# Chapter IV.
# The indirect contribution of the cultural & creative sector to the Lisbon Agenda

## INTRODUCTION

Chapter III presented the direct and quantifiable impacts of the cultural & creative sector on the European socio-economic environment.

Chapter IV focuses on the indirect contributions to Lisbon. These are of different kinds. A first indirect impact on the overall performance of the economy is that the cultural & creative sector fosters innovation in other sectors of the economy. This aspect was already addressed in Chapter I under the developments on “creativity”, and it won’t be touched upon in this Chapter. Secondly, the cultural & creative sector is crucial for the take off of ICTs, the flagship industry of the Lisbon strategy. It provides content to fuel digital devices and networks, thereby contributing to the adoption of ICTs by European citizens (“ICT literacy”), and fostering innovation in the ICT sector as ICT manufacturers and networks need to find original and optimal ways to integrate content into new value-added services. The interdependence of the content and ICT sectors is analysed in Section I below.

Thirdly, the cultural & creative sector has a multiple role to play in local development. Section II gives particular attention to this aspect which touches upon many different issues, both economic and social, that are linked to the Lisbon strategy’s objectives:

- The sector constitutes a powerful catalyst for attracting tourists, thereby alimenting the tourism industry which is particularly well performing in Europe, generating growth and employment.
- It can also be of strategic importance for growth and employment in cities and regions. The case of “creative cities” that are investing in the cultural & creative sector because they expect high return on investments is extensively covered, followed by an investigation into the local cultural clusters generated out of the European capitals of culture.
- Cultural activities at local level have also significant social impacts. This is exemplified in projects of social regeneration aimed at including marginalised or “resource-weak” communities, as well as at ensuring a better cohesion with the least wealthy areas. They contribute to improving communication and dialogue between different ethnic and social communities. Culture is an important tool in urban and regional policies, contributing to achieving sustainable development.

# SECTION I. THE INTERDEPENDENCE BETWEEN THE CULTURAL & CREATIVE SECTOR AND ICT

The content and ICT sectors are interdependent, generating huge opportunities for both sectors.
Indeed, while one of the key drivers for the take-off of new technologies is the existence of a strong, innovative and diversified content, an essential driver of change in the cultural & creative sector is the roll-out of digital based technologies. The growth of media content and the expansion of the ICT sector are strictly intertwined and may be viewed as the two faces of the same coin.

## I. INCREASED GROWTH PROSPECTS FOR ICTs

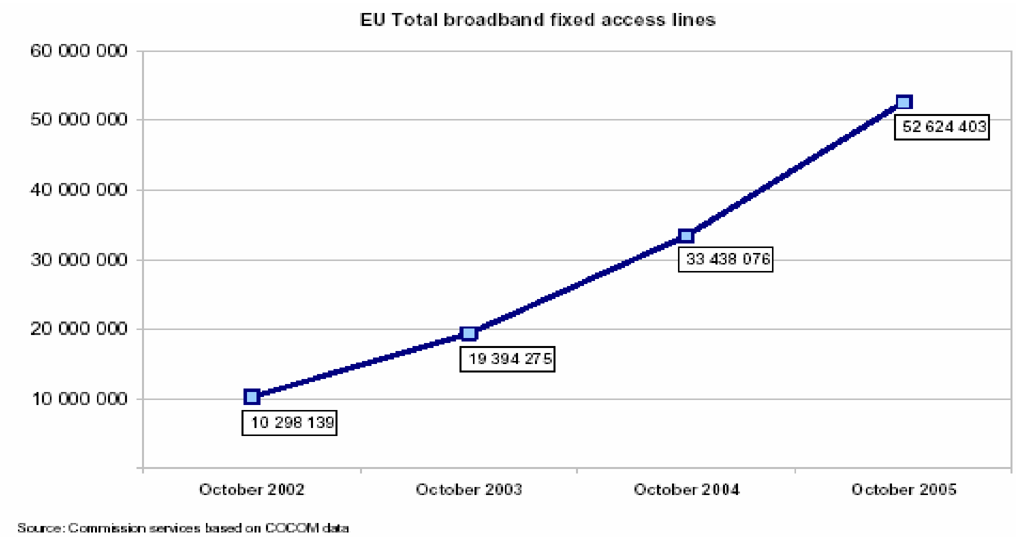
Media content is a key driver for ICT uptake - booming broadband connections, update of mobile handsets, replacement of video and music players are all a consequence of the consumer will to access content in new and personalised ways.

Over the last few years, broadband[1] penetration has grown exponentially and the trend continues to do so.
The diffusion of wireless Internet connections and the mass adoption of 3G mobile phones have turned the promise of being connected "anytime, anywhere" into a reality.
The switch-over from analogue to digital broadcasting has already happened (for radio) or is foreseen in the years to come (for TV).

The following figures 24 and 25 show the boom in broadband connections in Europe, and figure 26 presents the penetration of mobile telephones in Europe.

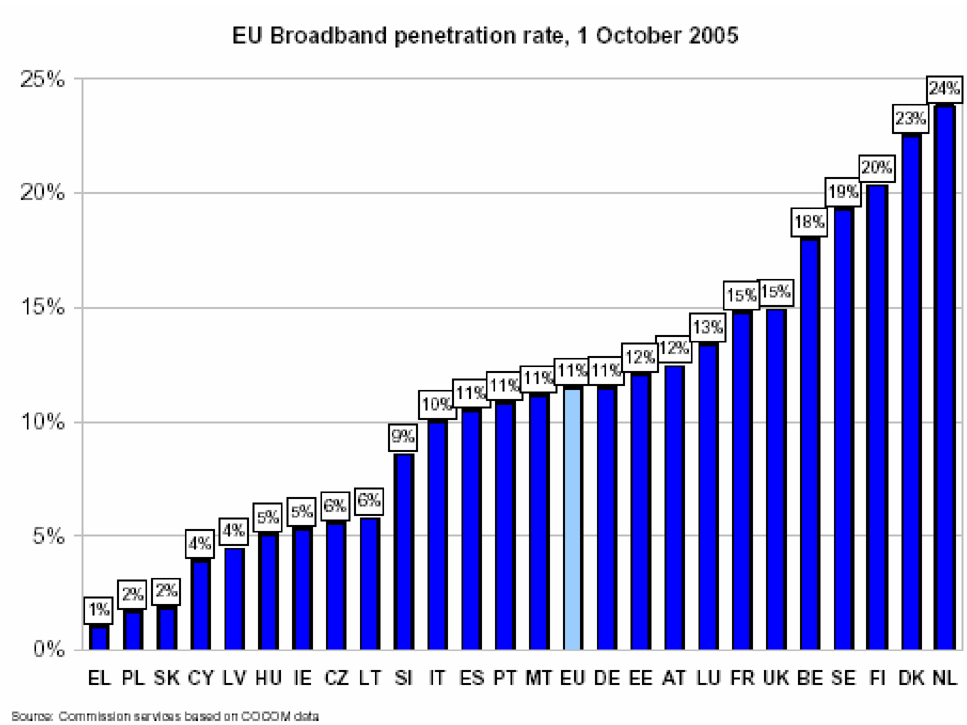
[1] For a definition please refer to the ICT Glossary in Annex

**Figure 24. EU broadband fixed access-lines 2002-2005**




The table shows that the number of fixed broadband lines grew fivefold in three years. Broadband penetration rate also grew significantly across the EU, albeit with notable variations amongst different countries - some Member States are world leaders in terms of broadband penetration amongst households whilst others are still catching up:

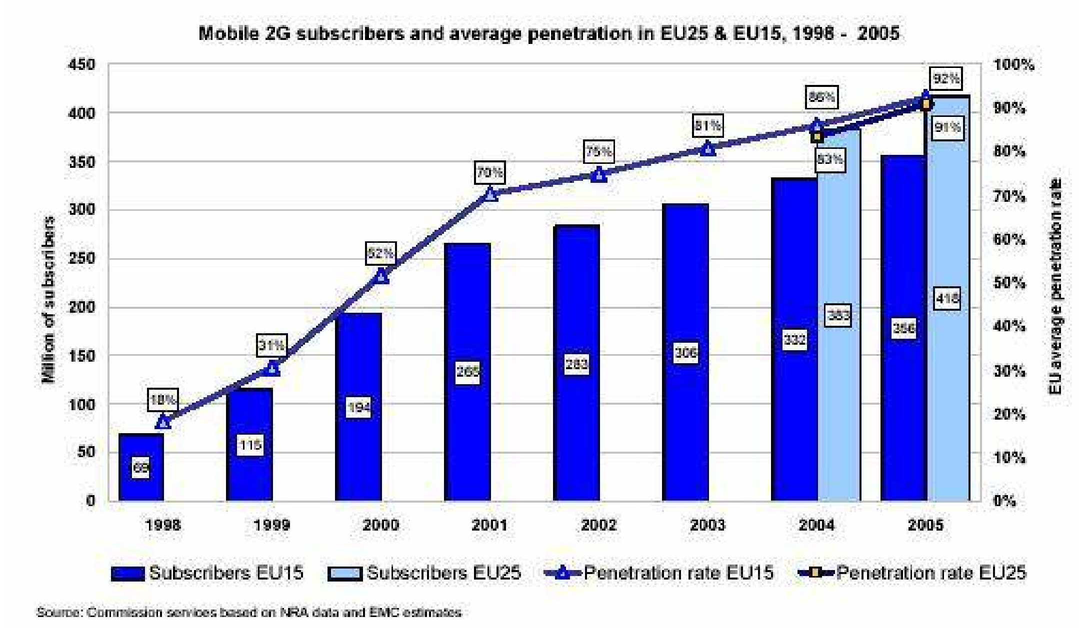
**Figure 25. EU broadband penetration rate**



By way of comparison, average broadband penetration at the end of 2005 was 15% in the US and 16% in Japan.

The penetration of mobile phones is particularly high in Europe. The continent can also count on world leading handset manufacturers such as Nokia and mobile operators such as Vodafone.

**Figure 26 – Penetration of mobile telephones in Europe:**




This increase in broadband connections, and more generally speaking the increase in new networks and devices resulting from the digital shift, creates a huge appeal for content. When the landmark deal between AOL and Time Warner was signed in 2000 (a deal heralded as the prototype of the marriage between "content" and "pipes" in the convergence era), music was mentioned as one of the most promising business area for the two companies. After the burst of the dot.com bubble and the difficulties experienced by record companies in learning to deal with the Internet, the recent explosion of iPod sales shows that music remains a key driver for technological uptake amongst consumers. The opportunities opened by online consumption of films, which at present has just begun to take up, are also impressive.

The next two cases show the interdependence of ICT with music content.

- IFPI estimations on indirect value of recorded music enhance the importance of music for the growth of portable digital music players, the development of the digital economy and in particular of broadband subscriptions, as well as of 3G mobile services.
- The Apple's experience presents a successful business model developed to bundle two revenue streams (music and digital music player) and exemplifies the interdependence of content, hardware industries and ICT industries.

### IFPI estimations on indirect value of recorded music

IFPI, the trade federation representing the recording industry, published in June 2006 the results of a survey investigating the direct and indirect impact of the recorded music business on ancillary activities and related industry sectors. According to the findings of IFPI, the largest sector underpinned by recorded music, after sales of physical recordings, is the global commercial radio advertising market, which is worth USD 30 billion a year. By way of comparison, sales of recorded music totalled USD 33 billion in 2005 - this means that revenues derived by commercial radios diffusing music as main content are almost equal to revenues collected by record companies through direct CD sales.

Other results of the IFPI's survey are the following:

● Music is at the heart of the phenomenal growth in **portable digital music players**. IFPI estimates the value of this sector to be USD 9 billion in 2005 - over four times the estimated value of digital music retail sales. In addition, the market for peripheral equipment such as speaker systems and docking stations is estimated to be worth USD 1 billion by industry analysts.

● Music is also one of the main drivers of the **rapidly-growing digital economy**. IFPI estimates that consumers spent over USD 75 billion on broadband subscriptions and USD 60 billion on mobile data services in 2005.

● Music has been a key driver **of 3G mobile services** - research from mobile operators confirms music is the top entertainment product on mobile phones, attracting the 18-35 age group in particular.

### Focus on the Apple's experience

The Apple experience shows that content drives the market – not software applications.

In the market of portable music players, the value of the platform is determined primarily by the availability of content.

Apple's experience with iTunes Music Stores suggests that the availability of purchased content is one of the most important drivers of demand for portable music players. Indeed Apple iPod sales began to grow much more rapidly when it expanded the availability of content with its iTunes Music Store. Shipments averaged 113,000 units per quarter before the launch of the music store. In the quarter following its launch, shipments increased to 733,000 units[2], and to 8, 729, 000 during the quarter ended September 30, 2006[3]!

However Apple's profit pool comes from the sales of hardware, and the consumables (music sales) do not generate much profitability. On the contrary, in the gaming and printing markets the vendor typically loses money on hardware, and compensates losses with software sales.

Bundling with another profit stream makes the business model work. It shows the interdependence between content and hardware or creative industries and ICT industries.

Apple is perceived as a saviour of music on-line – it created a market for digital downloads. Customers bought more than 300 million songs from Apple online music store in the space of its first two years.

There is mixed feeling about the success of Apple which has turned the economics of the music business upside down. Music companies are concerned that digital download prices are too low and do not allow for variable pricing of online music sales, for example higher wholesale prices for top hits or special tracks. The pricing strategy is in the hand of a single powerful player whose aim is essentially to sell hardware not to develop new artists or invest in music.

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[2] JP Morgan 15 November 2004 – *North America Equity Research*

[3] Apple Reports Preliminart Fourth Qaurter Results: http://www.apple.com/pr/library/2006/oct/18results.html

# II. GROWTH PROSPECTS FOR THE CULTURAL & CREATIVE SECTOR

The changes brought by ICT impact on the creation, production, distribution and consumption of cultural products. The digitisation of content as well as of production and distribution channels has made it possible to replicate and diffuse works at almost no cost once they exist in digital format, thereby radically changing the distribution of content, and opening up new prospects of growth for the cultural & creative sector. New technologies have also radically changed the way consumers access to and own content. To make the most out of these opportunities the challenge ahead is finding appropriate business and economic models.

## II.1. Digital technology is radically transforming the production, circulation and consumption of content, leading to new supports, applications and content offerings

New support and distribution channels include DVDs, home cinema systems, set-top boxes and flat screens TVs that are all dependent on available attractive content (film, video-games, music, TV programmes, etc.); the development of mobile telephony networks which is dependent on value added services incorporating attractive content; new opportunities for broadcast content through the proliferation of TV channels and networks (cable, satellite, TV on ADSL, etc).
New service offerings include downloading and streaming (of music), video-on-demand (there are now more than 335 legal online music services of which 200 are based in Europe[4]), straight to video-on demand, video games, etc.
All of these new developments represent new market opportunities for producers of content, and generate important growth prospects for the cultural & creative sector. The major advantage brought by ICT consists in multiplying and diversifying channels through which cultural works reach the public. At first there is an incremental effect, followed by episodes of "cannibalisation" between old and new channels. Yet at the end, there is a greater choice for the consumer amongst the different ways of accessing culture, which results in increased cultural consumption.

