

Chapter V.
A strategy for a creative Europe

SECTION I. EUROPE'S COMPETITIVENESS RESTS IN CULTURE AND CREATIVITY

Alan Greenspan former chairman of the US Federal Reserve stated in 2005: *“over the past half-century, the increase in the value of raw materials has accounted for only a fraction of the overall growth of US gross domestic product. The rest of that growth reflects the embodiment of ideas in products and services that consumers' value. This trend has, of necessity, shifted the emphasis in asset valuation from physical property to intellectual property and to the legal rights inherent in intellectual property”*.

Whilst developing countries are on their way to producing half of the world's manufacturing export, it seems that Europe's economic future lies with its leadership in creativity and innovation.

We are living in a “post-industrialised economy”. The prediction is that the cultural & creative sector is going to become as important as car-making and coal mining once used to be. Europe's competitiveness in the world will depend on its ability to nurture its creative talents and industries. As underscored throughout this study, creativity is an essential competitive tool which is nurtured largely by cultural activities. In turn, creativity is a key component of innovation underlining their interdependence. A policy fostering innovation has to take into account the capacity of its people and industries to be creative, as creativity is not reserved to the traditional world of arts but nourishes large sectors of the economy such as: the textile and luxury industries (fashion design), the car industry (design) as well as the media and the ICT industries.

Strangely, the size and scale of the cultural & creative sector in the EU, as well as its potential for growth, remain largely unknown.

The “cultural & creative sector” feels that governments do not really care. Whereas it is assumed that more than half the jobs in manufacturing have been lost since the late 90's, Europe fails to account for the wealth and jobs created in the “cultural & creative sector”.

“Creative people do not get the backing they deserve because you can't put a figure on creative value” (Ian Livingston, Creative Director Eidos)

In addition, the economic and business literature of the subject is strongly biased toward the US media industry with the risk of losing sight of Europe's peculiarities, in particular in terms of market structure (languages, market fragmentation and strong localised content vs. international).

Creators themselves can, to some extent, share some of the blame for this situation. Some of them are understandably ambivalent concerning the attempt to associate art and creativity with business productivity and efficiency. The market is not necessarily perceived as the best vehicle to drive artistic creativity.

I. THE COMPETITIVE CHALLENGES OF THE CULTURAL & CREATIVE SECTOR

The study has shown that, as for other sectors in Europe, the “cultural & creative sector” is confronted with new competitive challenges. Few cultural activities are shielded from market forces or international competition. National budgetary constraints affecting public support to the arts add to the pressure.

Most of the cultural sector, whether the art fields or cultural industries, is faced with the challenges of globalisation. The table below, presenting the 20 leading audiovisual companies, is illustrative of a challenge which, in relation to audiovisual, music and the media, for example, comes essentially from the USA.

Table 17: The 20 leading audiovisual companies worldwide by audiovisual turnover in 2004

Rank	Company	Country	\$ million	€ million ^[2]
1	Walt Disney	US	23,002	18,402
2	Viacom	US	21,374	17,099
3	Time Warner	US	20,907	16,726
4	Sony	JP	16,006	12,805
5	Vivendi Universal	FR	15,494	12395
6	News Corporation	AU	14,417	11,534
7	NBC Universal	US	12,900	10,320
8	The DirecTV Group Inc.	US	11,360	9,088
9	Bertelsmann	DE	10,113	8,090
10	Liberty Media Corp.	US	7,682	6,146
11	BBC (Group)	UK	7,250	5,800
12	ARD	DE	7,131*	5,705*
13	NHK	JP	6,272	5,018
14	Blockbuster Inc.	US	6,053	4,842
15	Nintendo	JP	4,816	3,853
16	Mediaset	IT	4,813	3,850
17	RAI	IT	4,253	3,402
18	ITV PLC	UK	3,963	3,170
19	TF1	FR	3,900	3,120
20	France Televisions	FR	3,791	3,033

1 € = 1.25 USD

Source: European Audiovisual Observatory

*: 2003 figures

The competitive challenges are well known:

- Hollywood's domination in cinema and audiovisual production;
- The weak export potential of European films and music within Europe (apart from English language), to the USA as well as the rest of the world;
- The increasing importance of Asia as a hub for visual arts and multimedia;
- The talents' drain to the benefit of North American industries;
- Competitive social and regulatory/fiscal regimes to attract European industries and productions (e.g. Canada).

However, the European cultural and creative sector has the means to confront these challenges.

For example, the *arts field* is a European treasure. European heritage is dense and rich: Antique temples, Roman and Gothic churches, open-air museums of European cities (Amsterdam, Vienna, Paris, London, Rome, Athens, Venice, Bruges, Cracow, Prague, etc), museums (Prado, Uffizi, Louvre, Tate, etc.), libraries, etc.

The performing arts have an international reputation ranging from old tragedies of the Ancient Greeks to the most avant-garde dance ballets including a vast array of symphony orchestras (LSO, Concertgebow, Vienna and Berlin Philharmonic, the Suk Chamber Orchestra or the Czech Philharmonic Orchestra)..

Both heritage and creative modernity mingle to make Europe the continent of arts.

Europe's *cultural and creative companies* are also well placed in global competition. European-based world companies include, for example: Bertelsman (in publishing, broadcasting and music), Lagardère (publishing), EMI (music), Vivendi Universal (TV, games and music), Pearson, Reed Elsevier, Wolters Kluwer, VNU, Reuters (Education, publishing, information), BBC & RTL (Television), LVMH & Gucci (fashion) and Ubisoft (games). They have an international reach in terms of both production and distribution. They are large financiers of cultural goods and services.

Europe also can count on *national champions* with, to name but a few, Mediaset/Finninvest in Italy, Pathé, TF1, M6 or Gaumont in France, BskyB in the UK, Bonnier, Nordisk, and Sanoma in Scandinavia. These companies are large and sometimes dominant nationally but remain small at the international level.

