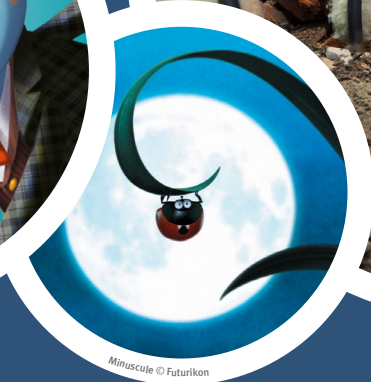




Ernest & Célestine © Les Amateurs / Maybe Movies / France 3 Cinéma



Oggy and the Cockroaches © Xilam Animation / France 3 Cinéma



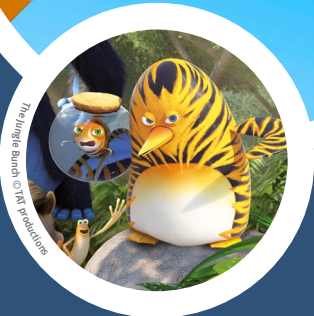
Minuscule © Futurikon



Shaun the Sheep © Ardman Animation



Kirikou © Les Amateurs



The Jungle Bunch © Y&L Productions

ANIMATION PLAN FOR EUROPE

September 2017



Creative Europe
MEDIA



European Animation Plan

1. Animation in motion

Building on its existing strengths and foundations, the European animation sector has the potential to flourish still further and build scale. Where animation leads, the rest of the audiovisual industry can follow.

European animation is an important part of the audiovisual landscape and is evolving rapidly, taking advantage of advances in technology. When it comes to finding breakthrough solutions, both technological and artistic, the animation industry has a track record of success. Animation is ahead of the change curve in adopting new technologies and in testing new business models. Animation is thus at the nexus of creativity, technology and entrepreneurship.

A solid culture of collaboration between animation studios and between different disciplines across the animation industry has laid a solid foundation for this booming industry. However, there is scope for more communication, for community building and for still more success stories. Within five years, we would like European animation to be recognised as a quality label for both TV productions and feature films. To do so, we must:

- | foster the global reach of EU animation by promoting it, by marketing it and also by ensuring that it is readily available in many languages. Dubbing is essential, but we also need to attract audiences before the productions are ready. Today, going behind the scenes, inspiring audiences and teasing them with content before the actual production is finalised is essential.
- | make Europe an attractive workplace for European talent and talent from abroad. Europe is a centre of excellence for worldwide talent and there are already strong links between academia and industry. These need to be nurtured by bringing students to the marketplace, facilitating lifelong learning and fostering the interface between content and technology.
- | unleash the scale and potential of EU animation through easier access to finance. European animation comes in many different shapes and formats, but what stands out is that the opportunities are open to all players, whether big or small. Nevertheless, access to finance is essential, particularly if companies are to scale up. Smaller companies need to be able to climb to the next rung of the ladder while larger companies are scaling up.

The animation sector has been recognised by the European Commission for its growth potential and in the context of the Digital Single Market and copyright reform. The Commission has facilitated discussions with the animation industry on the opportunities and challenges that the industry faces and on how best to promote and distribute animation works. This European Animation Plan is the result of these meetings, consultations and discussions with all the stakeholders involved, and reflects the views of industry players.

2. The European Animation Industry

2.1. Overview

Animators have the rare talent of crafting stories that fascinate and capture the imagination of children and adults alike. Of all the audiovisual content produced in Europe, animation travels better and is more likely to find audiences across different countries and different age groups.

Most admissions to European animation films in fact come from outside national markets. In 2014, only about 36% of admissions were generated in the main country of production compared with 50% across all genres of European production. This, along with the high number of average territories in which films were released, is evidence that in general European animation performs better and has a wider circulation in foreign territories than non-animated films. However, the downside is that this performance is dominated by a few films. Of the admissions to European animation films in non-national markets between 2010 and 2014, the top 20 accounted for by far the lion's share, i.e. 84%.¹

Nevertheless, European animation has a strong tradition: recent films like *Gnomeo and Juliet*, *Ooops! Noah is Gone*, *Paddington*, *Shaun the Sheep*, *Song of the Sea*, *Two by Two* or TV series like *Mouk*, *Peppa Pig*, spin-off series from films like *Shaun the Sheep*, and many others were all created in Europe.