## II.2. The key challenge: Finding appropriate new business models

The consequences of ICT on culture are double-edged - on the one hand technology opens up new opportunities for creators to produce and distribute their works to a wider public, independently of physical and geographical constraints; it also increases choice and accessibility for the public. On the other hand, ICT disrupts traditional production and consumption models, challenging the system through which the creative community has monetised content. While new models struggle to emerge, the risk is that cultural content may be considered as any other commodity traded in the virtual world and may be devalued.

Some cultural activities, like **music**, have experienced a true revolution, which has not been painless for the industry. The following case on the EMI strategy to face the digital challenge shows that the company had to go through important restructuring involving manufacturing, distribution, and investment in artists, in order to embrace the proliferation of new distribution mechanisms and consider the creation of new products. This has entailed the setting up of a comprehensive strategic business programme at technology and staff level.

[4] IFPI Digital Music Report 2006- up from 50 two years ago

### Change of business models in music - EMI

**"*The digital age demands that we reinvent forms of distribution to increase choice, convenience and accessibility to consumers"* (EMI VP James Anderson).**

EMI, based in London, is the third largest music company in the world. It employs over 6 600 people operating directly in 50 countries. The company's artists include The Beatles, Coldplay, Norah Jones, Simon Rattle, Robbie Williams. EMI music publishing is the largest music publisher in the world with a catalogue of over a million titles. Revenues of EMI in 2005 were nearly £ 2 billion.

Digital business represents 5% of EMI total revenue in 2005: from a non- existent industry four years ago, revenues were close to £ 45 million in 2005 (`£ 15 million in 2003).

EMI is convinced that digital music will make up some 25% of its sales by 2007 or 2009[5].

EMI has had to embrace a proliferation of new distribution mechanisms (Internet, cellular networks, satellite) and considers the creation of new products (such as ringtones and portable subscription services).Few industries have coped with such changes in their business environment. This has lead to as significant restructuring involving manufacturing, distribution and investment in artists' roster to enable the transformation from a record company to a music company with emphasis on revenue from other methods than the sale of physical product (CDs or tapes).

EMI had to set up a comprehensive strategic business programme at technology and staff level. Investments in processes and technology are enormous to make content available in a digitised format, to be able to account to artists or to protect copyright.

In the new environment, EMI no longer controls distribution to the same extent as in the retail environment, and it now depends on powerful players such as Apple for its pricing strategy.

**Film and video** are currently undergoing similar developments. In relation to VOD, the number of VOD service providers across Europe has grown tenfold in the past four years from 4 in 2002 to 40 in 2006[6]. The analysis of the main platforms shows that more than 2,000 feature films are already available in Europe. Digital delivery provides new sources of revenues for audiovisual producers as it enlarges the spectrum of potential customers and offers a tool for international distribution at little cost. Yet in order to make the most out of this opportunity, appropriate business models need to be further reflected upon. Important issues include windows release, the licensing of rights as well as the consequences of VOD on film financing (cf. below).

In the music and film sectors "the long tail theory" suggests that digital technologies bring a new economic potential in. The Internet would create a market which is no longer hit-driven: a market of niches and specialist products would attract small but faithful audiences whose weight in economic terms would equal that of mainstream works. This is the reason why, according to the long tail theory, the Internet may represent the international distribution tool required to by-pass some market access problems experienced in music and cinema notably. The Internet could therefore remedy the inefficient distribution structure that has as its result that the 600 films produced in Europe hardly ever reach the US market. (*The Triplets of Belleville* – nominated for the best animated feature Oscar in 2004 – opened on just six screens in the USA!)

[5] According to Alain Levy CEO of EMI Music in *Financial Times,* 6 July 2004
[6] NPA Conseil, The development of video on demand in Europe, 2006

### The long tail

In the October 2004 issue of *Wired Magazine,* Chris Anderson presented “the long tail theory”.

With the Internet, inventory storage and distribution costs become less significant, therefore it becomes economically viable to sell less popular or mainstream products. Figures were published by Chris Anderson showing that in aggregation those products outsell popular ones.

This would allow for the emergence of a more sophisticated economic model for the entertainment industries – one in which the long shelf life products are allowed to take their natural course making small but consistent sales. This suits Internet sales because the operators are no longer constrained by shelf space. In turn this improves consumer choice and addresses the poor supply and demand matching. The theory is that this makes “popularity” in the traditional sense outmoded.

For Chris Anderson, this could be the end of the hit driven economics where “popularity” is often driven by high marketing expenditures and therefore tends to be available only to the major players.

The long tail re-establishes the concept of word of mouth and viral recommendation. This can help lower production costs entertainment – a feature of the European cultural industries. However, the figures used by Chris Anderson have since been questioned and there is a need for better data to understand which tail really is driving the Internet.

**Video games** constitute another sector which is by its nature very dependent on transformations in technology. As for film and music, video games are increasingly dematerialised, and the consumption of video games through the Internet is gaining importance. However the industry has so far managed to keep a strong link with the manufacturing of video-games consoles and the developments of off-line and on-line applications are going hand in hand.

The impact of ICT on the **press sector** has been diversified - newspaper publishers have become amongst the principal players on the Internet scene, whilst the book sector has been relatively left unchanged by the advent of digital, with some exceptions.

**Broadcasting activities** are also undertaking radical transformations to follow technical changes. In particular, the shift towards digital broadcasting and the emergence of IP-TV[7] have spurred the entrance of new players on the market, with traditional broadcasters, cable operators, ISPs and telecom operators on a race to offer the best "triple-play"[8] deal and attract the highest number of consumers to their platforms. The distinction between media and telecommunication companies is less obvious with each player occupying the competitor's territory - the increased channel offer is likely to have a positive impact on the quantity of content (especially audiovisual content) made available to the consumer.

ICT has a lighter impact on **other "traditional" cultural sectors** such as heritage, visual arts and performing arts - even though none of them may escape significant adaptations to the new technological environment.

Another important effect of the widespread use of digital technology on future economic models is the empowerment of the individual in terms of creative instruments. The rigid distinction between creator, producer and consumer is being blurred by mass adoption of ICT-related devices. Artists may by-pass producers and distribute their works

[7] For a definition please refer to the ICT Glossary in Annex
[8] For a definition please refer to the ICT Glossary in Annex

directly through the Internet to dedicated “niche audiences” around the world. The number of low-budget, self-produced works has increased following broadband uptake in most developed countries. On the other hand, the separation between artist and public has been cancelled - everyone can become a creator and share his/her works with small or large groups of people connected to the same virtual network. Blogs are increasingly competing with online versions of newspapers as privileged source of information on the Internet. The importance of user-generated content and online communities is testified by recent market developments - in July 2006 News Corp bought the networking site Myspace.com for $ 580 million and in October 2006 Google acquired YouTube, a start-up having reached 100 million daily video viewings in a few months, for $ 1.65 billion.

As a result of these changes whereas most companies with both offline and online activities still see the vast majority of their revenues and costs lying within their traditional, offline businesses, they are increasingly aware that this will tip in the opposite direction in the middle distance.

The management of this transfer is the challenge. Setting up appropriate European business and economic models that take due account of the specificities of the European market (fragmented into different languages, cultures, and marked by the territoriality of rights) and are based on a balance of the interests at stake, will require finding appropriate responses to numerous challenges including the following issues:

- The **digitisation and storing of content**.

- **Licensing of rights** including:

  - The possibility to negotiate rights for audiovisual/music content with multiple partners and for different uses (downloads, VOD, pay-per-view, subscription, trailers, web-streaming, etc).

  Licensing of rights is becoming key to the film and record industry to generate value from the catalogue, following the model which has long been proper to the music publishing industry. European companies risk being put at competitive disadvantage with large users of rights due to their size and to the novelty of the technological and legal environment.

- The possibility to licence repertoire for international distribution.

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- **Piracy and the protection of copyrighted works.**

The switch to the new models is made more difficult in circumstances where consumers have become used to access products or services for free. According to the music trade publication Billboard (January 2006) there were 350 million legal downloads for the whole year of 2005. On the other hand there are each week 250 million illegal downloads. Piracy remains a clear obstacle to the development of online music and film services. Issues to be addressed in this respect include improving education to the value of copyright and organising “awareness raising campaigns”.

- **DRMs**

DRMs (Digital Rights Management systems) are basic instruments at the service of digital distribution of content. Achieving interoperability of DRM systems is fundamental to the development of digital content markets as it will help increase consumer choice and the willingness of consumers to adopt digital systems. Along with DRMs, levies collected on recording equipments and blank media represent the compensation to rights holders for the private copying exception. Compensation for private copying provides the opportunity to maintain the exception while DRMs provide the opportunity to exploit exclusive rights.

● **Specific audiovisual issues:**

*Release windows* for new productions result from territorial exploitation of rights and the necessity for each participant to recoup its investment in the production. The introduction of an *ad hoc* release window for VOD may be considered.

*Financing*: Access to the digital distribution infrastructure is likely to put pressure on the film producer to find funding for the film as removing the rights from the traditional distributor and replacing pre-sales to TV with business based on digital distribution will eliminate a significant funding of film too. Film producers and national film agencies will need to find and set up alternative financing systems.

Another issue to be addressed is the question of *rating systems* - the growing possibility of accessing VOD services on an international basis will over time create extremely strong pressures for a more homogenous system of content rating than exists at present.

## III. Conclusion: Content is a main driver for ICT development

It is important to underline that adoption of broadband connections is not an end *per se*. It is seen by policy makers as the necessary instrument to allow citizens and consumers to benefit from a vast range of new services - the number of applications and services offered by the Internet is potentially infinite, including major advancements in key public interest areas such as e-government, e-health and e-learning. Indeed, increased business and leisure opportunities are also driving broadband uptake amongst European consumers and on e of the key factors behind the continuing upgrade of Internet connections is the possibility to access, download and store an increasing number of cultural works. Content is one of the major driver of broadband spending, especially amongst younger Internet surfers.

**The relationship between technology and culture may be defined as one of mutual benefit, insofar as the relationship is based on a balance of the interests at stake**. When one of the elements is devalued, as it occurs with Internet piracy, negative feelings such as mistrust and fear arise, and the relationship turns to open battle. It is the task of all the interested parties to develop a *modus vivendi* which is conducive to reciprocal gain. The harmonious development of the ICT and the culture & creative sector is a necessary pre-condition for the EU to work towards a successful Lisbon agenda.

Without a strong music, film, video, TV and game industry in Europe, the ICT sector will be the hostage of content providers established in Asia or North America. Europe should be well advised to encourage the development of its content industry, and it has everything to gain from comprehensively supporting its creative community:

- A competitive edge in the cultural & content sector is an asset in terms of creativity.
- The cultural and creative sector is a sound economic sector in Europe, generating a higher turnover than ICT manufacturers (€ 654 billion against € 541 billion in 2003[9]).
- The cultural & creative sector is less prone to lead to off-shoring than other economic (in particular manufacturing) sectors. The sector, which is in majority constituted of SMEs, is a powerful job creator.

[9] "Restoring European economic and social progress: unleashing the potential of ICT"
A report for the Brussels Round Table (BRT) by Indepen
January 2006, Brussels

# SECTION II. CULTURE AS AN ENGINE FOR THE EMERGENCE OF CREATIVE HUBS AND LOCAL DEVELOPMENT

## I. INTRODUCTION

### 1. Culture and local sustainable development

Cultural activities constitute an essential engine for economic development at local level. This section aims at demonstrating the valuable contribution of culture to local development.

At the same time, cultural activities contribute to "sustainable" development. The concept refers to a vision of society in which success not only depends on continued quantitative material advancement but a society in which "wealth" should be further measured in relation to human values, the state of the environment and social cohesion. Sustainable development is also a primary objective of the Lisbon Strategy.

Culture has three distinct roles in local development:

i) Cultural activities are encouraged at a local level because of their ability to attract tourists. The economic impacts of cultural activities are both direct and indirect. Direct impacts include the revenues and employment generated. The organisation of a festival or an art fair, the running of a museum or an opera, entail expenditure in a local area (administrative and creative staff, technicians, media services, insurance services, etc.) that are directly linked to these activities. Indirect impacts include revenues generated through cultural tourism (such as tourists' spending on hotels, restaurants, transports, etc.). More intangible impacts are the reinforcement of the image of a city and the improvement of its quality of life that trigger further interest from tourists and investors (soft location factor).

ii) Culture goods and services are produced at a local level even when exported and consumed outside their territory of production. Cultural industries constitute a sector which is performing particularly well at a local level. The economic function of culture is even more relevant at this level since the nature of cultural goods' and works of art's production (which is a constantly shifting activity, marked by high volatility) benefits from operating through "cultural clusters" on a limited territory.

iii) Cultural activities at local level also have significant social impacts. This is exemplified in projects of social regeneration aimed at including marginalised or "resource-weak" communities, as well as at ensuring a better cohesion with the least wealthy areas. They contribute to improving communication and dialogue between different ethnic and social communities. Culture is an important tool in urban and regional policies.

A European Commission Communication of November 1996[10] highlights the multiple socio-economic functions of culture in local development. In this document the Commission stresses that "*the increasing importance of culture for regional development has to be seen in the context of the restructuring of the economy as well as a result of changed ways of life. In this perspective the cultural sector should be further exploited to enhance and diversify the local and*

[10] Cohesion Policy and Culture, A contribution to Employment , (COM (96)512)

*regional development potential of both the least favoured regions and those suffering from structural change. As culture is often treated isolated from other factors of development or image, it will be important to address culture as a more integral part of regional and local development strategies towards new employment. (…) Assistance to culture by the structural funds not only enables the preservation and development of cultural assets (i.e. cultural heritage), but also productive investment in cultural industries and products. As a rapidly expanding sector of the private economy, cultural industries and products provide for considerable growth potential for example in the sectors linked to the media".*

## 2. Measuring socio-economic impacts of culture in local development

Unfortunately, the socio-economic impact of culture on local development is not easy to quantify.

The lack of cultural data and indicators at local level is notably highlighted in a Recommendation issued by the Agenda 21 for Culture, an undertaking by cities and local governments for cultural development at global level[11], as well as in the Eurocult21 project, a thematic network including representatives of cities' authorities, academic research, institutions and the two pan-European networks Eurocities and ENCATC, financed by the European Commission's DG Research under its programme "Energy, Environment and Sustainable Development Programme – The City of Tomorrow and Cultural Heritage".

The various issues concerning the methodologies used to assess economic impact of culture have also been highlighted elsewhere, notably detailed in the 2005 OECD report[12] on "Culture and local development", which reviews different options. Another recent OECD publication[13] additionally puts the task of "*continuing research the possibility of extending the proposed measures [of the economy of culture] to the city or regional level*" on the organisation's agenda.

Despite these constraints, this Section attempts to capture the socio-economic impact of culture as much as possible through case studies. Although it was not possible in the context of this assignment to operate systematic economic evaluations and cost-benefit analyses, these examples contribute to illustrate the significant potential of culture for local socio-economic development.