The vast majority of the European cultural sector is constituted of *micro-, small and medium sized enterprises*. These companies are extraordinarily creative and able to mount innovative artistic projects, often on a shoe string budget. They represent the bulk of employment and are the main resources to develop new talents. Their financial investments are devoted to production, essentially with lesser financial ability to market and distribute. The great majority of music and film companies in Europe are micro-businesses and SMEs.

Record companies in Europe

A KEA survey of national trade associations representing independent record companies in Germany, France, UK, Sweden and Spain shows that over 80% of their members have a turnover of less than € 1 million with less than 4 staff members. In France, 40% of music companies have a turnover below € 500 k. According to a 2006 Survey from the DCMS in the UK, 55% of music businesses are companies and a third are sole traders.

In effect, the music industry is essentially composed of micro-enterprises. The latter contributes significantly to employment. In Germany, independent music companies with a turnover of € 216 million typically employ around 3,800 people. In comparison, Universal Music Germany employs 350 people for a turnover of €300 million and EMI employs 7,000 people worldwide with a turnover of € 3 billion.

Small companies represent a disproportionate share in music releases: 50% of the new releases in Sweden and Germany for example

Films companies in Europe

Country	Nber of film production companies	Nber of cites producing not more that one film and %
Belgium	55	50 90%
Czech Republic	55	50 90%
Estonia	18	18 100%
Finland	30	25 83%
France	156	125 80%
Greece	100	90 90%
Italy	422	325 77%
Spain	160	130 81%
Sweden	56	52 92%
UK	217	186 85%

However, whether large or small, locally-based or internationally established, the European cultural and creative sector is vulnerable. This is largely due to the European heterogeneous political, commercial and cultural environment, as well as the mere nature of the economy of cultural products:

- Cultural products are often short lived with a high risk ratio of failure over success. The market of cultural products is highly volatile, depending on fashion, trends and consumption uncertainties. Some sectors are strongly “hit driven” (cinema and music for instances).
- Companies evolve in a fragmented market composed of a medley of languages and cultures – accessing the Internal market remains difficult for local language products.
- This market fragmentation, based mainly on structural constraints linked to local market specificities, hinders their international development. The products are marketed for local audiences with different languages but competing with international products with global appeal. The internal market often works better for large international companies active in distribution that are vertically integrated and specialised in the production of mainstream movies (blockbuster) or American pop music.
- The market structure is oligopolistic in some sectors (music and cinema notably).

Another important aspect of Europe’s creative and cultural sector is its reliance on micro enterprises and SMEs which represent the bulk in term of economic activities and employment. Policies aimed at supporting SMEs at European level need to take into consideration the peculiarities of smaller companies in the cultural and creative field. The common features of micro businesses and SMEs in the creative sector (compared to other SMEs) are that:

- They take an *organic approach* to the growth of their businesses.
 - They *lack the business skills and financial support* to develop business and growth strategies, financial planning and marketing.
 - They face serious problems in obtaining adequate valuation of copyright assets when raising finance.
 - They *are often dependent on public investment schemes* (in cinema notably but also in a wide range of performing sectors such as dance, opera, theatres etc).
 - They are often *less well organised at trade association levels* (apart in music) and thereby lack bargaining power at commercial and political levels. In addition, they generally do not participate in traditional consultation bodies that represent traditional industries (such as Unice). As a result they lack representation when it comes to policy developments.
- SMEs tend to take more risks with talent developments – they are an essential factor in the creativity process. Larger companies involved in distribution need them as an essential source of creative production.

Finally it should be stressed that while the cultural market is becoming more and more global, cultural & creative industries have remained essentially national. Yet, some European countries have developed a reputation in nurturing creativity in certain areas. For instance:

- Denmark, a country with 5 million inhabitants is successfully fending off Hollywood domination. National cinema market shares stood at 30 % in 2005.
- The Finnish music industry has one of the highest levels of market shares of local talents in Europe. Sweden is known for the export potential of its writers and composers who have worked with international superstars such as Madonna and Celine Dion. The UK is unrivalled in the world for the vitality of its independent music sector (25% market share in the UK).
- The UK broadcasting industry with the BBC, Channel 4 and BSkyB has a reputation of excellence.
- UK and France are well positioned in the video game and advertising sectors.

- Germany is experiencing a renaissance in its film industry and is the world leader in the publishing industry.
- The Czech Republic has a rich history of filmmaking that started to grow rapidly in the early 1920s. Today, Prague has been dubbed “Hollywood East” as the number of film production companies is growing rapidly.
- Similarly, Romania, with Castel Film and Media Pro as the country's two main service providers, has become a popular destination for cost-conscious film shooting.
- Scandinavian countries as well as Italy have a reputation for famous designs; France and Italy for fashion design.
- Belgium is known worldwide for its ballets, fashion designers and comic strip artists.
- Greece, France, Italy and Spain maintain a world class cultural heritage that acts as a magnet for tourists.

The next page summarises the main strengths and weaknesses of the European cultural & creative sector.

The European cultural & creative sector - Strengths and weaknesses A Snapshot

<p>Plenty of individual talent ...</p>	<p>... but with limited business skills and attracted to the USA</p>
<p>Some of the largest competitive players at global level ...</p> <p>In the publishing, video-games, fashion and music sectors for instance.</p>	<p>... but they lack the same power and leverage compared to US-based creative industries or governments</p> <p>Examples include: copyright duration, trade policy (piracy), a more conservative approach in relation to the future (digital developments, notably in the music and film sectors).</p>
<p>Strong creative industries, and a myriad of creative SMEs with strong local presence ...</p>	<p>... but these are often unable to benefit from the internal market with market access and undercapitalisation problems</p> <ul style="list-style-type: none"> • Linguistic and cultural fragmentation • Under-capitalisation • Concentration on the cultural market and consolidation of the media sector • Lagging behind in implementing new business models • Problems in valuing copyright in relation to rights management and accounting • Increase in marketing and promotion costs • Heterogeneous tax and social systems
<p>Importance of the public sector ...</p> <p>The public sector is essential to nurture the supply of cultural diversity – a European comparative advantage.</p>	<p>... but a resistance in taking stock of international challenges</p> <p>Public policies are:</p> <ul style="list-style-type: none"> • Often disconnected from market realities (cinema) • Not based on satisfactory economic intelligence • Marked by excessive national focus • Operating in isolation when they should be implemented in parallel with other policies (environment, tourism, social, local development, etc) • Not addressing the digital challenge to the level it deserves.
<p>Sustained consumer demand (growth in demand for content) ...</p> <p>Almost a billion new customers will enter the global market place in the next decade with growth in emerging markets.</p>	<p>... but poor understanding of consumers' demand in relation to the digital economy</p>
<p>Strong IP laws in the EU ...</p> <p>The European copyright standards of protection are amongst the best in the world. The EU is a driving force in international harmonisation in the context of the work carried out by WIPO and the WTO.</p>	<p>... but poor enforcement in some countries (piracy levels) and subsidising broadband roll out.</p>