The animation sector has proven to be particularly strong when it comes to TV series. Animation has been the leading genre of TV programme exports for the past 20 years. The industry needs to build on this success more widely in feature films, with their much longer production cycles: it takes longer and costs more to produce an animated feature film than one that is not animated. It is not unusual for the development stage to take more than three years. In addition, crews are larger and the actual production takes much more time. Therefore, it is not surprising that it can take a decade to see the first return on investment on an animated feature film, making access to finance critical.

2.2. The Role of Broadcasters

Public service broadcasters as well as private broadcasters are key pillars in the European TV animation sector thanks to the high investment they make in content and their strong collaboration with producers and creators. TV animation offers continuity to the industry and successful programmes are exploited to the maximum. Broadcasters tend to prefer sequels for animations, since the more episodes there are, the better it is for a broadcaster in retaining audience share.

With young audiences increasingly best reached online, it is important for broadcasters to be able to invest in animation and online content in order to position themselves to be able to benefit from the digital shift.

A major challenge for these broadcasters is the investment quotas to which they are subject, whereas audiences now have alternative ways of viewing content and these new providers do not necessarily support national and European productions to the same extent and do not face the same constraints. Traditional free-to-air TV is facing increasing competition and pressure on budgets, making it harder for broadcasters to invest in animation. Levelling out the

¹ According to 2015 figures from the study Mapping the Animation Industry in Europe

conditions for all players and incentivising them to invest in European production could bring important business opportunities for the industry.

In addition, broadcasters in Central and Eastern Europe face additional challenges in being able to enter into international co-production due to the minimum financial contribution requirements.

2.3. Viewing Trends and New Formats

OTT channels like YouTube and others are seriously challenging traditional distribution channels. There is a drive to build community and viewership on these channels because audiences are shifting there. These channels are also changing user patterns and are part of the reason for the movement away from long and complex storytelling over 90-120 minutes to a shorter-form animation in the 2-20 minute range. The consumption patterns of children and young adults show that short-form animation is growing in importance.

YouTube allows equal access to all content but involves additional production, marketing and branding costs in order to adapt formats and increase awareness. Thus, while it might be easy to be on YouTube, it is not easy to build a profitable business model.

3. Challenges and Opportunities for European Animation

3.1 Talent and Skills

There is talent in Europe, but with the key players in the industry being outside Europe, talent is bound to seek opportunities outside Europe and once talented Europeans leave, it is harder to attract them back.

Europe and European animation studios need to be in a position to **create the right conditions for talented individuals** to return to open their own studios or else to work with existing studios on exciting projects, or else to find production houses to take on their projects.²

There is also a **skills gap** which needs to be addressed. There is no specific data on the skills gap in Europe, but from anecdotal evidence, there may be a gap in specialist skills, for example storytelling. Initiatives such as industry-led courses or mentoring programmes targeting recent graduates could help bridge this gap.

Lifelong learning is a necessity today in most industries and the animation sector is no exception. While the skills needed to make animation have remained the same (storytelling, storyboarding, character design), professionals need to be constantly trained to adapt to and embrace new technologies, and translate them into new creative content or formats. This applies not only to students and professionals, but also to teachers. Moreover, it is essential to involve industry professionals in education activities, as some programmes supported by MEDIA do, such as Animation Sans Frontières, Atelier Ludwigsburg-Paris, Cartoon Masters and La Poudrière.

² Réseau des écoles françaises de cinéma d'animation (RECA the Network of French animation schools) estimates that 20-25% of their students have a first working experience abroad before returning. RECA estimates an increase of 50% in the number of people working in animation in the next three years. Looking at the wider context, the video games and special effects domains are more affected by the "brain drain" as 65% of RECA graduates in these fields leave France and very few come back. (There are no equivalent figures for Europe as a whole.)

3.2 Access

Intellectual property is an integral and key strategic component of the animation business. Studios need to increase their efforts to retain both the local and global intellectual property of their creations because this has a number of positive effects. Firstly, it builds the brand of the studio and allows longer exploitation and monetisation of the works. More importantly, it makes merchandising possible. That can be even bigger than the value of the audiovisual work. Content franchising is also important because the creation of a brand makes it easier to produce additional seasons or sequels. In the case of TV, networks prefer to invest in continuing existing series because it is harder to market original content and attract new audiences.