[11] Agenda 21 for culture was adopted by United Cities and Local Governments as a reference document for its programmes on culture. United Cities and Local Governments (UCLG) was founded in May 2004 to act as the united voice and world advocate of democratic local self-government. UCLG forms the largest association of local governments in the world and has a decentralised structure with regional sections in Africa, Asia Pacific, Europe, Euro-Asia, Middle-East-West-Asia, Latin America, and North America. The cities and associated members are located in more that 120 UN Member States. Among the direct members of the United Cities and Local Governments are a thousand of municipalities and 112 national associations.

[12] OECD *Culture and local development*, a publication under de LEED programme, written by Professor Xavier Greffe (Université Paris I Sorbonne), Professor Sylvie Pflieger (Université Paris V René Descartes) in collaboration with Antonella Noya from the OECD LEED Programme

[13] OECD International measurement of the economic and social importance of culture, draft report prepared by John C. Gordon and Helen Beilby-Orrin, Statistics Directorate, Paris August 2006.

## II. CULTURE AS AN ENGINE FOR TOURISM

The link between culture and tourism is the most visible aspect of the contribution of culture to local development. As rightly pointed out in the OECD Report mentioned above, "*cultural tourism can be assimilated to an export potential except that it is not products that are exported but consumers that are brought in*".

Europe is the most-visited destination in the world. In 2005, the continent recorded 443.9 million international arrivals.[14] Flows of tourists to the EU are constantly increasing from other parts of the world. There is particularly strong growth in terms of visitors from Russia, China and India, where economic development has facilitated travel by larger parts of the population.[15]

This is to a great extent due to Europe's cultural wealth:

- Europe has the highest density of cultural heritage worldwide. For example, out of the 812 UNESCO World Cultural Heritage Sites, 300 are located in the European Union. Historic buildings and authentic heritage sites are cited by tourists as crucial to their decision to visit a destination. The considerable efforts to restore and preserve heritage throughout Europe pay off. This represents a key competitive tool to promote Europe's attractiveness as a destination for people from all over the world. In turn, cultural heritage is also a testimony of Europe's political, social history and values.
- Europe is also characterised by its great cultural diversity. This diversity of cultures, combined with the multitude of attractive landscapes and gastronomy, is a strong advantage in the competition with other tourist destinations around the world.
- Europe has well developed tourism infrastructures (e.g. roads, transport, communication, accommodation).

Part II.1. below will focus on providing an overview of the general "tourism sector". Part II.2. will then review the multiple ways culture contributes to tourism. Part II.3. concludes with the conditions for ensuring the added value of cultural tourism to local development.

### II.1. An overview of the economic impact of tourism activities in Europe

There are no precise statistics on tourism exclusively due to cultural activities. However, cultural tourism is a significant activity in the overall tourism sector. The latter has been growing continuously for almost 40 years. Tourism is one of the most important industries in Europe (with a market share of 55% of tourism activities in the world).

- The tourism sector generates 5.5% of the EU's GDP (3 to 8% in the individual EU member states), and up to 11.5% of GDP when integrating indirect impacts[16].

- The tourism sector comprises more than 2 million enterprises, employing more than 9 million people.

[14] United Nations World Tourism Organization (UNWTO)
[15] European Economic and Social Committee, *Tourism and culture: two forces for growth*, 2006
[16] World Travel and Tourism Council

- Not all European countries benefit equally from tourism.

The latest report of World Tourism Organisation presents the following information[17]:

- A vitally growing region is Northern Europe (7% in 2005, boosted by the UK with +10%), where the number of visitors from Eastern Europe particularly increased.
- The "new" destinations of the EU enlargement countries in Central and Eastern Europe have also reported dynamic growth in the number of arrivals (4% in 2005). Here, the Baltic States stood out with growth rates of 20% in Latvia, 15% from January to September in Lithuania and 7% in Estonia. The largest and best established destinations in this region are Hungary and Poland. The increase is, however, relative as tourism is an emerging industry in these countries.
- Results in the mature destinations of Western Europe as well as Southern and Mediterranean Europe were less positive. In 2003, Western Europe declined by 1.4%, whereas the South remained stable[18]. As a result, these destinations developed new strategies to keep a competitive edge. In this context, the development of cultural tourism is an important tool, as the following Spanish case shows.

**Reorientation towards cultural and "quality" tourism in Spain**

Spain is known as a classical package tour destination with plenty of beach holiday resorts. Although, today the destination is being challenged by other popular "sun" destinations including Croatia and Turkey for instance. Spanish authorities are consequently working on emphasising the cultural assets to secure and further develop tourism**.** This has particulary been achieved through architectural developments:

- In the late '90s, the construction of the Bilbao Guggenheim Museum by American architect Frank O. Gehry was part of the success story experienced by the city in revitalising the whole Basque country.

- In 2004, Madrid's top three museums were refurbished as well as extended and two new museums of international importance opened: the Picasso Museum in Málaga and the Es Baluard Contemporary Arts Museum in Palma de Mallorca.

- In February-May 2006, the New-York Museum of Modern Art held an exhibition entitled "*On-Site: New Architecture in Spain*". This exhibition documented the most recent architectural developments in a country that has become known in recent years as an international centre for design innovation and excellence. It featured over thirty-five significant architectural projects. All of these (museums, market halls, rail stations, etc.) represent heavy public investments that are deemed to be able to consolidate and further expand the attraction of Spain as a tourism destination, thereby generating significant secondary impact and revenues.

- Barcelona constitutes a best practice in this regard: the city has become one of the trendiest tourism destinations. However, the city is not resting on its laurels. Here again, major architectural achievements constitute a strategy to keep the world's attention on the city. One of the latest is last year's finalisation of the Agbar Tower by French architect Jean Nouvel.

- The following figures demonstrate the increase in cultural tourism and its economic impact:

The number of international arrivals further grew by 6% in 2005.[19] A total of 7,269.2 thousand foreign tourists came to Spain for cultural motives in 2004 (compared to 5,971.4 thousands in 2003).This amount represented respectively 13.6 % and 11.5% of total foreign tourists. Total spending derived from foreign tourists amounted to € 6,300.1 million in 2004 (€ 4,907.7 million in 2003).

[17] United Nations World Tourism Organization (UNWTO), World Tourism Barometer, Madrid, 2006
[18] United Nations World Tourism Organization (UNWTO), *Tourism Market Trends – Europe 2004,* Edition, Madrid, 2005
[19] United Nations World Tourism Organization (UNWTO), *World Tourism Barometer,* Madrid, 2006

Cultural tourism is often related to large cities, as they usually possess cultural heritage such as historic architecture on the one hand and contemporary art on the other hand. The most visited cities in Europe are Paris, Rome, London, Venice and Florence. Regarding the changes in the city ranking over the past ten years, it can be seen that some new destinations are becoming established cultural cities – most of all Barcelona, followed by Lisbon, Madrid, Budapest and Brussels.[20]

## II.2. The multiple ways culture contributes to tourism

Culture may be the main or secondary reason for a visit. According to the European Economic and Social Committee, these cultural attractions are mainly heritage sites, exhibitions & museums, entertainment shows (musicals in the West End of London for instance) or film tourism[21].

The following paragraphs present the economic impact in terms of cultural tourism generated by:
- Built heritage
- Arts fairs
- Museums & exhibitions
- The Performing arts
- Festivals
- Film tourism

### II.2.1. Heritage

Cultural heritage has an economic role that can be measured according to two essential parameters: its contribution to the tourism sector and to employment.

"*The tourism sector is the 'industry' that uses cultural heritage to the greatest extent as support for its backbone activities like hotel accommodation, transport and catering*" says Dr. T. Nypan in his report *Cultural Heritage Monuments and historic buildings as value generators in a post-industrial economy*[22]. According to Dr Nypan's study, in France, the most important castles and abbeys alone are responsible for 15% of the foreign income from tourism which translates to € 15.1 billion (year 2000).

In some places cultural heritage tourism is one of the main economic contributors. This is particularly the case in cultural towns such as Arles, France, where cultural heritage monuments attract more than 400,000 visitors every year[23].

[20] Greg Richards, *Cultural tourism trends in Europe 1997 – 2004*, Research carried out for ATLAS (Association for Tourism and Leisure Education), Cardiff, 2005
[21] European Economic and Social Committee: *Tourism and Culture: two forces for growth*, op.cit.
[22] T. Nypan, *Cultural Heritage Monuments and historic buildings as value generators in a postindustrial economy. With emphasis on exploring the role of the sector as economic driver*, Norway's Directorate for Cultural Heritage, 2004.
[23] Jean Launay and Henriette Martinez, *L'Action culturelle diffuse, instrument de développement des territoires*, French National Assembly, June 2006, Paris, 149 p.

The economic impact of heritage is even more apparent in regard to the employment this sector generates. Nypan's aforementioned study states that indirect employment effect amounts to 7.8 million men-years; in all, more than 8 million jobs are set to be sustained by the cultural heritage sector.

The following table is exemplary and pictures the situation in France:

| **Employment in heritage sector** | |
|---|---|
| Direct jobs | 43,880 |
| Conservation / Maintenance | 41,714 |
| **Tourism spin-off jobs** | **176,800** |
| Total | 262,394 |

Source: Greffe X. & S.Pflieger (2003) *La valorisation économique du patrimoine*, Paris, La Documentation Française, p.23

## II.2.2. Arts Fairs

Europe enjoys an unrivalled position in relation to its art market, because of the richness of its heritage and creativity, and the multiple actors operating on its territory: from art dealers to galleries, shops, auction houses, as well as a centenary know-how in ancillary services (craftsmanship).

Specialised fairs that have developed in the last two decades are also part of this potential. Europe has some of the world's most outstanding art fairs such as: FIAC in Paris, London Frieze in the UK, the Berlin Art Forum, the Berlin Biennale, the Frankfurt Fair in Germany, the veteran "Venice Biennale International Exhibition" (since 1893), the Arte Fiera Bologna in Italy, Art Brussels in Belgium, Art ARCO in Spain, TEFAF in The Netherlands, etc.

Specialised art fairs represent a key resource as they:

• Play the role of incubators and promoters of new European artists (this is particularly the case of contemporary art and design fairs), thereby nourishing European creativity.
• Help maintain a significant part of the arts' market activities on the European territory. Despite the British origin of the two largest auction houses in the world, Sotheby's and Christie's operate at a global level and organise auctions throughout the globe in the territories offering the best (fiscal) conditions, and in particular in the US. Art fairs help rebalance the situation.
• Generate significant indirect economic effects, as they rely on many different "ancillary activities" (artisan, insurance, new marketing) and in particular, foster cultural tourism, as the following example shows.

**Documenta 11, Kassel (Germany)**

Created in 1955, Documenta is a modern art exhibition that takes place every five years in the city of Kassel, 194,176 inhabitants, over a 100 day period. It is one of the main contemporary art fairs in Europe and in the world. The exhibition gives a wide exposure to Kassel and can be considered as the main cultural symbol of this city that suffered 80% destruction as a result of bombings during 1945. The importance of Documenta was also particularly relevant in the light of Kassel´s application for the title of `European Cultural Capital 2010´.

Documenta is managed by the *Documenta und Museum Fridericianum Veranstaltungs-GmbH*, a non-profit organisation owned and financed by the City of Kassel and the State of Hessen and supported by the Kulturstiftung des Bundes. In 2002 the event enjoyed a € 22 million budget (owned resources: 50%; public support: 35%; private support: 15%).

In 2002:

- The event recorded **650,000 visitors**. The origin of visitors in 2002 showed that 69% were German, 8% came from Kassel whereas 23% were foreigners (mainly from surrounding countries: Dutch, French and Belgians respectively represent 23.5%, 13.5% and 9.2% of the total foreign visitors), contributing to local tourism. Additionally, between 3,000 and 4,000 journalists usually attend the event.
- The **overall direct impact of Documenta** on the city of Kassel and in the region was estimated at **€ 58,185,000** (the exhibition in itself spent € 6,340,000 on employment and services, and visitors spent around € 51,845,000 in the region of Kassel).
- Documenta has directly and indirectly enabled and promoted the **development of facilities and infrastructures** in Kassel. For instance, by 2010, the city will have built a structure dedicated to Documenta, also accommodating such institutions as the planned Documenta Academy, the Documenta Archive and the "7000 oaks" Foundation.
- The exhibition employs eight full-time employees (including during the years in which Documenta does not take place). During the event (100 days every five years), over 600 people are directly employed within the framework of the premise. For instance, between 100 and 200 guides are necessary to show the various art works to visitors.

New collectors, from Asia or Russia, are eager to attend art fairs and to participate in auctions in Europe. Foreign museums, located all around the world are also looking to increase their collections. New arts hubs, as in the case of Hong-Kong or Beijing presented below, also constitute fresh opportunities for European artists, art dealers, galleries, and art fairs.

Competition in the art market is increasingly global, and Europe's top art fairs are working hard to keep Europe on the map of art collectors and dealers. Art fairs represent an opportunity to keep the activities of the art market and to attract all of these different publics into the European territory.

**The burgeoning Asian art market in the press**[24]

- European auction houses are increasingly operating in Asia. Auction houses' turnover is growing in the region. For the first time in 2005, Hong Kong was ranked 4th in relation to the sales made by auction houses in the world after New York, London and Paris. Sotheby's turns over a USD 1 billion a year in Asia. Asians bought 11 per cent of the contemporary works sold at the Sotheby's London auction in March 2006.

- In 2005 Japan had the most most visited exhibitions in the world.

- Until a few years ago the Dashanzi Art District of East Beijing was notable only for its hulking, semi-defunct electronic-components and military-equipment factories. Designed by architects from East Germany in the 1950s, the factories' Bauhaus architecture proved to be the perfect environment for a new art centre. In the past three years Dashanzi has emerged as the centre of Beijing's art scene as well as the organiser of the Dashanzi International Art Festival, an important international event. Today the complex is home to more than 30 galleries; among which New York's Long March Foundation and the Tokyo Gallery of Art. The Guggenheim and Pompidou Centers are also reported to currently be looking to establish a presence at the complex.

- Supporting this renaissance in Chinese art are museums, hundreds of which are being renovated and built across the country. The nationwide goal is to add 1,000 new museums by 2015. In the capital, plans are afoot to start up a privately run Beijing Museum of Contemporary Art.

## II.2.3. Museums and exhibitions

The table below presents the Top 20 exhibitions in the world, according to the highest admissions, in 1998 and 2005. The examination of these tables leads to the following observations:

- The world's top museums are engaged in a race to organise major exhibitions, aimed at attracting an ever increasing public.
- While these exhibitions focus on European artists, most of the major exhibitions no longer take place in Europe. In 1998, of the Top 20 four exhibitions took place in Europe, while 14 exhibitions were dedicated to European artists. In 2005, of the Top 20 seven exhibitions took place in Europe and 11 were dedicated to European artists.
- The "old Europe" has been challenged as a destination to experience art. Clearly, Europe is not making the most out of its artistic heritage and it is losing ground to Asia and the US.