II. THE LISBON PROCESS AND CREATIVITY

"The fallacy of innovation is that it is all about spending on R&D and information technology".

Diana Farrel – Director of the McKinsey Global Institute.

II.1. Lisbon's ICT focus

In March 2000, the EU Heads of State and Government meeting at the European Council in Lisbon agreed on an ambitious goal: making the EU by 2010 "*the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*".

Lisbon is pushing to boost R&D spending by governments, universities and corporations to a total of 3% of GDP within the decade. The belief is that growth and employment will be achieved by investing in ICT industries – the flagship industries of the digital economy.

Consequently, when the Lisbon i2010 programme was launched as the first concrete initiative in the framework of the Lisbon strategy, the focus was clearly on ICT, considered in the eyes of the European Commission as the most promising sector of the EU economy:

- The EC provided data exclusively referring to the weight of the ICT industry.¹
- In its i2010 initiative, the Commission outlined three policy priorities:
 - To create an open and competitive single market for an information society and media services within the EU and to support technological convergence with "policy convergence";
 - To increase EU investment in research on information and communication technologies (ICT) by 80%;
 - To promote an inclusive European information society.
- The key indicators provided by the Commission to benchmark the progress of the i2010 initiative are broadband penetration and the rate of investment in ICT research & development.
- Nevertheless, there was neither a mention of the value of creative industries, nor any assessment of their input to the converging world which they are an integral part of.

While Europe knows how much it invests in R&D expenditure, it appears to take for granted that the arts are flourishing and that cultural diversity is an *acquis as well as* Europe's strength. As a result the Lisbon Strategy does little to address the challenge of building a creative Europe.

There are, however, some positive initiatives. For example, the European Commission is adopting an integrated approach on ICT and audiovisual policy as part of the i2010 initiative to build on digital convergence. The priority is on the "film online initiative", the digitisation of a film library and of books with the aim to support the development of European content online. The European Commission's regulatory initiative, in relation to "new audiovisual services" or the "online film Charter", are a testimony to its willingness to play a role in building a bridge between content and technology.

¹ The ICT sector would represent 5% of the EU GDP, and would drive 25% of the overall growth and about 40% of Europe's increase in productivity (Viviane Reding, Member of the European Commission responsible for Information Society and the Media - Keynote speech in London on 6 September 2005 at the i2010 conference).

Europe would account for around one third of global ICT sales which are growing at 5% a year (i2010 – A European information society for growth and employment – Brussels 1 June 2005 COM (2005) 229 final communication)

The i2010 Digital Libraries Initiative particularly exemplifies excellent project coordination including a cultural and scientific dimension involving a private-public partnership.

i2010 Digital Libraries Initiative

The Commission coordinates and supports existing initiatives at national level with the goal of enhancing the European dimension of the project. In coordination with the announcement of the European Digital Libraries project, French and German authorities also presented the launch of a European Internet search engine project called Quaero (from the Latin word: I search), which has received industrial backing from telecom groups (France Télécom, Deutsche Telekom), ICT companies (Thomson) and media groups (Bertelsmann).

The Commission included the Digital Libraries project into the i2010 flagship initiative. In a Communication issued in September 2005, the Commission outlined the vision of a digitised library which gives every user easy access to the vast cultural heritage of the European continent. By combining information resources in different formats (books, maps, newspapers, films etc.) from different countries in the online environment, the digital library project aims at inviting its users to effortlessly explore the rich European cultural heritage.

The digital library should contain digitised material as well as original digitally developed content, mainly from the scientific field. Three main components need to be realised, the Commission presents a) the digitisation of analogue material, through which b) the cultural heritage is made easily accessible for all citizens and can therefore c) be preserved for future generations.

The Digital Library builds upon the experience of The European Library (TEL), in which Europe's libraries already collaborate. In a Commission Recommendation from 24 August 2006, the Commission formulated concrete steps to be taken by the Member States. Among others, these include the planning of the qualitative and quantitative progresses in digitisation, encouraging partnerships between cultural institutions and the private sector so as to carry the financial burden together and encouraging cultural institutions as well as private enterprises to coordinate their activities with the demands of the Digital Library.

Regarding the volume of digitised media, two million works should be accessible through the European Digital Library by 2008; by 2010 at least six million works should be covered. Leading up to 2010, the Commission will co-fund the creation of a Europe-wide network of digitisation centres.

The political willingness embodied in projects such as the Digital Libraries initiative will have to be translated into the EU financial priorities and EU programmes. Today the concept of supporting creative industries taken as a whole is still largely undervalued. The fear is that new guidelines on accessing structural funds and the 7th Research Framework Programme will make the funding of creative industries activities more difficult considering the biased emphasis in favour of ICT. In addition, comprehensive regulatory and policy reforms are needed to accompany the cultural & creative sector in the digital revolution and help them unleash their full potential.

Content is making an enormous contribution to the digital economy – it drives new consumption patterns and helps accelerate the roll out of broadband and mobile platforms. The development of new technology depends, to a large extent, on the attractiveness of content. DVD sales, recordable devices, MP3 players, home cinema systems, set top boxes and flat screen TVs are dependent on the availability of attractive content (games, film, music...). The development of mobile telephony and networks is based on the availability of attractive value-added services that will incorporate creative content. Without a strong music, film, video, TV and game industry the ICT sector will be the hostage of content providers established in Asia or North America.