The **distribution of animation** via cinema, TV and VOD is currently fragmented. It needs to be more strategic. Animated features with high potential need to have a greater chance of finding a real audience. This means spending more upfront on promotion and marketing. In addition, the possibility of co-ordinated releases needs to be tested not necessarily on different platforms but for example when it comes to near simultaneous releases of films in different countries, while taking into account the national specificities like holidays. Co-ordinated releases and joint promotion strategies could optimise marketing campaigns and make a real impact on the success of a film.

There is also a need to work on re-releases not only for cinemas, but also, and more importantly for television. There needs to be better use of the potential to monetise content on VOD platforms. More attention should be paid to short films and VOD could be part of the solution for them.

3.3 Promotion and branding

European animation is facing growing global competition from various parts of the world which are doing well both in terms of design and storytelling and in promoting their productions. To confront this, European animation needs brand recognition.

The importance of **promotion** in achieving this and increasing market share, particularly outside domestic markets, needs to be better understood. The US animation sector, for example, allocates broadly the same budget to promotion as it does to production. Branding needs to be a major focus in the new models of distribution and promotion, and studios need to be thinking about branding opportunities during the creation process.

Communication and promotion does not start the day a film is released, but way ahead, in the production phase. It is a process of an ongoing dialogue between creators, distributors and audiences. Animation studios should be incentivised to share little nuggets of information with potential audiences, to create a buzz during the creative process and also make use of the tools of the trade, such as vloggers, social media communities and parent groups to preview and review the productions.

At present European animation struggles to build its identity and image. One step towards correcting this would be more promotion of the European Film Awards and other similar initiatives.

3.4 Financing

The European animation industry has the potential to be at the forefront of the European and global audiovisual industry if it can attain the necessary scale, retain existing talent and also attract back the talent that has left Europe in recent years – in an environment where traditional sources of funding are under pressure, just as successful European animation is reaching a point where scale is essential.

Public funding and broadcasting sales are decreasing. Traditional broadcasters appear to be scaling down investment in new content. Animation studios can recoup their investments by selling global rights for content, but sales to traditional broadcasters have historically provided an important revenue flow and that is decreasing. In addition, young viewers are switching to new media platforms such as YouTube and VOD, where it is more difficult to monetise content.

Monetising existing content is critical, however, to **managing cash flow** during the long **development and production** phases while creating new content. Giving up intellectual property rights in order to generate cash can have a huge negative long term impact on the studios' ability to retain talent and/or scale up their activities. This underlines the importance of animation studios having **access to debt finance**, particularly for cash-flow management. Accessing finance is also essential in attracting talent, which might otherwise be lured away to bigger projects elsewhere during a cash flow crunch.

Most European financial intermediaries lack the in-house expertise to assess the credit risk of animation companies and need to be made more aware of the opportunities of the animation sector. Training sessions and workshops for producers and investors could contribute to increasing mutual understanding and trust, along the lines of the Cartoon Business model, which is supported by MEDIA.³ The European Commission's Cultural and Creative Sectors Guarantee Facility will in future make access to debt finance easier for animation companies. This is not only welcome but needs to be extended to support the animation industry across Europe.

More work also needs to be done to assess market trends and opportunities in order to adjust public funding or create other investment vehicles for European animation. **Equity financing** could offer the right investment framework for companies with a clear business model and an ambition to grow.

³ This event has offered the possibility to private equity investors, new commissioning platforms and crowdfunding companies to present how they need to be approached to secure gap and equity financing on animation projects. It is also a great opportunity for them to get to know the animation sector and understand its specificities.

4. Looking Ahead: Europe's Animation Priorities

The Commission and the animation industry should continue the dialogue that has started on how best to support European animation while being open enough to also welcome innovation.

The needs of the Animation industry create a virtuous circle. The first element is talent and skills which is an essential component of success. In order to achieve success, better promotion and increased audiences are essential. When all this is in place, access to finance is the glue that binds everything together.

Europe has the potential to build on existing successes in Animation. For this to happen, there needs to be a strategic approach built on the vision presented at the outset. Building step-by-step this ambitious vision becomes a possibility and will unleash Europe's creative potential in this sector.