[24] Sources :
- Deborah Brewste, "Asian buyers help fuel Sotheby's art boom", in *Financial Times* 8 March 2006
- *Journal des Arts,* n° 235, 14-27 April 2006
- Pallavi Aiyar, "Modern Art Grabbing Investors", in *The Asian Time*, 16 April 2006, http://www.atimes.com/atimes/China_Business/HD11Cb05.html

**Table 14: Top 20 exhibitions having recorded most admissions in the world, 1998**

| | Admissions | Exhibition | Venue | Town |
|---|---|---|---|---|
| 1 | 480,496 | Les Van Gogh de Van Gogh | National Gallery | Washington |
| 2 | 565,992 | Monet au XXème siècle | Museum of Fine Arts | Boston |
| 3 | 528,267 | La collection d'Edgar Degas | Metropolitan | New York |
| 4 | 410,357 | Gianni Versace | Metropolitan | New York |
| 5 | 400,000 | Millet Van Gogh | Orsay | Paris |
| 6 | 305,883 | Delacroix : les dernières années | Museum of Art | Philadelphie |
| 7 | 300,000 | Alexandre Calder 1898-1976 | Musée d'Art Moderne | San Francisco |
| 8 | 302,204 | René Magritte | Musées Royaux des Beaux Arts | Bruxelles |
| 9 | 299,950 | 5000 ans d'art chinois | Guggenheim | New York |
| 10 | 253,170 | Picasso chefs d'œuvre du MOMA | National Gallery of Canada | Ottawa |
| 11 | 288,709 | Alexander Calder | National Gallery | Washington |
| 12 | 284,064 | Tapis indiens de l'époque moghole | Metropolitan | New York |
| 13 | 276,202 | Bonnard | Tate Gallery | London |
| 14 | 250,810 | La gloire d'Alexandrie | Petit Palais | Paris |
| 15 | 236,702 | Manet Monet et la gare Saint Lazare | National Gallery | Washington |
| 16 | 243,336 | Picasso chefs d'œuvre du MOMA | High Museum of Art | Atlanta |
| 17 | 236,217 | Le Codex Leicester et la postérité de Léonard de Vinci | Art Museum | Seattle |
| 18 | 230,921 | Degas aux courses | National Gallery | Washington |
| 19 | 230,680 | Sculpture in situ | Walker Art Center | Minneapolis |
| 20 | 225,000 | Monet et la Mediterranée | Brooklyn Museum | New York |

Source: *Sénat, Rapport d'Information 330 (98-99) – Commission des Finances, Marché de l'art : les chances de la France, Yann Gaillard*

**Table 15: Top 20 exhibitions having recorded most admissions in the world, 2005**

| | Admissions | Exhibition | Venue | Town |
|---|---|---|---|---|
| 1 | 937,613 | Toutankhamon et l'âge d'or des pharaons | Lacma | Los Angeles |
| 2 | 866,812 | Toutankhamon et la vallée des rois | Ausstellungshalle der Bundesrepublik | Bonn |
| 3 | 699,486 | Pharaon | Institut du Monde Arabe | Paris |
| 4 | 621,814 | Chefs d'oeuvre français du XIXème siècle du Musée du Louvre | Musée d'Art de Yokohama | Yokohama |
| 5 | 607,699 | L'Empire Aztèque | Guggenheim Museum | Bilbao |
| 6 | 518,307 | Van Gogh dans son contexte | Musée National d'Art Moderne | Tokyo |
| 7 | 501,601 | Turner Whistler Monet | Galeries Nationales du Grand Palais | Paris |
| 8 | 463,603 | Chanel | MOMA | New York |
| 9 | 459,972 | Vincent Van Gogh Les dessins | MOMA | New York |
| 10 | 440,564 | Monet la Scène et les Nénuphars | Museo Di Santa Giulia | Brescia |
| 11 | 433,397 | Cézanne et Pissaro 1865-1885 | Museum of Modern Art | New York |
| 12 | 425,404 | Chefs d'oeuvre français du XIXème siècle du Musée du Louvre | Musée Municipal de Kyoto | Kyoto |
| 13 | 386,841 | Friedlander | Museum of Modern Art | New York |
| 14 | 382,269 | Turner Whistler Monet | Tate Britain | London |
| 15 | 370,011 | Salvador Dalí | Philadelphia Museum of Art | Philadelphia |
| 16 | 369,249 | Frida Kahlo | Tate Modern | London |
| 17 | 362,152 | Matisse, le tissue des rêves son art et ses textiles | MOMA | New York |
| 18 | 342,000 | La beauté de la Sainteté | Israel Museum | Jérusalem |
| 19 | 337,475 | Chefs d'Oeuvre de l'Ile aux Musées à Berlin | Musée National de Tokyo | Tokyo |
| 20 | 332,939 | Hokusai | Musée National de Tokyo | Tokyo |

**Source:** *Journal des Arts, numéro 235, 14-27 avril 2006*

Japan in particular has impressive records which constitutes a recent trend since up until recently major art exhibitions were taking place in the US and in Europe.

This Japanese situation can be mainly explained by the partial privatisation of museums which took place in 2001 in Japan. This would have triggered the necessity to make more profits and develop an aggressive marketing policy. Effectively, the tables show that Japanese exhibitions record very high rates for visitors per day in comparison to those exhibitions organised on the European territory. Trends towards an extreme concentration of visitors per day can also be observed in the US, in particular at the Metropolitan Museum of Art in New York.

Museums are more and more run like enterprises which compete against other museums to attract audiences. Museums have to find new resources (sponsors), develop business plans & strategies, and implement communication & marketing plans. In other words, these institutions are increasingly integrated into market mechanisms.

Jean-Michel Tobelem[25] proposes an interesting analysis of the changes undergone by museums in the last 50 years. It is reproduced in the table below, which shows the new "market constraints" according to his analysis.

It seems that a middle way can be found between the museums' traditional "offer policy" (with educational and scientific purposes) and the "demand policy" generated by the market. The challenge for museums is to "strike a balance", to reform their structure and operating methods, without "selling their souls".

### Table 16: The three ages of museums

| | Before 1950: The age of owners | Between 1950 and 1990/2000 The age of managers | Since 1990/2000: The age of "shareholders" |
|---|---|---|---|
| Financing | Local public level/ "mécénat" | Increase in public financing | Development of own resources and private resources |
| Direction | Curator (sometimes a volunteer) | Directors with a specialised education | Director possessing managing skills |
| Responsibility | Before public authorities | Before a cultural responsible or an enlarge board | Before a group of public representatives, partners, sponsors, volunteers and public opinion |
| Organisational characteristics | Importance of amateurs | Professionalisation, specialisation, diversification of personnel | More autonomy, diversification of financing resources, market influence |
| Visitors | Specialised public – limited | Development of attendance, new public less specialised | Segmentation of attendance policies/development of tourism strategies |
| Cultural practices | Development of cultural practices | Massification of cultural practices | Individualisation of cultural practices |
| Public financing of culture | Low | The rise of Culture Ministry and local authorities | Decentralisation |
| Economic environment | Limited economic State intervention | Welfare State, modernisation | Liberal doctrine, digital economy, importance of networks |

In this context, the success-story of the Bilbao museum illustrates a winning strategy. It is presented in a case study below. The Bilbao case is also exemplary of the direct economic impacts of cultural activities on local development which is in this case not only the city of Bilbao but the entire Basque region. It is the story of a museum that transforms a derelict industrial city into a world famous hub for high earning tourists.

[25] Jean-Marie Tobelem, *Le nouvel âge des musées*, Paris, Armand Colin 2005

The museum's contribution to the economy can be summarised as follows:

- *Revenues generated*

  - Having opened in 1997, by 2005 the museum covered 18 times the investment made for the construction of the building.

  - Direct revenues (tickets sold, revenues from the museum's shops, restaurants, and cafeteria, revenues from sponsorship and direct revenues derived from the organisation of special events) amounted to € 26 million in 2005.

  - Indirect revenues deriving from restaurants, bars & coffee shops in the town, shops, hotels and other accommodation, as well as leisure represented € 139 million in 2005.

- *Employment generated*

  The museum contributed to the maintenance of 4,893 employees in 2005 and the creation of 4,361 employments since its opening.

- *An end to the city's isolation*

  Bilbao was able to become one of the "European tourism cities", engaged in the race for attracting tourists. The city saw transport connections with the rest of the world improved, with the creation of new routes and the revamping of the airport attracting new businesses.

- *Impact on citizens and local social life*

  The museum has also fostered pride and self-esteem for local citizens. It is a vehicle for innovative education programs.

## Case Study
## THE GUGGENHEIM MUSEUM IN BILBAO

The Guggenheim Museum is an example of how culture can contribute to local development and help rehabilitate a damaged region.

The Museum's amazing design by North American architect Frank O. Gehry was built on a 32500 square meter site in the centre of Bilbao.

It was conceived as the core element of a strategic plan to revitalise the area. Adopted in 1989, the plan was aimed at redeveloping the city of Bilbao, which was then undergoing a drastic economic crisis. The plan involved a number of major projects conceived by some of the world's most prestigious architects, including the amplification of the city's port, the revamping of the city's airport, a new conference and performing arts centre, the construction of a metropolitan railway, a new footbridge crossing the river Uribitarte and the construction of the Guggenheim Museum.

Since it opened its doors in 1997, the Guggenheim Museum has kept its promises: it has helped to convert Bilbao into a top cultural destination as well as to boost local activity. Cultural tourism has increased significantly (over 8 million visitors recorded, out of which more than 60% are foreigners[26]). The total amount generated indirectly to feed the tourism sector represented over € 139 million in 2005.

### A successful "self-financing" strategy [27]

The Basque authorities provided the financing that enabled the Museum to be built and to operate (€ 132 million - € 84 million for the construction, € 36 million for buying previous collections and € 12 million for the loan of collections for the opening from the Guggenheim Foundation).

On this basis the museum has been able to generate € 1.3 billion in profits - covering 18 times the investment made for the construction of the building[28], thanks to the development of a successful self-financing strategy.

In 2005 for instance:

- Public entities (the Basque Government and the Bizkaya County Council) accounted for 22% of the museum's revenues.
- The museum covered up to 78% of its revenues, being one of the leaders among European cultural institutions that is able to self finance itself. These revenues derive from:
  - Earned income (tickets sold, revenues generated by guided visits, shopping in the museum library & gift shops and revenues from the Museum's restaurant & cafeteria);
  - Sponsorship and customer programs

### Socio-economic impact

Impacts are direct & indirect, economic & social.

- ***Direct and indirect economic impacts[29]:***

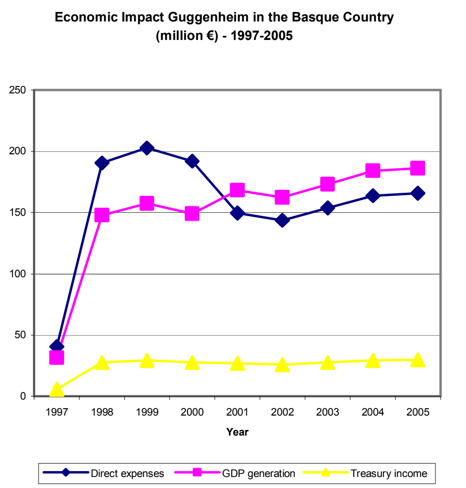
The following graph presents the impact the Guggenheim Museum has had on the Basque Country since its inauguration in October 1997 and up to December 2005.

[26] Anuario Bilbao 2004.
[27] Sources for figures presented: Balance 2005 Guggenheim Bilbao and http://www.guggenheim-bilbao.es/caste/historia/historia.htm
[28] *Diario Expansión*, 11 January 2006
[29] City Hall of Bilbao, *Impacto de las actividades económicas del Museo Guggenheim Bilbao en la economía del País Vasco en el año 2005*

It clearly shows that the GDP generated by the Basque Country (representing approximately 3.7% of the national GDP), and that employment and revenues generated to the benefit of the Treasury, have progressively increased since the inauguration of the museum[30].

| | GDP Basque country (1) | GDP Guggenheim Museum | Ration GDP GuggenheimMuseum/ GDP Basque Country |
|---|---|---|---|
| 1997 | 32,978,017,000 | 31,517,075 | 0.10% |
| 2004 | 53,336,123,000 | 184,046,738 | 0.34% |

(1) Source: Eustat Cuentas Económicas, 11.11.2005




In 2005 the total revenues generated by the Museum (direct and indirect) were more than € 165 million[31], with the following breakdown:

**Direct revenues: € 26 million:**

| Revenue | € million |
|---|---|
| Tickets, guided visits, shopping in the Museum library & gift shop and revenues generated through the Museum's restaurant & cafeteria | 9 |
| Sponsorship (corporate and individual), subventions and other sources of revenues | 16 |
| Direct revenues derived from the organisation of special events in the museum | 1 |

**Indirect revenues: € 139 million:**

| Revenue | € million |
|---|---|
| Restaurants, bars and coffee shops | 45 |
| Shopping | 18 |
| Hotels, pensions and other accommodation | 56 |
| Transports | 12 |
| Leisure (cinema, theatre, museums, etc) | 8 |

These revenues are generated by visitors. In 2005 the total number of visitors recorded was 965,082 (including 578,549 foreign visitors).

In addition, the museum has contributed to the maintenance of 4,893 employees in 2005 and the creation of 4,361 employments since its opening.
The average unemployment rate in the City of Bilbao went from 14.5% in 1995 to 9.5% in 2005.

■ ***Effect on the local cultural sector***

The 'Guggenheim effect'[32] describes the impact for cultural industry and activities in the Basque country, namely:

- Greater local interest in the arts
- Spill-over effect on other local museums – museums in the Basque Country and in particular the Museum of Arts in Bilbao got restructured and modernised to avoid remaining in the Guggenheim's shadow[33]
- Spill-over effect on local cultural professionals. Many art galleries opened as a consequence of the activity generated by the Guggenheim Museum

Over the period 1991-2004, the public association of the Bilbao City Hall (Lan Ekintza-Bilbao) contributed, in addition to the creation of 20 hotels, to the creation of a variety of cultural outlets: 37 enterprises with cultural, sports or entertainment purpose and 20 enterprises dedicated to graphic design & arts[34].

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[30] Balance 2005 Guggenheim Bilbao.
[31] City hall of Bilbao, *Impacto de las actividades del Museo Guggenheim Bilbao en la economía del País Vasco en el año 2005.*
[32] Asun Balzola, *The Guggenheim effect*, SM Ediciones, Madrid, 2003, p. 119.
[33] TOBELEM, Jean-Michel, *Le nouvel âge des musées*, Paris, 2005.
[34] *Estudio sobre la situación de las empresas constituídas con el apoyo de Lan Ekintza*, Bilbao, June 2005.

## II.2.4. Festivals and trade fairs

Although festivals are not necessarily focused on cultural activities, "cultural festivals" represent the bulk of all the festivals that are taking place across Europe. Music festivals seem to be the most developed. An Irish Study reports that amongst the 95 Irish festivals surveyed, 25% were music festivals, 2% were dance festivals, 14% street & carnival events, 7% literature, 4% drama & theatre, 3% visual arts, 3% Irish language & culture and 3% dedicated to other arts[35].