For example, Chapter IV analysed the Apple experience with the iTunes music store. It shows that the availability of purchased content is the most important drivers of demand for portable music players. Indeed Apple iPod sales began to grow more significantly when it enabled 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.

The control of content is also key for instance in the standardisation process. In the field of digital cinema, standardisation is decided outside Europe – the norm has been determined by a consortium composed of seven Hollywood majors. Some complain that the norms developed by the majors are a tool to comfort their domination, forcing exhibitors to invest in certain equipment, and that failure to do this would bar them to access blockbusters. The relationship between exhibitors and distributors is also disrupted, with the latter being in a position to impose technical requirements that may impinge on its commercial freedom. It creates a vicious cycle. Similarly the norm would impose a form of compression technology that is not widespread in Europe and which would be incompatible with Europe's broadcasting standards, which would make it more difficult for exhibitors to diversify their programming. The domination of US-based creative companies in the setting up of European standards reflects the local market situation. It impinges on Europe's standardisation efforts and encourages business models that make our ICT industry more dependent on Hollywood.

II.2. The complex market structure of the content industry is perceived as a bottleneck for the emergence of a competitive ICT industry

There is a perception that content industries act merely as a roadblock to the emergence of a strong European ICT industry. This vision is illustrated in the debate on private copying compensation or in relation to right management of intellectual property (EC recommendation on online music).

- In this context the territoriality of copyright is questioned. *“If in the longer term we want European content and creative industries to be able to compete on a global scale, and to achieve their full potential in driving European competitiveness, we may start calling into question the territoriality of copyright protection in Europe”* stated on 2nd March 2006 at the EU Presidency Content for Competitiveness conference in Vienna, Mr. Rudolf Strohmeier, the head of Commissioner Reding's cabinet. Such reasoning is perceived by content industries as a frontal attack against their main assets: their intellectual property.
- Similarly the ICT industry stigmatises the € 560 million private copying compensation going to creators and producers of content in Europe without proposing any remedy to monetise the largely unlicensed usage taking place on networks and which supports the digital equipment roll-out.

This lack of understanding on how the cultural & creative sector works is due to last, unless efforts are undertaken to enable better representation of the sector in EU R & D programme, notably SMEs which are prone to embrace new technology. To take one example, at EU level, technology platforms (such as NEM) have been set up to identify strategic research agendas. These platforms (dominated by hardware interests) hardly engage at all with the content industry or SMEs in the cultural & creative sector (apart some broadcasting organisations). Support to the establishment of creative communities involving creators, creative & innovative SMEs, universities and R&D centers is urgently required.

To redress this imbalance, some key research into the mechanics of content production, access and distribution that would benefit the ICT is required. This in particular includes researching as a matter of priority:

- The profitability of new business models that takes into account the European market peculiarities.
- Consumers' behaviours in a European market with strongly localised content.

SECTION II. THE MAIN CHALLENGES FOR A CREATIVE EUROPE

A creative Europe will help realise the Lisbon Strategy's targets. It will particularly contribute to European growth, stimulate innovation in other non-cultural sectors, boost the take-off of ICT industries, contribute to local development in terms of creating jobs and ensure territorial cohesion.

Before recommending actions to realise a creative Europe, the present section identifies the main challenges to be addressed at EU level.

I. CHALLENGE 1: MAKING CULTURE AND CREATIVITY AN EU PRIORITY

The cultural & creative sector is an important sector of growth in itself. Traditional cultural sectors perform cultural, political and social functions and generate an important indirect economic impact. The sector is also a source of creativity for non-cultural sectors, thereby providing the latter with a crucial comparative advantage on global markets.

1. Cultural industries and EC law implementation

It is important to take the sector's specificities into account when implementing EC laws and policies. This is the purpose of Article 151 (4) of the EC Treaty which states that "*the Community shall take cultural aspects into account in its action under other provisions of the Treaty, in particular in order to respect and to promote the diversity of its cultures*".

Culture became an explicit but very limited EC competence when the Maastricht Treaty came into force in 1993. The cultural field interacts directly or indirectly with other areas of EC competence, in particular competition policy, common commercial policy and the internal market. The implementation of these policies, combined with the presence of very diverse interests often results in contradictions and tensions – hence the need for EU institutions to find the right balance.

A few examples illustrate these situations involving stakeholders and/or policies having contradictory interests:

- The assessment of the compatibility of national film support schemes to State aid rules;
- The issue of territoriality requirements in the exercise of intellectual property;
- The status of cultural goods and services within multilateral trade negotiations;
- The status of public broadcasting services;
- The assessment of market concentration in the cultural sector².

The market of cultural products is essentially organised on a national and linguistic basis. This diversity of markets and rules should not be considered as a brake to market integration.

The challenge for the EU is: How to achieve an internal market for cultural and creative products, services and workers while at the same time giving due attention to the specificities of the cultural & creative sector?

² E.g. European Court of Justice Judgement IMPALA v European Commission , Case T464/04, 13 July 2006

2. Getting creativity on the EU agenda

The cultural & creative sector is of crucial importance in the globalised and post-industrialised economy. It nurtures creativity, which is an essential input to innovation, thereby contributing to the enhancement of European competitiveness.

Fostering creativity requires thinking and operating in a transversal manner as it touches upon many EU policy areas such as education, social policy, innovation, economic growth and sustainability.

At this stage, some Member States have started implementing isolated strategies. At local levels, several cities and regions bet on the interaction of all these components to boost their performances. Europe could play a useful role in coordinating the various local actions with to the aim of defining common goals and develop indicators.

European intervention in this field can be justified for the following reasons:

- Many of the issues at stake are of a trans-national nature, such as devising new business models, licensing models for “content” distribution and support and access to finance for trans-national projects.
- It falls within the EU competences (such as regulatory issues related to the functioning of the internal market, content regulation, competition law, commercial policy, etc.);
- The need to promote and implement through clearly defined steps, the principle of cultural diversity whether in Europe or with third countries.

