.

The European Commission itself supports the digitisation of European cinemas through the European Regional Development Fund and the MEDIA programme (see [IP/10/1168](#)).