Yet there is no precise definition of festivals, no available statistics on the number of festivals in Europe and no comprehensive impact study on the total economic returns generated by festivals in Europe.

Festivals vary significantly in their format, the number of visitors recorded and revenues generated. The Edinburgh Festival records around £ 120 million revenues and one million tickets sold each year. For the sake of comparison, the Olympic Games in Athens sold three million tickets[36]. The *Festival des Vieilles Charrues* in French Britany, which has now become a very popular music festival in France, however, recorded a € 5 million turnover in 2002[37]. The organisation of the festival was key in local development. The village's population (8024 inhabitants in 2005) increased by one third since the beginning of the festival 14 years ago and an important part of the expenses linked to the event are realised in the city and its surroundings (36% in the city, 50% in the region, 14% outside the region). According to the festival's organisers[38], it is more than a festival: *Les Vieilles Charrues* is a "life project" – the desire of facing the place's destiny, getting things to move and opposing the isolation & desertion that was threatening the entire region.

Some festivals are rooted in ancestral traditions – for example, an element of Italian town culture, with origins in the middle-age, is the parade and carnivals; a typical element of German culture is *Volksfest* (the country records 14,000 such events, the most famous being the *Oktoberfest* in Munich[39]), whereas most of festivals were created in the last 20 years.

Many festivals were not created in the first place to fulfil economic growth, but to celebrate and reinforce community identity (for the most ancient carnivals and festivities) or to enhance the possibilities for artists to set up bold creations and allow these productions to travel and meet the public (for the festivals created in the XXth century – as in Venice Biennale and the Avignon theatre festival for instance). The main impacts expected from the organisation of festivals have for decades been confined to:

- Fostering artistic expression
  Festivals help artists complete original projects less suitable in the context of permanent institutions. They also give exposure to new productions which would not otherwise be presented to the public because of the limited number of available venues. Festivals act as a genuine parallel independent distribution channel.

[35] *Economic impact of professional performing arts in Ireland*, a study undertaken on behalf of Theatre Forum by Fitzpatrick Associates, September 2004.
[36] *Festival-world, State of affairs and suggestions on how to improve subzidisation*, Peter Inkei, Zsuzsa Hunyadi, Zoltán János Szabó, The Budapest Observatory, April 2005.
[37] *Festival des Vieilles Charrues, les impacts du festival*, a report completed by Ouest Consulting, for the Association les Vieilles Charrues, 2003
[38] http://www.vieillescharrues.asso.fr/festival/index.php.
[39] *Festival-world, State of affairs and suggestions on how to improve subzidisation*, op.cit.

Festivals help support local cultural activity and artists. The key example here is the Avignon theatre festival where the "fringe festival" ("festival-off"), featuring local and lesser known companies, bring in as much an audience as the "real" festival.

- Acting as cultural ambassador

  Festivals help strengthen the position of a country, region, or city, acting as a cultural ambassador. Hence, it is mainly for political reasons that the film festivals in Berlin or Moscow were established.

- Contributing to public interest's objectives:

  Festivals play a role in the "enlightenment" of local citizens. They help trigger interest in culture, enlarge audiences and reach new segments of the population in particular the youth. A study carried out on the Midlands region's festivals[40] concluded that more than 44% of the persons interviewed said there was more interest in arts thanks to the attendance of festivals**.** Festivals are an important tool to foster the democratisation of culture. According to a Hungarian survey of the State of Affairs in Cultural Life, approximately 4.5 million inhabitants between the ages of 14-70 (in this 10 million inhabitant country) visited some kind of festival in 2004[41]. In other words, festivals attract half of the population of the country.

  As festivals developed and as societies evolved towards more leisure time and mobility, another impact derived from the organisation of festivals became more apparent and increasingly important:

- Economic benefits

  Economic factors have been a driver for the formidable multiplication of festivals in myriads of cities across Europe, large and small, as discussed in the case study set out below.

  In this regard, it is interesting that a new EU Member State like Hungary promotes festivals to boost its economy. The country set the objective of developing over one thousand festivals. The Budapest Observatory has estimated that 20% of Hungary's arts & culture project funding now goes towards festivals.

[40] *Festivals and the creative regions, the economic and social benefits of cultural festivals in the East Midlands*, key findings from a Study by De Montfort University, Leicester, completed for the Arts Council of England.

[41] *Festival-world, State of affairs and suggestions on how to improve subzidisation*, op.cit.
Assistance to arts and festivals, working paper prepared by Peter Inkei, Budapest Cultural Observatory, for the International Federation of Arts Councils and Culture Agencies, October 2005.

## Case Study
## THE SOCIO ECONOMIC IMPACT OF FESTIVALS – SELECTED EXAMPLES

Today, much attention is paid to the socio-economic benefits of festivals, in particular as a powerful vector of tourism.

The economic impact of festivals is acknowledged internationally. In a working paper prepared for IFACCA (the International Federation of Arts Councils and Culture Agencies) in 2005 by Peter Inkei (Budapest Observatory), an annex of no less than 20 pages lists the different reports on festivals that had been carried out in the previous year around the world, although mostly in Anglo-Saxon countries (in particular the UK, Australia and New Zealand).

Festivals nurture the local economy by attracting tourists and creating wealth and jobs.

**Sziget Festival (music), Hungary**

In 2004, the Sziget music festival attracted 385,000 visitors. 20,000 to 25,000 were international visitors, mainly coming from Austria, France, Germany and Italy. In 2005, the number of international visitors doubled.

2005 research showed that 84% of the visitors intended to return to Budapest and to the Sziget Festival. 72% of the Festival visitors also visited Budapest and 15% additionally visited Lake Balaton. 25% stated that they are interested in other parts of Hungary. [42]

✎ The benefits derived from the organisation of the Sziget festival include the direct and indirect economic impact on the region as well as the spill over effects of tourism in the region and the rest of the country.

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[42] Budapest Hotel Reservation Article, http://www.budapesthotelreservation.hu/articles/sziget_festival_2005:_large_interest_from_abroad_.DE.php and http://www.budapesthotelreservation.hu/articles/sziget_fesztival.DE.php, 2006.

**Avignon Festival (theatre) France**

The Provence-Alpes-Côte-d'Azur (PACA) region hosts the famous Avignon and Aix-en-Provence theatre and music festivals. The region employs some 30,000 people in the cultural sector.

The Avignon Theatre Festival was launched in the mid XXth century with the central objective of encouraging creativity and exchanges.

The economic impact of the festival was highlighted during the 2003 crisis where a strike by freelance performing artists and technicians ("*intermittents du spectacle*") lead to the cancellation of the festival.

The following description of the festival's economic impact is taken from the OECD Report on "culture and local development":

*"A number of studies have evaluated the economic impact of this festival at different periods. They all concluded that there was a positive local economic impact, but the dimensions of that impact vary sharply from one study to another, because they use different methodologies and tool as well as areas of study of different breadth.*

*A 1986 study (Pflieger, 1986) identified several categories of spin-offs:*

*- Direct spin-offs in this case production spending generated by the festival itself was evaluated at € 2.12 million, 66% which flowed directly to the Avignon area and 10% to the PACA region. Of these, € 2.12 million, € 0.6 million went to wages and € 1.05 million to purchases from local firms. Finally the "off" festival was included - here was a further flow of revenues to the local performance hall rental market, estimated at € 0.53 million.*

*- Indirect spin-offs representing tourist spending (accommodation, restaurants, etc). The calculation methods used were able to dissociate festival-specific spending from what tourists spent on visits to the nearby city of Avignon with its architectural heritage. The spending amounted to € 1.66 million.*
*- Induced spin-offs could not be accurately measured: they consist of the drawing power of the city Avignon at the national and international level thanks to the indirect publicity carried out by various media presentations of Avignon during the festivals such as news reports, television coverage, newspaper & magazine articles, etc.*

*The 1986 Study also assessed the number of jobs created: 458 seasonal jobs were created directly by the festival and perhaps 100 permanent jobs were created or maintained in service providing businesses.*

*The Avignon Festival Management Association conducted a second study in 1995.*
*- The study focused on spin-offs in terms of employment: the festival induced more than 1000 jobs in July, 100 of which were in the hotel and restaurant business, 400 in the services-to business sector, 116 in the associative sector, 295 in recreational & cultural activities, 13 in personal services, 5 in printing & publishing, 21 in posts & telecommunications and 51 in health & social services.*
*- Tourist spending on accommodation, restaurants and miscellaneous services amounted to more than € 7.27 million. The direct spin-offs from mounting and running the festival off were estimated at nearly € 8.63 million, of which € 5.3 million remained in the city. An assessment of induced effects confirms the results of the 1986 study: these include a major media impact, the role of the convention centre, which gives the city an international cultural and economic profile, creation in 1987 of the performing arts institute which bring around 30 young people into the labour market each year.*

➷ The benefits for the region are manifold. In addition to the important economic impacts, the Avignon festival has triggered a particular dynamic. Many other cultural festivals were set up in the region along the years. The PACA region today concentrates one third of all French festivals. In addition, the region specialises in arts education. Many specialised training structures exist in the field of music, dance, theatre, and street arts, as reported in a report on the "State of play of performing arts in PACA"[43]

**The city of festivals and trade fairs: Cannes (France)[44]**

In its 2005 report on "Tourism in Cannes", the city of Cannes gives information on the economic impact of its festivals and trade fairs linked to cultural industries.
Cannes is the second city for the festivals in France after Paris. The major culture-related festivals and congresses hosted by the "Palais des Festivals et des Congrès" are:
- Film Festival: 120,000 people
- MIDEM (the world's music market): 9,000 people
- MipTV (television and film trade market): 12,000 people
- IAFF (media award for editorial): 8,000 people
- Mipcom (the largest international audiovisual content trade show): 11,700 people

Other festivals and congresses are organised on an annual basis in the city.

**The total economic impact is assessed at € 814, 174,786**

- **Direct impact**: € 39,515,716 - amount of the financial streams spent in the local economy by the activities generated by the "Palais des Festivals et Congrès".
- **Indirect impact**: € 282,292,500 – spending by the participants for local services (hotels, etc)
- **Induced impact**: € 492,366,570 - multiplier effect of the direct and indirect flows of money ("effet boule de neige")- the coefficient is 1.53

[43] *Etat des lieux du spectiacle en Provence Alpes Côte d'Azur, Indicateurs généraux et éléments d'études*, Arcade, 2005.
[44] *Tourisme à Cannes 2005*, Sirius-CCI.

**<u>The social impact includes the creation of 16,217 jobs:</u>**

- **Direct impact**: 318 jobs - jobs created within the *Palais des Festivals et des Congrès*.
- **Indirect impact**: 5,469 jobs - external jobs created thanks to the festivals (hotels, restaurants, etc.)
- **Induced impact**: 10,430 jobs - part of the money injected in the economy, transformed into salaries, thus into jobs.

➯ Cannes has been able to exploit the image of glamour and dreams that has been created around city as a result of its world leading International Film Festival. It now attracts a very important number of tourists and business tourists. The whole economy of its surroundings is dependent on the economic "specialisation" that the city has achieved.

## II.2.5. The Performing arts

The performing arts are often cited as having important economic spin-offs, in particular through the expected benefits of the democratisation of cultural practices and local employment potential.

An illustrative study was carried out in relation to UK Theatres[45]. Some 531 theatres are considered to make up the building blocks of UK theatre. Data was collected from 308 (259 from outside London, 49 West End theatres), including commercially-run theatres, venues run by local authorities and subsidised theatres.

The impact assessment related to the *spending by theatre audiences* (in particular food bought outside the theatres, transport costs to get there and back, childcare cost, etc.), e*xpenditure on staff* (actors, directors, and other creative team members), goods and services as well as *subsistence allowance for freelance staff* (to enable them to stay in the area while a project is under way, generating important income for local landlords and hotelier).

The assessment excluded the direct revenues *generated by theatres* (including ticket sales, sponsorship, grants donations, programme & refreshment sales, merchandise and catering sales) and the *income generated by working overseas* (the fees received by sending productions abroad, or any sponsorship or grants relevant to that work) for lack of available data.

On this basis, the study found that theatres have an economic impact of £ 2.6 billion per year. The average spending of attendees is assessed at £ 7.7 outside London and £ 53.77 in the London West End. In relation to employment, a sample of 259 theatres showed that 6,274 people were employed on a full-time basis and 5,700 on part-time contracts. Interestingly, the study sheds light on the importance of volunteering; there are at least 16,000 volunteers working in UK theatres.

## II.2.6. Film tourism

Less conventional is film and music tourism. Cultural industries participate in the development of cultural tourism too. People's choices of places to visit are often influenced by the films they've seen or music that they've listened to.

More and more people, especially the young, are interested in visiting sets and places which have played host to successful TV and film productions.

Similarly, in relation to music, Beatles' fans would not want to miss a visit to Liverpool, a city which is trying to make the most of its most famous sons to develop a new image and dust off its industrial past. The same is true in the USA for cities like New Orleans (Jazz) or Nashville (country music). Salzburg, Vienna, Bayreuth owe much to Mozart, Beethoven and Richard Wagner.

[45] *Economic impact Study of UK theatre*, Arts Council Of England, April 2004.

**Cinema and tourism**

• People are encouraged to visit countries they have seen depicted in a film

- In the UK, a Report by Oxford Economic Forecasting "*The economic contribution of the UK film industry*"[46] refers to surveys suggesting that one in five visitors to the UK come as a result of seeing the country depicted in film and television.
- In France, the ADEF (French association of film exporters) commissioned a study about the impact of the French film industry abroad.

  70% of interviewees said that they watched French films in their home country, half of them at least twice a year (54%). This effect is stronger in non-European countries (90%) than it is in European countries (73%). The most important mediums used are video or DVD (81%), television (77%) and finally cinema (76%).

  Almost 90% of the tourists buy French products in their home countries – mainly perfumes, alcoholic drinks and beauty items. 60% of film goers (and 44% of all interviewed tourists) stated that French films might have influenced the consumption of French products.

• People are interested in visiting specific locations in which a film, or an individual scene of a film, was shot:

- Alnwick Castle used as the location for Hogwarts School of Magic in the Harry Potter films saw visitor numbers more than double between 2001 and 2002 after the release of the first series of films in November 2001 from 61,000 in 2001 to 139,000 in 2002. Almost overnight revenues from tourism increased to almost € 13 million per year.

- The Glenfinnan Monument near Fort William is located close to the Glenfinnan viaduct which features in the most stunning scene of the Harry Potter's *Chamber of Secrets* film. Although the monument is a memorial to the doomed Jacobite uprising of 1745 led by Prince Charles Edward Stuart, the visitor centre saw a sharp increase in visitors following the film's release in 2002. In 2001 some 18,000 tourists visited the site and by 2003 this had jumped to 22,125.