-How can the organic links between culture, creativity and innovation, resulting in economic growth and competitiveness be better promoted?

-How, and to what extent, can the EU devise and implement policies that promotes creativity and its sustainability ?

II. CHALLENGE 2: HARNESSING THE DIGITAL SHIFT

One of the main drivers of change in the cultural & creative sector is the roll out of digital based technologies.

On the other hand the main drivers for the take off of new technologies are the existence strong, innovative and diversified content. The interaction between the ICT sector and content is generating massive opportunities for both sectors, provided pivotal challenges are addressed (as illustrated in Chapter IV above).

These opportunities are the following:

• **Content is contributing to digital literacy**

People will buy a PC, a 3G mobile phone, better Internet access, an MP3 player, because they want to use these devices/networks to consume content (self-generated or acquired content) . The acceptance of technology and the further development of the ICT industries are dependent on the availability of quality content.

• **New demand is radically transforming the distribution of content.**

This is leading to new support, applications and content offerings including:

- DVDs, home cinema systems, set-top boxes and flat screen TVs that are all dependent on available attractive content (film, video-games, music, etc.);
- The development of mobile telephony networks which are dependent on attractive 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 services including music downloads & streams, video-on-demand, straight to video-on demand, etc.

All of these technical developments represent new market opportunities for producers of content. It also enables to questions traditional forms of distribution – towards improved market access?

Because of the Internet, inventory, storage and distribution costs have become less significant. Therefore, it would become economically viable to sell less popular products. Figures published by Chris Anderson, the father of the “long tail theory”, show that in aggregation, those products sell more than the “mainstream”. This should facilitate the emergence of a more sophisticated economic model for the cultural & creative industries – one in which long shelf life products are allowed to take their natural course, making small but consistent sales. In turn, this improves cultural diversity, consumer choice and addresses the poor supply and demand matching.

New forms of delivery bring new opportunities for the European content industry that is locally fragmented and suffering in some sectors of distribution insufficiencies. The Internet could be the international distribution tool required to by-pass some market access problems, notably experienced in music and cinema. This may give a new chance to European production on the world stage (*The Triplets of Belleville* – nominated for the best animated feature Oscar in 2004 – opened on just six screens in the USA!) In other more traditional sectors, such as visual arts, the impact of new technologies is also important– it accentuates dramatically the globalisation of activities.

For these opportunities to be translated into concrete advantages for the European cultural & creative sector, a set of challenges needs to be addressed, particularly:

- Regulatory challenges

New market players are entering the market of content production and distribution. To what extent should they be subject to the same rules and regulations as traditional players?

- The challenge of consumers' behaviours and expectations

Creative companies are conceding that the era of telling viewers when they can watch a show or a film is finished. The challenges are manifold: How to capture an audience fragmented into millions of "niches" with different languages? How to address new trends in media consumption? How to tackle the issue of "peer-to-peer", copying and piracy? How to foster digital literacy amongst the largest number of people and entice curiosity? How can ICTs allow reaching new publics and raising new financial resources for the art and heritage sectors?

- The challenge of new business models

The digital revolution requires significant changes from content producers and distributors to adapt to new business models. Most companies with both offline and online activities still see the vast majority of their revenues and costs lying within their traditional, offline businesses. Yet, they are increasingly aware that this will not last in the long run. The management of this transfer is the challenge. The switch to the new models is made more difficult in circumstances where consumers have become used to accessing products or services for free. What are the most appropriate European business models in the context of an Internal Market that is linguistically and culturally fragmented? How do small companies finance the cost of "going digital" (digitisation, dubbing/subtitling, digital rights management implementation, etc)? How can licensing for pan European exploitation be promoted without discriminating against local language productions ?

III. CHALLENGE 3: FOSTERING A CREATIVE EDUCATION

1. “Education to the arts” for all acts as an eye-opener, stimulating essential skills for future citizens and workers

In the US a National Governors Association’s publication “*The Impact of Arts Education on Workforce Preparation*” (May 2002) stressed that “*school districts are finding that the arts develop many skills applicable to the “real world” environment.* The Washington-based Arts Education Partnership (AEP)³, a national coalition of arts, education, business, philanthropic and government organisations, focuses its actions and publications on demonstrating and promoting the essential role of the arts in the learning and development of every child and in the improvement of America’s schools.

In the UK, a 2002 Report published in the UK under the title *All Our Creativity, Culture and Education*, showed that in order to prepare young people to an ever-changing world, creative and cultural development should be promoted. The report argued that the ethos of schools, the relationship between students and education, as well as the core curricula, would require a significant shift to meet the demands of socio and economic priorities. Further to this report, the Arts Council of England and the Department for Culture Media and Sport decided to establish the “Creative Partnership” programme to promote creativity, the arts and culture at schools, with the goal of helping others meet the challenges of today’s economy.

Education to the arts provides students with essential skills that are transferable in other areas and that will be of growing importance in the knowledge economy. These include openness to a variety of styles and cultures, team work, concentration and imagination.

The challenge is for Europe to foster a “cultural & creative” education for all (at the level of primary and secondary school). How can such a proposal be credible, given the poor esteem education to the arts is often held in? What needs to be done in relation to the training of teachers or in relation to the implemented school programmes? How can experiences be better shared?

2. Improving the educational and training offers in relation to cultural and creative professions

Art institutes in the EU train around 200,000 students each year, either in University Art Departments, “conservatoires” or other single-subject institutions. Approximately 50,000 students graduate each year with a degree in some form of art⁴. Yet it is estimated that less than 10% of graduates will make a successful living off of their art. Fostering synergies between the world of education on the one hand and the business community on the other, is an important requirement. It entails an adaptation of art school curriculum to include business management courses for example.