4. 1. Talent and Skills

Objective: Make Europe an attractive workplace for European talent and talent from abroad.

Europe needs to train its people; it also needs to ensure that they have the opportunity to work in their area of expertise without necessarily needing to leave Europe.

This can be achieved by:

- | Fostering relations between academia and industry, bringing students to the marketplace; mentoring, training trainers through lifelong learning covering all stages of creation and promotion: storytelling, script writing, animation techniques, financing, postproduction, marketing, promotion etc.
- | Collaboration is essential for animation studios to keep up with the pace of innovation and the need to explore new business models. We need to work towards creating a community of talent that can seamlessly move from one project in one country to another country.
- | Adapt curricula to industry needs. The animation industry is very dynamic and education must keep up with the pace of innovation and the need to explore new technologies and business models. On the one hand, we need to create centres of excellence for animation and related industries to offer courses for graduates that mirror the practices of industry and on the other we need to formally recognise the animation schools.
- | Facilitate connections between technology and the content part of the industry. We should use existing platforms and funding to create links between technology and content.
- | Encourage incubators for experimentation and finding new talent, for instance through new formats and animation short films. Producers could use shorts to develop characters and concepts, while broadcasters could consider TV short-format co-productions. This could serve as a good opportunity to test a project and a co-production partnership prior to investing in a series.

4.2. Promotion and Audiences

Objective: Foster the global reach of EU animation through promotion, marketing and dubbing

Raising the profile of European animation, reaching out to new audiences and promotion strategies should be part of the upfront planning of animation projects, particularly given the fact that there is a correlation between promotion and audience.

Support to dubbing helps European works travel and should be considered a necessity, particularly for products which have the potential to reach global audiences. More needs to be done to convert success stories from feature films into TV series or vice-versa.

Concretely, this could be achieved by:

- 'Created in Europe': branding EU animation by promoting a slate of European animation content (film and/or TV) as an experiment that could be further extended in subsequent years.
- Increase investment in subtitling and dubbing for global reach. Dubbing is five times costlier than subtitling but this is an upfront investment that can add value in the longer term, particularly as more studios opt for a 'global' distribution strategy through VOD platforms, broadcasters as well as online platforms such as YouTube.
- Start promotion early: the Creative Europe MEDIA Sub-Programme should incentivise early and new promotion models. Promotion needs to start early, in the production phase, through short clips and by talking to fans and potential audiences. Studios should consider creating marketing elements and support sales agents, and distributors can use during the distribution and promotion phase.
- Incentivise and facilitate co-productions through EU MEDIA funding. Co-productions are essential, not only for fostering collaboration and creativity, but also in finding new ways to distribute and promote content. Making joint use of catalogues could be a step further in sharing revenues and risk.

4.3. Financing

Objective: Unleash the scale and potential of EU animation through easier access to finance

Finance is a key aspect of any industry. Animation can be a high risk, high reward investment but more needs to be done to match the aspirations of investors and the industry.

Better access to finance could be possible by developing new financial instruments and blending public and private funding, with a view to pooling resources for large-scale projects and easing cash-flow management issues.

It takes time to build success, but one success story makes the next one easier. This is why it is important to reward success and work alongside successful players to help them grow in order to create European champions.

This could be achieved by:

- | Improving access to debt financing by making full use of the Cultural and Creative Sectors Guarantee Facility.
- | Cooperating with equity financiers and supporting dedicated Venture Capital funds focusing on the European creative sectors.
- | Looking into the possibility of developing new financial vehicle instruments, combining public and private funding, aimed at pooling resources for large-scale projects and easing cash-flow management issues.
- | Strengthening links and dialogue between the financial world and the animation industry. This could be done, for instance by supporting festivals, animation markets, pitching events and national initiatives to use their existing fora to create a better link between studios and financial backers such as banks and venture capital.
- | Increasing the European animation presence on digital platforms: they create opportunities that allow European animation to start small online, grow big on TV.
- | Urging public funds to join forces, for instance to encourage co-productions, exchange good practices and replicate successful national policies. For instance, the contribution from broadcasters and other global players to the European production and promotion could be one of the best practices discussed by the Commission with the Member States.
- | Adapt MEDIA funding in the future, so as to reward success and proven track record, for instance through a system of bonuses when projects are over.