- The Queen Elizabeth suite at the Crowne Hotel, Amersham, found itself booked up a year in advance after being used for a key scene in "Four Weddings and a Funeral". The 15th century Rosslyn Chapel on the outskirts of Edinburgh, where many film scenes have been screened, is an attractive site and can easily be combined with other cultural attractions in Edinburgh.

• Elements for a better exploitation of these trends

*VisitBritain* and *VisitScotland*, the British and Scottish Travel Bureau, have developed "Holiday Ideas" for the locations of Dan Brown´s bestselling book in London, Scotland, Lincolnshire and Winchester.

*VisitBritian*, supported by Warner Brothers, produced a map to take advantage of the release of the Harry Potter film, highlighting both locations used in the film and other sites around the UK linked to the themes of the film. Other recent maps were created, including a general map highlighting locations in London used in a variety of films including *Harry Potte*r, *James Bond* films, *Notting Hill* and *Bridget Jones' Diary* for example.

Ryanair, one of Europe's leading budget airlines, offers special flight packages from several European airports to visit film sites.

[46] Oxford Economic Forecasting, *The economic contribution of the UK film industry*, supported by the UK Film Council and Pinewood Shepperton plc, September 2005.

## II.3. Conclusion: Assessing the added-value of cultural tourism

From the examples presented, it is evident that culture contributes to the development of local tourism and generates significant economic activities, in particular in the tourism sector.

However, the contribution of cultural activities in the form of cultural tourism depends on the type of activity and on the features of the local economy. Culture does not automatically bring economic benefits to a territory.

In the above-mentioned OECD report on culture and local development, the author Prof. Xavier Greffe highlights that social-economic impacts expected from developing cultural tourism are not self-fulfilling and that a certain number of criteria are important:

- The permanence of cultural activities;
- The degree of participation by local people in addition to tourists,
- The territory's capacity to produce all the goods and services demanded on this occasion - in other words the local context is paramount;
- Interdependence of these activities to foster "clustering" effects.

It can be added that the ability to promote and market organised activities is also an important element of success. The Irish Study on festivals points to management, business and financial skills, in particular to raise funds and promote the event, as being most important.

## III. CREATIVE CITIES

In the middle age, cities were competing to attract the best architects of cathedrals and the most skilled craftsmen. With the Renaissance, wealthy cities attracted the best painters, sculptors or garden designers to celebrate their status. Today cities are making sure they attract "creators" with the goal of boosting the local economy and participating in the success of the new economy. Modern cities are now competing to attract creative talents in a race to avoid marginalisation.

Cities are ideal places to encourage creativity. Indeed the production process of the cultural and creative industries is submitted to constant adaptation and innovation requirements, and the subsequent need to exchange information, to build on intangible assets as well as to attract talents to renew the production process.

These constraints also derive from the mere nature of cultural products. These are submitted to varying consumer tastes and demand and as "experience goods". They entail a high level of uncertainty in terms of consumer acceptance.

In order to tackle these constraints, the best organisational structure is "cultural & creative clusters", i.e. a set of small, reactive and adaptable industries. Therefore cities are the best location for creative clusters as they can accommodate the needs of cultural industries in terms of flexibility and networking.

Another interesting example illustrating the concept of creative cities relates to projects aimed at fostering interactions and synergies at local levels with the support of more traditional art fields, in particular the performing arts, visual arts and heritage. This is the objective of the "European Capitals of Culture" organisation.

### III.1. The territorial dimension of creativity

The following introductory paragraphs are, to a large extent, extracted from the OECD report and Prof' Xavier Greffe's analysis of the reasons why the link between culture and creativity is particularly relevant at a local level.

According to him, an analysis of cultural production sites shows a great deal of formal and informal trading of tangible elements (material, equipment) and intangible elements (knowledge, know-how). This can be explained by the characteristics of the output of cultural goods, which is constantly renewing itself, and subjected to high uncertainty, thereby forcing businesses to change the component elements of their production function. This is easier to achieve within a limited and densely populated territory.

The nature of cultural activity implies:

- Constantly shifting production
  This constant renewal of goods and services offered is one of the constraints that cultural products face. Cultural production involves experiments and prototypes. As soon as it is offered, a cultural production tends to give way to another cultural product.

- Increased uncertainty
  When a firm needs new goods and services for its own activity it has the choice of producing them (e.g. operating through "clusters" on the territory where it is established) or purchasing them on the market (operating through a

network of partners that are not established on the same territory). When uncertainty over the product is high, the cluster operating method is better, it will enable one to redefine the product in a prompter way.

Geographical concentration or clustering is a good way to alleviate or reduce the risks linked to the nature of a cultural good (constantly shifting production and uncertainty)

For many cultural industries doomed to ever shorter life cycles, it is a good idea to constantly produce new goods and to arrange conditions that allow for constant adaptation to the market. Entrepreneurs are well advised to set up shops close to each other and to share information on new markets as well as potential new factors of production. The cluster can be seen as a model of spatial organisation for coping with the constraints of a global economy in which new products promptly drive old ones out.

The OECD report gives the example of researchers Markell and Lorenzen who for instance showed that in the pop music industry, where there is great uncertainty about tastes and demand, there has been a heavy territorial concentration of composition, recording and publishing activity whereas in the furniture industry where demand trends are less volatile, networking has won over clustering.

These clusters appear at places where the levers of "exogenous growth" and "endogenous growth" come into play.

- "Exogenous growth" occurs to the extent that the district can meet outside demand for its cultural goods even when that demand is satisfied on-site, for example, through visitors' attendance at museums or festivals.
- "Endogenous growth" occurs to the extent that the proximity of the different stakeholders allows for the conception and production of new products that are in demand once they put on the market.

As a result, several enabling factors can be identified to ensure that culture and creative activities contribute to local development. In his latest research Professor Richard Florida developed the concept of a "creative class"[47] . According to Prof. Florida, creative people will seek out a district or a city that offers them cultural amenities, high-tech services, good living & recreational conditions as well as an atmosphere of freedom and respect for individualism. The city in turn will benefit from the presence of this "creative class".

As a consequence, a city wishing to attract this creative class must provide it with an environment conducive to creation and invention. Hence a true race amongst large cities to be the most "inventive" in attracting this class of new and highly-skilled "bohemians".

In general this entails the offering of:

- Cultural amenities (a good and diverse cultural offer, in different and diverse cultural venues)
- High-tech facilities (high-tech "poles" including research, academic and business)
- International openness (favouring international students as well as the establishment of foreign companies)

## III.2. Examples of cultural and creativity clusters

Two examples of cultural & creative clusters are examined: cities fostering creative hubs on the one hand and the European capitals of Culture on the other.

### III.2.1. Fostering creative hubs

The examples of London, Berlin, Québec and New York are presented to illustrate this point. It is important to highlight the common features of these initiatives:

[47] FLORIDA (Richard) *The Rise of the Creative Class*, 2002; *The Flight of the Creative Class*, 2005

- A strong political will

  In London, cultural industries record remarkable results, representing the second largest business sector and third largest employment sector. A comprehensive “policy architecture” was set up to support their development, including partnership between distinct administration departments as well as with agencies, institutions and the private sector.

  Similar political determination is found in Québec, as well as Montreal, in relation to the setting up of a comprehensive policy to attract video-game companies. This strategy includes, for instance, the introduction of targeted fiscal incentives as well as specific agreements reached with foreign companies. This is done in order to make the most out of their establishment in the Canadian province, in terms of job creation and investment in training & education.

  In New York, recent projects aim at better exploiting the city’s creative capital. They include proposals for the establishment of a centralised coordinating body following the London example.

  In Berlin the policy priority is to promoting small-scale creative businesses.

- The wish to develop synergies amongst the creative sectors and other industries

  Once cultural and creative industries are established locally, they tend to trigger further dynamic developments in other creative areas (spill-over):

  - The development of cultural & creative industries triggers the setting up of relevant education curricula and the subsequent development of an “education business” in the city (a city welcoming a dense network of cultural industries will be encouraged to open new curricula).
  - Cultural industries are increasingly linked to technological developments. Therefore, their presence contributes to the development of positive interactions with “technology poles”.

## Case Study:
## CREATIVE CITIES

### London: "Creative industries", the second largest business sector, are a top policy priority

London was one of the first cities that understood "creative industries"[48] could potentially create wealth and jobs[49]. Since 1994, programmes provide funding in order to support projects targeting cultural & creative industries.

Three Objective 2 programmes - EU programmes to support economic development - have provided over £ 60 million in funding from European Regional Development Fund and the European Social Fund finances during the period of 1994 to 2006. Although there has not yet been any research on the effectiveness of these programmes, the first Mapping Document by the UK government Department of Culture Media and Sport (DCMS) in 1998 showed that since 1995, creative industries have been growing faster than any other sector in London.

This result was confirmed by Greater London Authority's (GLA) 2002 *Creativity: London's Core Business* report, updated in 2004 in *London's Creative Sector* report. According to these reports, the **creative industries grew at an average of 6% per annum between 1997 and 2002 (compared to 3% for the whole economy)** in the UK. **London represents 40% of the UK's creative capital**.

This growth has attracted international investors such as Ford and Nissan which decided to locate major automotive design centres (design is one of the 13 creative industries defined by the DCMS) in Soho. Creative industries have become **the second largest business sector in London (after business services) with £ 21 billion annual turnover**. These industries represent London's **third largest sector of employment** with 650,000 people working either directly in the creative industries or in creative occupations.

- ***The Commission on the Creative Industries - "Creative London"***

These promising results led to the setting up in December 2002 of a commission to undertake a major assessment of the creative industries in London.

The most important result of the commission's work was the establishment of Creative London in 2004 with the aim of enhancing London's reputation as a leading international centre of creativity and to encourage further creative businesses to locate in London. Through the London Development Agency (LDA), and private, public and EU partners, Creative London started supporting a number of initiatives, including the development of 10 "Creative Hubs" across London.

Hubs are creative networks within a geographical area. Their purpose is to develop a vision and strategy for growth for the creative sector within the local area, and then to support the local sector in achieving it. More precisely, hubs concentrate on four key issues that are:

- *Talent:* Creative hubs support emerging talent, leading to employment and enterprise opportunities.
- *Enterprise*: Creative hubs offer business support, investment readiness and access to finance.
- *Property:* Creative hubs provide access to appropriate and affordable workspace across the creative business lifecycle.
- *Showcasing*: Creative hubs promote London's creative talent and businesses on local, national & international levels and support export activities[50].

North London is one of these 10 Hubs. Four Greens –the cross-sector network of agencies and organisations supporting the arts and creative industries in North

[48] As presented in Chapter II, the British Department for Culture, Media and Sport (DCMS) defines creative industries as those industries which have their origin in individual creativity. This includes advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer games, television and radio.

[49] DCMS 2001, Creative Industries Mapping Document.

[50] Creative London's website- www.creativelondon.org.uk

London- has estimated that the amount of public and EU funding supporting current creative industry projects in North London was at least £ 25 million. According to Peter Sinclair, Chair of Four Greens, even if it is too early to evaluate the impact of these new measures, it is clear that they have changed this area and contributed to improve its economic renewal.

### Berlin: The strength of cultural & creative SMEs

The first empiric reports and strategy recommendations regarding the promotion of the cultural economy were in particular completed in the UK, North Rhine-Westphalia and Vienna. Berlin has used their results to establish institutions to support and help cultural & creative industries – these are now acknowledged as one of the most important soft location factors.

In the latest *Kulturwirtschaftsbericht of Berlin*[51] , published in late 2005 (and co-financed by European Regional Fund) the following results are presented:

- ***Number of creative businesses, structures and revenues of the sector***

The number of businesses has risen by 660 in the period 1998 to 2002. Today, some 18 570 enterprises are active in the creative sector:

- 4,681 businesses in arts (25 % of total number),
- 3,966 businesses in books & publishing (21 %),
- 2,886 in architecture/cultural heritage (16 %),
- 1,700 in film & TV (15 %)
- 1,100 in music (12 %).

The creative sector in Berlin is characterised by an **above-average number of small enterprises:**

- Over 50 % are single person enterprises;
- The culture sector in Berlin shows the highest density of independent artists in Germany with 5.8 % (related to the number of inhabitants). The number of independent artists in Berlin has risen since 2000 by more than 40 %.

[51] Kulturwirtschaft in Berlin, Entwicklung und Potenziale, Berlin 2005.

- With 11 people on average employed per creative enterprise, Berlin records smaller companies than other German cities such as Hamburg, Cologne or Munich.

The many micro small and medium-sized enterprises are characterised by progressive innovation and the ability to adapt to changing market conditions. They usually get through crisis periods better than large enterprises due to their more flexible organisation and personnel structures.

These enterprises generated a turnover of € 8.1 billion, representing 11 % of the Berlin GDP in 2002.

- ***Employment***

The number of employees over the period 1998-2002 rose by 7 %.
In 2002, the creative sector employed 90,000 persons, representing more than 8 % of the total Berlin employment.
Over 50 % are occupied by women.

The self-employed and freelancers are the most important engine for growth and employment – having grown four times more than total employment.
The best performance to date has been recorded by the following sectors:

- Film & TV (+ 2,500 employees 1998-2002),
- Software & telecommunication (+ 4,000),
- Advertisement (+ 2,500).

- ***Dynamic effect on the creative economy***

The cultural sector offers above average occupation chances for the service sector including software and ICT. The demand for artistic and creative content is on the rise. The frequently project-dependent form of the work in culture increasingly spread over other economic sectors and is an indication for a modern economy.

- ***Impact on tourism***

Berlin is the most important destination for city tourism in Germany. In 2004 it was valued at € 13 million in overnight stays, providing employment to 145,000 people in the tourism, hotel and restaurant sectors.

Cultural tourism and culture are totally interdependent:

- There are about 1,500 cultural events a day in Berlin.
- The offers of museums, the opera and theatres play an outstanding role. With approximately 10 million visitors a year, the museums are the cultural facilities with the highest number of visitors (including 58% foreign visitors in museums and 43 % at theatres).

Culture and the cultural economy are not only central location factors but integral components of the product "Berlin".

## Québec: attracting video games companies to feed local economy with revenues, jobs, and talent

On 31 March 2004, 43.58% of the largest European video-game company's (Ubisoft) employees were established in Europe. One year later only 38.12% were working in European subsidiaries.

According to Ubisoft's annual report in 2005, recruitment is focused on countries which "*offer competent, trained people as well as tax benefits or a lower cost structure, enabling Ubisoft to benefit from a considerable competitive cost advantage*"[52].

This is the case of Québec, and especially Montreal, which has become a video games hub because of the local Government's policy in favour of promoting the establishment of video game companies.

- ***Quebec's strategy to attract multimedia companies***

In 2003, American video game publisher Electronic Arts opened a creative studio in Montreal. Its Vice-President Alain Tascan said that Montreal has "*everything it takes to become the gaming industry's Hollywood*"[53].

With already more than 1,000 employees in the province, Ubisoft is expected to further increase its Quebec workforce in the next years. According to Ubisoft's CEO Martin Tremblay, Montreal "*offers four key conditions for success: talented and creative resources, the proper educational infrastructure, a technology community and Government support*"[54].