The challenge for Europe is to improve the educational and training offers in relation to cultural and creative professions. This implies the adoption of the following skills:

- Enterprise awareness, for instance an ability to make realistic judgements about the economic sustainability of artistic activities, in particular through improving the links between education and industry.
- Effectiveness of understanding market requirements and audience targets.
- Ability to understand and mobilise financing opportunities (banks and financial institutions, sponsorship and donation, etc).
- Understanding new technology and the ICT industry.

³ <http://www.aep-arts.org/>

⁴ OPHUYSEN (Truus), *Making a living in the Arts*, Project report on ‘Making a living in the Arts’, employability of arts graduates

IV. CHALLENGE 4: SUPPORTING CREATIVE TERRITORIES: WINNING THE GLOBAL COMPETITION TO ATTRACT TALENTS AND INVESTMENTS

The cultural & creative sector is an essential element of local development. Attracting creators and investors in creation is a policy priority in a large number of European cities such as Barcelona, London, Berlin, Amsterdam and Lille. It is a priority of local economic development. Successful cities and regions play the cultural card.

The Bilbao example is exemplary. The establishment of the Guggenheim museum was conceived as the core element of a strategic plan to revitalise an area suffering from a dramatic economic crisis. The success story ended up in positioning the city on the global map of tourist destinations and in generating new economic prospects for the entire Basque province (close to 1 million foreign visitors are attracted to the region every year)⁵. The entire economy of the region has been revitalised by the museum which has also enabled the local population to regain pride in their city. The youth remain attracted by the region and are less tempted to migrate. As a result, numerous economic activities have developed within and around the city (museums, performing arts, education).

However, the competition is fierce at a global level to attract the “creative class”. European cities and regions are competing with North America and Asia to establish creative hubs that will feed into the economic and industrial fabric. Attractive universities coupled with generous tax breaks are the usual means to encourage the development of poles of excellence in creation. They are often associated with technology hubs.

The impact of culture and creativity at local levels is the object of increased attention. The OECD recently published a report⁶ on culture and local development enhancing the importance of developing cultural clusters to increase local competitiveness. The Danish strategy on “creative industries” comprehensively addresses the issue of “creative regions” presented as the appropriate scale to take action in view of driving FDIs (foreign direct investments) and creative talents into the country. This year the French Parliament published a report aimed at enhancing “territories’ attractiveness”⁷.

Culture has indeed a role to play in helping regions attract investment, manpower and tourism. Paradoxically, whereas we are living at a time where information technologies have abolished distance and time constraints, “physical location” and the “socialisation” factor remain decisive for economic success. Cities and regions are engaged in a race to attract FDIs and creative talents. In order to succeed they need to attach several new strings to their bows: diversified cultural offerings, quality of life and life style. Culture has become an important soft location factor.

In its 2004 annual survey, US magazine Area Development Online ranks the different location factors. Over 50% of those polled believe that cultural facilities are “important” or “very important”, before climate, training programmes, proximity to technical university, railroad services or waterway & ocean port facilities.

The affluence of creative people and industries often generates positive spill-over in the cultural & creative sector in addition to the value added by the activities, these include: a rise in cultural consumption (as there is a clear correlation between the level of education and cultural consumption), the development of new educational offers to satisfy the needs of these industries, positive synergies with the business and technology communities.

How can the EU support cities and regions to position themselves in the global race to attract creative talents and investments?

⁵ Anuario Bilbao 2004.

⁶ *Culture and local development*, OECD, 2005

⁷ *L'action culturelle diffuse, instrument de développement des territoires*, Report by Jean Launay and Henriette Martinez to the French National Assembly, 149 p., June 2006

V. CHALLENGE 5: ENSURING CONSISTENCY BETWEEN EU INTERNAL AND EXTERNAL ACTIONS

The first challenge presented above consists in making culture and creativity a European priority, through recognising the specificities of the sector when implementing EU policies and regulations. In other terms, the first challenge is to achieve and further develop the full implementation of article 151.4 of the EC Treaty.

However this coherence in the way culture and creativity are addressed at intra-Community level should be mirrored in the EU external actions too. The EU external action should be submitted to an "extension of article 151.4".

In the area of culture, and more specifically in the area of the cultural industries, relevant EU external actions encompass those carried out within:

- The World Trade Organisation, and in particular the negotiations on trade in services and the issue of domestic regulations and subsidies;
- The World Intellectual Property Organisation, and in particular the international conventions and treaties regulating copyright and related rights;
- The Organisation for Economic Cooperation and Development, and in particular investment agreements and conventions;
- The UN Organisation for Education, Science and Culture, UNESCO, in particular in relation to the future implementation of the Convention of the Protection and the Promotion of the Diversity of Cultural Expressions.
- Trade and cooperation agreements with third countries or regional groupings (such as Mercosur, or ASEAN).

Tensions between the external and internal framework have been experienced in the past, notably during the WTO Uruguay negotiating round. Coherence should be pursued to avoid sending contradictory message on the value of cultural diversity which is now part of EU external policy following two major steps:

First, in 1999 the EU Council gave a mandate to the European Commission in relation to the negotiation of multilateral trade talks in WTO. This mandate expresses the commitment of the European Commission and the EU Member States to promote "cultural diversity" and the corollary right for public authorities to support cultural activities. The text of the mandate says: *"During the forthcoming WTO negotiations the Union will ensure, as in the Uruguay Round, that the Community and its Member States maintain the possibility to preserve and develop their capacity to define and implement their cultural and audiovisual policies for the purpose of preserving their cultural diversity"*.

Secondly, in 2005 the conclusion of the UNESCO Convention on the Protection and the Promotion of the Diversity of Cultural Expressions was another step in this direction of establishing a consensus on the following key points:

- The double nature (cultural and economic) of cultural goods and services;
- The right of a State to develop and implement policies in the cultural sector;
- The need to encourage international cooperation, notably through a system of preferential treatments.

The Convention further specifies the articulation of the Convention with other existing international instruments, with the aim of guaranteeing the non-subordination of the Convention to other international instruments and to ensure that articulation is reached *"under the principles of equality, mutual support, complementarity and coordination"*. This can be seen as a first step in the translation of the EU's article 151.4 into the international system of governance i.e. the requirement for any policy or rule implemented (in the area of multilateral and international trade, development and cooperation policies, etc) to take into consideration its impact on culture and cultural diversity.