- ***Government support***

In Quebec, multimedia companies benefit from a broad range of tax credits and support measures such as:

- Multimedia production tax credit: a refundable tax credit for the production of multimedia titles equivalent of up to 37.5% of labour costs.
- Tax credit for major employment-generating projects: a refundable credit for companies in the IT sector equal to 25% of eligible salaries paid by the corporation to employees working to carry out a contract.
- Strategic Support for Investment Programs: providing for various types of loans, a repayment guarantee on a loan, a line of credit or a letter of credit or a non-repayable contribution.

- ***Top educational infrastructure to foster talent***

Quebec educational facilities produce more than 4,000 graduates every year in Computer Science and various fields related to multimedia. In addition to public institutions, Quebec has become home to private institutions such as the National Animation and Design Centre (NAD), the Institute for Computer Graphics Creation and Research (ICARI) and the National Audio-Visual Institute (INIS). In September 2004, Sherbrooke University created a bachelor's program in Digital Imaging and Media.

For Ubisoft,the key to success is a talented workforce. In order to have a performing workforce Ubisoft invests in training with, as part of the agreement reached with the Québec Government, the recent creation of the Ubisoft

[52] Ubisoft Annual Report 2005, http://ftp.ubi.com/corporate/Finance/UBISOFT_2005_Annual_Report.pdf

[53] Investissement Québec, http://www.investquebec.com/en/index.aspx?page=1754

[54] Investissement Québec, http://www.investquebec.com/en/index.aspx?page=1754

Campus in Montreal. The Campus provides training to people from all of the company's studios and then helps developing the production teams' skills. It also provides an educational foundation for future professionals of the videogame industry. Moreover, Ubisoft plans to establish partnerships with schools worldwide in order to teach future developers production methods and tools.

• ***A "technology community"***

In 2005, Quebec was home to 275 businesses of various sizes specialising in the multimedia industry:
- Leading developers such as Ubisoft and Electronic Arts
- Emerging developers such as Jamdat Mobile
- Innovative micro-businesses such as Sarbakan.

These multimedia companies provide employment for around 3,500 people.

## New York: looking at the London example

In a report from December 2005 called *Creative New York*, the Center for an Urban Future analyses NYC's "creative sector"[55] and gives recommendations for its future development.

According to the report, creative industries are one of the city's most important and least understood economic assets. In fact, New York is well equipped to foster creativity with 34 museums and other institutions as well as its educational system (the Juilliard School, for instance, offers arguably the best training in the world for dancers, musicians and actors). Moreover, the NYC Department of Cultural Affairs (DCA) has a larger annual budget than the National Endowment for the Arts (with a budget of USD 131 million in 2006).

The creative core has been one of the more dependable growth areas for the city's economy. Between 1998 and 2002, employment in New York's creative core grew by 13.1 % (adding 32,000 jobs) while the city's overall job totals increased by 6.5 % during this period. In 2002, New York City's creative workforce comprised of 309,142 people, ranking second internationally right after London.

Among other recommendations, the report proposes the creation of a centralised coordinating body modelled after Creative London, as well as the creation of the NYC Economic Development Corporation, a specific industry desk for creative industries.

[55] The report defines New York's Creative Industries as a whole of 9 industries: advertising, film and video, broadcasting, publishing, architecture, design, music, visual arts, and performing arts.

Cultural clusters do not necessarily need to be based on cultural & creative industries. They may be established with the support of more “traditional” artistic activities, such as the example of the European Capitals of Culture show.

### III.2.2. European capitals of culture

In June 1985, the Council of Ministers launched, at the initiative of the Greek Culture Minister Melina Mercouri, the European City of Culture. What was to become later labelled the “European Capitals of Culture” (ECoC) is intended to *“bring the peoples of Europe together”*[56] and to make particular aspects of the culture of a city known to other Europeans as well as to highlight artistic movements and styles shared by Europeans which it has inspired. This event also aims to ensure the mobilisation and participation of large sections of the city population and, as a consequence, the social impact of the action and its continuity beyond the year in question.

According to the *Study on European cities and Capitals of Culture*[57], the concept of ECoC is open to a number of interpretations and the main motivations behind the nomination for the ECoC title, the key mission and major objectives vary from city to city. Objectives found in this aforementioned study include:

- The need to raise the international profile of the city and its region
- The need to run a programme of cultural activities and arts events
- The need to attract visitors and to enhance pride and self-confidence
- Expanding local audience for culture
- Making improvements to cultural infrastructure
- Developing relationships with other cities and regions
- Promoting creativity and innovation
- Developing the careers/talents of local artists

These events trigger important economic and social consequences.

Total operating expenditure of the 21 ECoC surveyed in the above mentioned report (excluding capital expenditure) varied from € 7.9 million to € 73.7 million. The range of capital expenditure reported varied from € 10 million to over € 220 million. The total operating expenditure reported by all ECoC that were surveyed was € 737 million and the total capital expenditure € 1.4 billion, making total expenditure over € 2 billion. This does not take into account additional expenditure (such as expenditure on tourism marketing, or additional expenditure by municipalities and regions that paid for projects directly). Taking this total expenditure into account, the most conservative estimate of the total expenditure attributable to ECoC in the period 1995-2004 would be € 3 billion. Several experts placed this total expenditure significantly higher in the region: € 3.5 to 3.75 billion. Whatever standard, this represents a massive level of expenditure stimulated by modest amounts of EU funding (1.53% of total income generated). In terms of income, the total public sector contribution to ECoC from national, city, regional and EU sources represented 77.5% of the total income generated from all sources. Private sponsorship represented a total of 13.2% of all income generated.

Social objectives were not the highest priority for most EcOc yet almost all included projects with social objectives. All ECoC mentioned growing audience in the city or region as an objective (“access development”). Many ECoC also ran

[56] www.ec.europa.eu
[57] European cities and capitals of culture, study prepared for the European Commission by Palmer/RAE associates, August 2004

projects to create cultural opportunities for social groups outside the mainstream city culture ("cultural inclusion"). Initiatives were most frequently aimed at young people, ethnic minorities and disabled people.

One of the problems identified in the abovementioned study as well as through our own research to assess the impact of the ECoC on the local socio-economic environment, was the absence of measurable objectives set out by the cities in the preparation of the event. It is as if such investment in culture was obvious and required no serious impact analysis. This observation is reinforced by current discussions about the need to improve ex-post monitoring, the development of best practices and benchmarks to give an orientation to future host cities.

The concept is attractive and is regarded as groundbreaking in other parts of the world. For example, the Organisation of American States (OAS), including all 35 countries on the American continent, adopted the European idea by initiating an annual event called the American Capital of Culture in 1997. In Russia, the federal district of the Volga decided in 2001 to set up an event based on the EU concept.

The case study below considers the experience of Graz in Austria and Lille in France, on the basis of the answers received to our questionnaire.

## Example 1- GRAZ (AUSTRIA) 2003

With 235.000 inhabitants, Graz is the regional capital of the Austrian Steiermark. The historic city centre is a UNESCO World Heritage site. At the same time, Graz is known for its modern architecture. The city is a university centre and a high-tech science & car industry centre. It has an unemployment rate of 7.0%.

### ■ Main events within the project year

Graz realised 108 projects with approximately 6,000 individual events during the ECoC year. The most prominent sectors were music, architecture, visual arts and theatre. About 80% of the projects have been realised by professional artists and an estimated 30% originated from outside Graz.

The most popular event in terms of visitor numbers has been "Island in the Mur", a 21st century plaza designed by the architect Vito Acconci with an amphitheatre, playground and café. It attracted 966,000 visitors in 2003. Initially only designed for the year of the event, it established itself as a tourist attraction and place of events beyond 2003 and is still successful.

Other very popular events have been the Lift to Mary, a glass lift installed next to St. Mary's Column in the historic centre of Graz, which attracted 240,000 visitors and the Tower of Babel, an exhibition on the development of language and scripture with 116,000 annual visitors.

### ■ Impact

**Operating income in € Million:**

City of Graz: 18.2
Region (Land Steiermark): 19
National Government (Rep. Österreich): 14,6
EU: 0.5
Sponsorship: 3.2
Ticket sales and merchandise: 1.9
Other: 1.8
TOTAL: 59.2

**Operating expenditure in € Million:**

Programme expenditure: 36.0442
Promotion and marketing: 14.1394
Wages salaries: 5.1034
On-going costs: 3.913
TOTAL: 59.2

● Graz counted 2.5 million visitors in the year 2003. In relation to the previous year, which held its record for tourism by then, the number of daily visitors doubled and the number of overnight stays increased by 25% to almost 146,000. The visitors spent € 116.5 million in the city, including accommodation, food & beverages, shopping and cultural expenditures.

● A study carried out before 2003 forecasted that the ECoC event would create about 1,200 new jobs. There is no ex-post evaluation published.

● The public awareness of Graz as a cultural city was boosted because of the ECoC event. Graz had more than 10.000 international press articles. 35 TV channels reported about Graz in 2003 and its webpage had more then 23 million visitors. This led to an improved international profile for the city and region.

The newly developed cultural infrastructure improved the position of Graz as a location for international cultural events. Moreover, the know-how acquired during the project could be used to further develop the cultural profile of the city. In the end this lead to an increase of the professional cultural events that took place in the city.

According to a survey[58] made in November 2003, 27% of Graz inhabitants and 54% of the inhabitants of the Steiermark (the region) attended at least one ECoC event. It was documented that one out of nine inhabitants of the Steiermark region attended more than 5 events. This shows that Graz managed to reach many people that are not traditionally interested in culture.

[58] www.graz03.at.

## Example 2- LILLE (FRANCE) 2004

Lille is a historic Flemish city and after the decline of the former coal and steel industry as well as the textile industry it has developed into a site for the French service industry. The population is 200,000 and can include up to 1,091,000 inhabitants when considering the community of surrounding urban cities such as Lille, Roubaix, Tourcoing and Villeneuve-d'Ascq. There is a higher-than-average unemployment rate of 12%.

The ECoC 2004 report was extended to encompass the whole region of Nord-Pas de Calais as well as parts of neighbouring Belgian regions. Until then, this cross-border concept had been unseen in the history of the ECoC. It will be picked up and extended by Luxembourg 2007.

In a recent study completed for the French Ministry of Culture & Communication[59], the organisation of this event in Lille is qualified as being part of the "policy of urban re-conquest and cultural development" launched by the town.

### ■ Main events within the project year

Lille realised 2500 projects during the ECoC year, counting every single event as a project. The focus was on the performing arts (40%), programme in the "maisons folies" (28%) and exhibitions/ installations (14%). One of the main objectives of the programme is to promote an "Art de vivre". Thus, culture is defined widely, including for example cooking, sports and interior design. A key item is that of metamorphoses: artists, sculptors and designers have transformed the urban environment to generate new perceptions.

[59] *La mobilisation des actifs culturels en France: de l'attractivité des territoires à la nation culturelle creative*, Xavier Greffe, May 2006.

### ■ Socio-economic impact

**Operating income in € Million:**

City of Lille: 21.8
Region: 10.7
National Government: 13.7
EU (general support): 0.5
EU (project support): 1
Sponsorship (cash): 7
Sponsorship (in kind): 5
Ticket sales and merchandise: 1.2
Other: 0.2
TOTAL: 73.7

**Operating expenditure in € Million:**

Programme expenditure: 58.6
Promotion and marketing: 7.6
Wages/salaries (included in other): --
Overheads: 7.5
TOTAL: 73.7

- In 2004 Lille attracted more than 9 million visitors. From December 2003 to November 2004, the Lille Tourist Office was visited by 823,000 tourists, compared to 308.000 tourists in the previous year[60]. The number of overnight stays increased by 27%. If we only count the tourists (and not the business travellers), the number of overnight stays grew by 39.7%.[61] Moreover, during the year of the event, the employment rate in Lille´s hotel industry rose to 70.3% with a peak at 79.3% during the summer of 2004[62].

- In 2003 and 2004, there were 1,341 new jobs created, directly linked to the organisation of the ECoC year and an estimated personnel growth of 20% in the local economy[63].

[60] Questionary answered by Association Lille 2006-2008, Lille, 5/2006.
[61] INSEE – Assoc.Lille Horizon 2004 – Impact de Lille 2004 sur l´economie du tourisme, Lille, 2005.
[62] INSEE – Assoc.Lille Horizon 2004 – Impact de Lille 2004 sur l´economie du tourisme, Lille, 2005.
[63] Questionnary answered by Association Lille 2006-2008, Lille, 5/2006.

| The evolution of employment Oct.2003 – September 2004[64] | | | |
|---|---|---|---|
| | National level | Region « Nord pas de Calais » | Lille city |
| Total hotel, catering | +1.1% | +1.5% | +7% |
| Cultural activities | +0.4% | +4% | +22% |
| Retail | +1.2% | +1.1% | +3% |
| Hotels | +0.5% | stable | +15% |
| Restaurants, beverage | +1.4% | +3% | +7% |

The revenues of some segments of local economy, like trade, hotels and gastronomy rose significantly during the year 2004 and the total effect of the event is valued as thoroughly positive.[65]

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[64] Insee - Association Lille Horizon 2004 – *Impact de Lille 2004 sur l'économie du tourisme*

[65] Questionnary answered by Association Lille 2006-2008, Lille, 5/2006

# IV. THE ROLE OF CULTURE IN URBAN AND REGIONAL ORGANISATION

Another more pervasive effect of culture on local economic development is its ability to impact on people's behaviour, fostering a culture of partnership and serving as a tool of social integration.

Cultural participation, as well as the involvement in the organisation of cultural activities, has the power to influence social relations. In particular, cultural events contribute to fostering cooperation amongst different communities, supporting communities' and individuals' involvement in the city's social & economic life, thereby contributing to territorial & social cohesion.

Some decades ago, the concept of "community arts" was coined in Anglo-Saxon countries. It refers to the notion of participation and involvement embracing the active work of non-professionals with the objective of reconstructing citizenship and community building. The concept is particularly concerned with under-privileged individuals and social groups.

Another concept reflecting the same concerns is the concept of "empowerment". In many European cities today a growing polarisation can be seen between "resource-strong" & "resource weak" communities, groups and individuals. Strategies for empowerment strive to give marginalised citizens and deprived neighbourhoods possibilities to develop those resources. This includes fostering grass-roots initiatives as well as top-down projects initiated from administrations and institutions.

The projects that were developed following these initiatives are generally directed at fulfilling four different, although often complementary, objectives which are to carry out[66]:

- *Cultural diversity* through including and highlighting the cultural "capital" of communities of different ethnic or foreign backgrounds;
- *Inclusiveness,* by giving a voice and space for marginalised or excluded individuals and communities;
- *Territorial cohesion,* through reinvigorating the least wealthy areas, whether they are urban, industrial or rural;
- *Community identity*, i.e. using culture as an integrative tool within a city of local community and event at European level.

Although these strategies do not have as their main purpose economic performance, they are beneficial to the economic environment as they:

- Contribute to fostering social cohesion.
- Participate in providing skills that are transferable in other fields of activity and contribute to strengthening the "employability" of their beneficiaries. They reinforce the self-confidence of individuals and communities that are able to develop and manage their own projects.
- Contribute to developing and enhancing cultural diversity.
- Participate in building an "Inclusive Europe", to quote the motto under which was organised the ministerial Conference "*Inclusive Europe? Horizon 2020*" was organised, held on 17-18 November 2005 in Budapest.

[66] Eurocult 21 Integrated report, a 2005 report by Eurocities, European Commission, City of Helsinki Cultural Office, Jill Robinson editor

This is well understood by the European Commission. In its Communication "A cohesion policy to support growth and employment"[67], the European Commission notes under chapter 5.1 "*the contribution of cities to growth and jobs":*

"(…) *Account must be taken of specific problems of the urban areas such as social exclusion, high and rising crime rates, and the general worsening of the quality of life in deprived urban areas. (…) also important are measures to rehabilitate the physical environment, redevelop brownfield sites, and preserve and develop the historical and cultural heritage. The regeneration of public space and industrial sites can play an important role in helping to create the infrastructures necessary for sustainable economic development. In the light of the often deep-seated social cohesion, it is important that actions should strengthen security, promote economic, social and cultural integration of the least favoured, combat discrimination, and promote the availability, and access to, key services*".

The following paragraphs provide examples of initiatives related to fostering territorial cohesion and social integration.

## IV.1. <u>Fostering territorial cohesion</u>

### IV.1.1. Recycling brownfield sites into cultural attractions

Recycling former industrial sites into art facilities contributes to local development in various ways. Essentially it can give new life to derelict areas.

The following two examples are illustrative.

In Paris, an innovative film complex was established in one of the least wealthy parts of the city. The venue is original: the core of the establishment is a film theatre but it also includes a restaurant, a bar, and is located along a canal where people can try canoeing. The place soon became very trendy. It further contributed to regenerating the area. A similar structure was further built on the same concept in another area of the French capital (the Bercy quarter).

[67] SEC (2005) 904, 5 July 2005.

### Socio-economic impact of the establishment of Marin Karmitz's movie theatres in Paris 19th district

Founded in 1974 by Marin Karmitz, MK2 started with a unique movie theatre. In 2005 the group had 64 screens. From the beginning, the group has continuously defended its commitment to quality art-house cinema. Today, the MK2 group includes all the branches of the movie industry from production to distribution to international sales. It is the first independent film group of this kind in France.

In 1995, Marin Karmitz decided to build a movie theatre in Paris' 19th district, situated in one of the least wealthy parts of the city. This decision was unexpected since the last movie theatre in the district closed at the end of the '80s. Negotiations with local representatives were favourable for Marin Karmitz who inaugurated the movie theatre MK2 Quai de Seine in 1996. The idea to build a large complex also including restaurants, museums and taking advantage of the landscape of the Villette's pond attracted more consumers than expected. The theatre's rapid and impressive success pushed Karmitz to build another theatre in 2005 in front of the first one, the MK2 Quai de Loire, this time including a bookshop.

The district took advantage of this success. One of Karmitz's goals in fact was to "*re-conquer a poor area looking like a culture desert*." According to the head of culture at the19th district city hall, Joel Houzet[68], the district changed into a welcoming place. Crime plummeted at the same time as public utilities reconstructed Stalingrad square and the surroundings of the pond where the cinemas are implanted. These changes certainly stimulated the district's regeneration, culturally and economically.

- *Social and cultural impacts*

The first change observed by Mr. Houzet is the blossoming of *cultural associations* around the theatres, such as Cafézoïde, a cultural bar where teenagers can socialise and express themselves artistically. Another example is one of the local buildings that was destroyed by a fire, it became an artistic hall that now houses *37 artistic workshops*. The pond also changed with the creation of two artistic barges, one dedicated to the plastic arts and the other hosting an opera.

The development of the area *attracted a film school and a famous business school*, INSEEC, which decided to install 5 buildings in the district. Last but not least, the bookshop of the MK2 Quai Loire also had a notable influence. Indeed, previously there were only 2 libraries in the 19th district, now there are seven.

People have accepted the movie theatres that have become the "theatres of the district." The two theatres aspire to retain the quarter's original spirit. They collaborate, for example, with several associations in order to create popular events such as days dedicated to the screening of hip-hop movies and the like.

- *Economic impact*

The establishment of the two movie theatres seems to have also had an influence on the economic revival of the district:
- *The energy company Total has set up its head office* near the theatres
- Around the area a three star hotel, youth hostel and many restaurants and bars have been established in buildings that were once abandoned

"*I think I have contributed to restoring the life and the pride in this district*" says Marin Karmitz.

In Lodz, Poland, a very interesting initiative was recently set up. An old industrial plant was renovated to be used as a multi-functional centre. It includes many different shops, similar to a modern "shopping mall". It also includes museums and concert halls. Its objective is to provide local artists with an innovative space allowing for avant-garde experiments.

Hence an astonishing blend of activities that could be considered as antagonist but which actually generate positive interactions: commercial activities drive people to the place. Museums and cultural events become more accessible and new audiences fuel artistic events.

[68] Interview with KEA.

**Manufaktura – An original Polish initiative mixing avant-garde cultural and commercial activities in one of the biggest textile factories**

Manufaktura is established in the former industrial complex of Izrael Poznanski in Lodz, Poland. Constructed in the XIX century it is one of the biggest textile factories in Europe.. When the textile factory closed in 1997, the Apsys Group - a global commercial real estate operator - decided to refurbish the whole area in order to create an avant-garde centre mixing: culture, retail and entertainment. The centre opened in May 2006 and created 4200 jobs.

Bringing together old industrial architecture with modern design, the centre is a unique place in the Polish as well as the international arena. Amongst other thins it contains an art museum, the “Museum of the Place”, that tells the history of the factory, an Educational Museum for Kids and the City of Lodz Museum.

The centre also dedicates a part of its activities to entertainment. 6 acres of land are used for the organisation of concerts, meetings, festivals and outside parties. The post factory buildings have a climbing wall, bowling alley, fitness centre, 15 screen movie theatre and IMAX-3D cinema.

The centre also includes 220 small stores, 30 medium size stores and 2 retail chains. In addition, there are 45 boutiques and 5 mid size stores outside the walls. There are also many restaurants and a night club. Lastly, the old historical textile building is to eventually contain a three star hotel.

## IV.1.2. Social cohesion within regional policy

The virtues of culture in contributing to social cohesion is well understood at EU level in the framework of the EU regional policy, which aims at reducing regional disparities and strengthening the Union's economic, social and territorial cohesion. The programme benefits from over one third of the EU budget.

Several “EU structural funds” finance cultural projects within their objectives of strengthening social & economic cohesion. The sums actually granted to cultural projects through these funds exceed the sums made available to culture at EU level under the Culture programmes.

**<u>The tools</u>**

The programmes implementing the EU cohesion policy are financed through the following Structural Funds:

- The European Regional Development Fund (ERDF) for infrastructures and small and medium-sized enterprises (SMEs);
- The European Social Fund (ESF) for social integration, training and employment;
- The European Agricultural Guidance and Guarantee Fund (EAGGF, Guidance section) for rural development;
- The Financial Instrument for Fisheries Guidance (FIFG) for the modernisation of infrastructure in this sector;

Between 2000 and 2006 these Funds were granted a budget of €195 billion, with an additional €15 billion for the new Member States (2004-2006).

In addition, financial support is also fuelled through the four “Community Initiatives”: INTERREG III fostering cross-border, trans-national and inter-regional cooperation; URBAN II focusing on economic and social regeneration of cities and urban districts in crisis; LEADER+ dedicated to encouraging sustainable development of rural areas; and EQUAL an initiative directed at combating inequalities and discrimination in the labour market.

Another fund, the Cohesion Fund (€ 25.6 billion for EU-25), is designed to assist the least prosperous countries of the EU: the 10 new Member States as well as Greece, Portugal and Spain. Pre-accession aid**,** used for the first time in the

EU history to finance the 2004 enlargement continues to be employed in Bulgaria and Romania, mainly through the Instrument for Structural Policies for Pre-accession (ISPA). ISPA's approach is similar to that of the Cohesion Fund.

Cultural activities and projects supported under these programmes and initiatives span from heritage to the performing arts, from urban regeneration to the support to cultural industries.

## Assessment of the budget allocated to cultural projects:

*Period 1989-1993*

The importance of culture in sustaining regional development was first recognised by the Commission in November 1996 when it approved a communication[69] entitled "*Cohesion Policy and Culture, A Contribution to Employment*". Estimates included in the Communication show that in the period of 1989-93 **more than ECU 400** million were devoted to projects directly related to culture.

*Period 1994-1999*

In February 2004 the Commission issued an update of the 1996 Communication. It was presented as a Working Document aimed at assessing the way culture had been taken into account by structural funds during the period 1994-1999. The data presented in the document was collected by the Commission through a questionnaire addressed to Member States. To date, this is the latest available research on the use of Structural Funds in the cultural field, as no comprehensive survey exists on the same topic for the period 2000-2006.

The 2004 Commission's working document has a series of evident limitations: data was provided by Member States on a non-exhaustive basis, as structural funds are often managed at regional and local levels. As a result, the information is fragmented since national authorities were not in a position to evaluate the cultural aspects of multi-sectoral projects. There are also discrepancies amongst member States in the interpretation of the cultural value of different projects.
However, it was estimated that a minimum **€ 2.7 billion** was devoted to culture-related projects through the use of regional funds for the period 1994-1999 (for the sake of comparison the overall budget for Culture 2000 was around € 200 million for the period 2000-2006).

*Period 2000-2006*

There is so far no figure available on the sum allocated to culture-related projects in this period.

*After 2006?*

The focus of the current reform is put on structural funds as an operational tool to revamp the Lisbon agenda along the guidelines of the EC Communication of February 2005 based on the report prepared by the high level group chaired by Mr Kok. The contribution of regional funds to achieve the Lisbon objectives is foreseen along the following objectives:

- Improvement of basic infrastructure
- Support to R&D and innovation projects
- Support to training
- Support to SMEs

The above mentioned objectives have been endorsed by the Council and the European Parliament and will be included in the Community Strategic Guidelines to be issued by the Commission before January 2007. Considering these

[69] (COM(96)512)

objectives, the cultural sector fears that the application for the financing of cultural projects will be more difficult. There is the risk that the emphasis on ICT overtakes the regional funds' support to culture or that the focus on innovation will be detrimental to creativity.

A concrete example of a successful regional policy aimed at fostering new activities and generating employment in the framework of a sustainable development strategy is the Aberystwyth Arts Centre in Wales, UK.
The Centre benefited from ERDF funds at its beginning. It is part of an overall regional strategy fostering cultural developments to revitalise the area.

**Aberystwyth Arts Centre, Wales, UK**

Located within the Aberystwyth University Campus, in Mid-Wales, UK, the Arts Centre is one of the country's busiest centres for the arts.

The Centre hosts and organises a wide variety of activities including performing arts, cinema and art education. It is the hub for several international festivals. It has been operating for 15 years.

A number of key features characterise the region. The area has a low population density of around 40 people per square-kilometres. Around half of all businesses have stock in agriculture, reflecting a land-based tradition while many of the small manufacturing businesses in the region process agricultural outputs. The larger employers in the Mid-Wales region are in the non-market sector (unitary authorities and the HE sector).

In this context, the construction and development of the Arts Centre has been surprisingly successful:

- It is the main regional employer: 40 full time employees, 119 part time;
- It totalled a £ 3.3 million turnover in 2004-2005. Less than four private companies registered and based locally have a turnover higher than the Arts Centre's;
- 71% of annual turnover is constituted by earned income. In other terms, public grants amount to 29% which is a low figure in comparison to other centres;
- The indirect impact on the local region is significant: according to an economic impact study undertaken by Econactive Ltd in August 2004[70], the Centre directly and indirectly supports over £ 5.7 million of turnover in total, £ 1.6 million of income, and 150 full time equivalent jobs.

In addition, the Centre fulfils essential education and enlightenment function: it is the main regional art house and has developed numerous opportunities in relation to community arts and education for the locals.

As a consequence the Centre is both a driver of local demand and activity and a driver for visitors.

Local authorities are supportive of culture-based projects to improve the local economy: the Welsh Assembly Authority recognised in 2002 that the region had to extract the maximum economic benefit from all it invests in cultural policy.

[70] *The economic impact of Aberystwyth Arts Centre*, Report completed by Econactive, Dr. Jane Bryan, Calvian Jones, Dr. Max Munday, August 2004

## IV.2. Fostering the social integration of individuals and communities

Apart from contributing to local territorial cohesion, culture has a direct impact on the social integration of marginalised groups of the population: individuals and communities of different ethnic and foreign origins, troubled youths, etc.

Two cases were selected here to illustrate the different ways culture can contribute to social integration.

The first case presents an initiative aimed at integrating an ethnic community - the Roms - into the Romanian society while helping them regain self-esteem in relation to their identity and promoting this identity to the remaining parts of the Romanian society.

**Aven Amentza, (Bucharest, Romania): integrating Roma people through their art**

Aven Amentza is a cultural foundation based in Bucharest, Romania, which is also a member of Banlieues d'Europe. Its **purpose is the emancipation of Roma** and to fight the dissolution of Gypsy's identity by building self-esteem and combating racism through culture and the arts.

One of the most important challenges faced by Roma today is the rebuilding of their ethnic identity. Historically considered as "inferior", they almost lost their cultural identity. Today parts of the Romanian society still expect Roma to forget their root values. For Roma, the only way to achieve a higher status in society is cultural assimilation or, in other words - the dissolution of their identity.

The Foundation essentially tries to help young Roma. It proposes, for example, creative writing activities where students are asked to write poems or short essays on their cultural conditions. Some of the productions are published in the students' magazine and are an efficient way of self-assertion. The foundation also organises street events against racism taking the shape of interactive performances or street-theatre. Lastly, it sets up many exhibitions of Gypsy art, trying to demonstrate the richness of the Roma culture: music & dance, jewellery craft, metal work, etc.

The manifestations organised by Aven Amentza had a significant impact in the media. For the first time, media showed a real interest for Romas' condition. This allowed the foundation to suggest ideas at the political level. They recommended for example that Roma be defended by syndicates.

The second case is about the World Music Centre of Aarhus, Denmark, which is aimed at getting Danish citizens of different backgrounds to meet and exchange ideas through the arts. It is a perfect example of the "promotion of intercultural dialogue", a concern which will be enhanced by the EU in the year 2008, due to be "the year of intercultural dialogue".

**The World Music Centre of Aarhus, Denmark: using music and dance as icebreakers between citizens of different origins**

The World Music Centre in Aarhus, Denmark, offers teachings in ethnic music as the starting point for cultural meetings between professional musicians and dancers who originate from different countries on the one hand and pupils from municipal schools on the other. Besides the aim to find and use the resources in the immigrant community, the goal is to create an environment where children and young people experience and work actively with other cultures' musical traditions and to create positive cultural meetings between the "old" and "new" Danes using music and dance as cultural icebreakers.