The challenge for the EU to make the most of the new possibilities enabled by the UNESCO Convention on cultural diversity, with the intention of finally:

- Promoting cultural diversity at international level.
- Getting the specificities of “cultural goods, services and industries” and corresponding regulatory/policy responses integrated to the agendas of relevant international organisations. How does the EU need to pursue this objective? Which countries and organisations can become partner to?
- Give a concrete meaning to EU commitments in relation to the promotion of the diversity of cultural goods and services at an international level, outside trade liberalisation agreements. What are the appropriate tools to meet this challenge?

SECTION III. RECOMMENDATIONS FOR A CREATIVE EUROPE TO PUSH LISBON FORWARD

Chapter I of the study pointed out that several European governments carried out an examination into the potential of their national “creative industries”, highlighting their social and economic importance. Those countries – essentially Denmark, Finland, France, the Netherlands and the UK - are developing programmes to turn creativity into industrial successes.

These attempts are relayed in cities and regions, as exemplified in Chapter IV with the examples of Bilbao, London, Berlin or Montreal, as well as the projects developed in New York or Hong Kong to convert themselves into creative-hubs and attract the “creative class”.

Even beyond the national level, the cultural & creative sector underpins some fundamental policy development at promoting cultural diversity, in the context of multilateral trade negotiations.

The challenges facing the cultural & creative sector remain to be comprehensively addressed at the European level. Europe needs to develop a creative strategy to address the challenges of culture *and* creativity. Culture should now play a significant role in the European project.

The proposals set out in this section aim at making a European environment that stimulates and encourages creativity in the context of the Lisbon strategy.

I. ESTABLISH A STRONGER QUANTITATIVE EVIDENCE BASE FOR POLICY-MAKERS

1. An accurate and comprehensive statistical system

A strategic approach to the cultural sector needs to be informed by the development of appropriate statistical tools and indicators at both national and European levels.

Without a good representation of the creative sector at statistical levels the development of a strategy and its monitoring is made more difficult. The methodology developed in this study is a first step.

In the US, Americans for the Arts implements an interesting method to measure US creative industries. Their work is made easier because of the existence of a single definition of the sector investigated across the Federal States, as well the use of a standardised statistical framework. In addition, the organisation relies on numerous relays across the country providing it with accurate and timely information. It is funded by a private cash rich foundation. Finally, the organisation manages a comprehensive website to make its databases and reports public.

Americans for the Arts

Americans for the Arts (AFA) is the US' leading non-profit organisation for advancing the arts in America. In particular, AFA provides extensive arts industry research. In March 2005 the organisation published the *Creative Industries 2005- the Congressional Report*⁸. The report assesses the "economy of culture" in the US. It is based on:

- A clear definition of the sector: It uses a conservative approach apprehending only those businesses involved in the production and distribution of the arts. They comprise "art centric businesses" belonging to the following sectors: museums & collections; performing arts; visual arts & photography; film, radio & TV, design & publishing; as well as art schools & services. The sector is defined by using 643 eight-digit Standard Industrial Classification Codes.

- A clear statistical methodology enabling it to gather data on an annual basis, using a national database, the "Dun & Bradstreet database" (13.3 million active businesses in the US – the database is presented as the most comprehensive and trusted source for business profiles and listing) as well as the Standard Industrial Classification Codes.

In Europe, in the framework of statistical systems currently implemented, the statistical categorisations are not adapted to cultural activities and occupations. In addition, data generally provided by national statistical institutes either do not offer the level of details required, or are not available at all. Similarly, there are limited sources enabling the value trade in cultural products. Data on trade in cultural services are barely existent and do not appreciate the value of intangible assets in trade terms. Thus there is no way to figure out the exact value of trade in cultural products.

Initiatives to collect data at a European level in the creative sector concern essentially the film industry with the setting up of the Audiovisual Observatory in Strasbourg. The European Commission (DG Information Society) also worked on the setting up of a publishing observatory. The EP Ruffolo Report⁹ suggested the setting up of a cultural observatory. These initiatives indicate a piecemeal approach but no coherent policy in comprehending the sector in its entirety.

In response to a request by some Member States (in particular Italy and France), the Leadership Group on Cultural Statistics (LEG-Culture) was set up by the Eurostat statistical Programme Committee in March 1997 with the financial support of the

⁸ <http://ww3.artsusa.org/>

⁹ *Report on cultural cooperation in the European Union (2000/2323(INI))*, European Parliament's Committee on Culture, Youth, Education, the Media and Sport, Rapporteur: Giorgio RUFFOLO, 16 July 2001, FINAL A5-0281/2001

European Commission. Its mandate was to build up a system of coherent and comparable information that could contribute to a better understanding of the links between culture and socio-economic development at EU level.

The Group constituted of experts from Member States' cultural ministries as well as from Eurostat and the European Commission. In 2000 it published a very interesting including a methodology framework. However, due to a lack of resources, the recommendations from this Eurostat report have yet to be implemented. This issue should be reviewed as a matter of urgency.

- It is recommended that the EU establish a pan-European economic intelligence, on the basis of the LEG Group's recommendations, to assess and monitor the sector.

- The collection of data should enable the following to be measured:
 - The economic value and growth of the culture and creative sector at national and EU level *including SMEs*
 - Employment in the different sub-sectors composing the cultural & creative sector, including public employment, the self-employed and freelancers
 - The value of trade in cultural products and *services including e-commerce*
 - The contribution of the public sector
 - Diversity of cultural offers within the EU countries and in relation to exchanges with third countries
 - Investments in intellectual capital, i.e. measuring intangible assets

- To complement Eurostat resources, the data collection process could be assisted by a "European Cultural Network", financed by the EU-Commission and private resources. This network would be composed of employees of public and private bodies such as research institutes, NGOs, trade associations and institutions active in the cultural & creative sector. The network itself would function with a mandate similar to the American for the Arts network. The data collected could be made accessible on the Internet for comments or to post relevant publications.

2. Establish an index to measure and monitor creativity

To complement the tools developed by the European commission to measure the degree of innovation in Europe, it is also suggested to develop a **creativity index**.

- The EU is already implementing innovation scoreboards to monitor technology and scientific performances¹⁰.

Table 18: EU innovation scoreboard

	INDEX	DESCRIPTION
INNOVATION INPUT	Innovation drivers (measures the structural conditions required potential)	SME graduates per 1000 population aged 20-29
		Population with tertiary education per 100 population aged 25-64
		Broadband penetration rate (number of broadband lines per 100 population)
		Participation in life-long learning per 100 population aged 25-64
		Youth education attainment level (% of population aged 20-24 having complete at least upper secondary education)
	Knowledge education (measures investment in R&D activities)	Public R&D expenditures (% GDP)
		Business R&D expenditures (% GDP)
		Share of medium-high-tech and high-tech R&D (% of manufacturing R&D expenditures)
		Share of enterprises receiving public funding for innovation
		Share of university R&D expenditures financed by business sector
	Innovation and entrepreneurship (measures the efforts towards innovation at the level of firms)	SMES innovating in-house (% of all SMEs)
		Innovative SMEs co-operating with others (% of all SMEs)
		Innovation expenditures (% of total turnover)
		Early stage venture capital (% of GDP)
		ICT expenditures (% GDP)
SMEs using non-technological change (% of all SMEs)		
INNOVATION OUTPUT	Application (measures the performance expressed in terms of labour and business activities and their value added in innovative sectors)	Employment in high-tech services (% total workforce)
		Exports of high technology products as a share of total exports
		Sales of new-to-market products (% of total turnover)
		Sales of new-to-form not new-to-markets products (%total turnover)
		Employment in medium-high and high-tech manufacturing (% total workforce)
	Intellectual property (measures the achieved results in terms of successful know-how)	EPO patents per million population
		USPTO patents per million population
		Triadic patents families per million population
		New community trademarks per million population
		New community design per million population

- Similarly, the World Bank has set up a scoreboard to measure knowledge societies. It includes the following categories of analysis:
 - An economic and institutional regime that provides incentives for the efficient use of existing as well as new knowledge and the flourishing of entrepreneurship;
 - An educated and skilled population that can create, share and also use knowledge;
 - A dynamic information infrastructure that can facilitate the effective communication, dissemination and processing of information;

¹⁰ For an example of EU "innovation policy scoreboards", please go to : http://trendchart.cordis.lu/scoreboards/scoreboard2005/scoreboard_papers.cfm

- Efficient innovation innovative system of firms, research centres, universities, consultants and other organisations that can tap into the growing stock of global knowledge, assimilate it and adapt it for local needs and create new technologies.
- Chapter 1 presented the creativity scoreboards used in Finland and Hong Kong. It is proposed that the EU sets up a “Euro-creativity index”.
This would require identifying a set of factors conducive to creativity, building appropriate indicators in relation to these factors and establishing a system of monitoring creativity performances at national levels.

The EURO CREATIVITY SCOREBOARD would include the following sections:

- **Talent Sub-Index ...**

... to measure the level and characteristics of employment in the cultural & creative sector

Possible indicators could include: % of workforce employed in the cultural and creative sector.

- **Cultural Sub-Index ...**

... to measure the availability, participation and production of cultural resources

Possible (and non exhaustive) indicators could include:

Venues: Number of museums, operas, festivals, cinemas etc.

Artists: Number of composers, musicians, dancers, orchestras, ballets, etc.

Industry: number of creative companies, production levels, etc.

Equipment: Number of TV channels per million inhabitants, radio stations, hardware equipment, Internet connections etc.

Education: Number of arts and audiovisual related education institutions, etc.

Participation and consumption: Number of people playing an instrument, singing in a choir, reading more than five books a year, cinema attendance, CD albums bought on an annual basis, etc.

- **Technology and Innovation Sub-Index ...**

... to measure the development of infrastructures and technology penetration, the use of information and communication technologies in cultural institutions and organisations and media activities, the investment in cultural capital,

Possible indicators would include:

- Broadband penetration, broadband speed, etc.

- Investments in intangible assets

- **Diversity Sub-Index...**

... to measure **the variety in cultural products on offer**

Possible indicators would include:

- Market shares of non-national European film or music, etc.

- Top 100 hits in music, films, books, etc (including on-line top 100 hits)

- Diversity in total sales (including online sales)

- Diversity of radio programmes, etc.

II. INTEGRATING THE CULTURAL AND CREATIVE SECTOR INTO THE LISBON AGENDA

The Lisbon agenda should include as part of its objectives:

- The increase and improvement of investments in creativity;
- The improvement of creation, production, distribution, promotion and access to cultural activities and content;

Recommendations include:

- **Integrate creativity objectives into EU support programmes**
 - The i2010 initiative should underline the key role played by creative industries in achieving the Lisbon goals and seek to engage the participation of creative industries in the development of an agenda.
 - EU Structural Funds should support local initiatives that associate creativity and the cultural sector as recommended by 1996 Commission's Communication *Cohesion Policy and Culture, A Contribution to Employment*¹¹. They should in particular support creative industries as an innovative job engine.
 - The ability to engage with the creative sector, in particular SMEs, so that they can participate to R&D programmes and interaction with the technology sector should be encouraged. The 7th FP should act as a matter of priority regarding the digital shift – to make the most of opportunities fuelled by technological innovation.
- **Internal Market policies**
 - Overcoming barriers to artists' mobility, such as diverging withholding taxes, disparities in social regimes, recognition of diplomas and qualifications. A European Passport for Artists could be developed.
 - Overcoming barriers to the mobility of national cultural productions by encouraging pan-European distribution licensing models for instance.
 - Support for the testing and development of business models adapted to the constraints of the European market (with its localised markets due to languages and cultures).
 - Revising accounting standards so that intangible assets can be properly valued.
 - Support strong copyright standards and enforcement rules at the EU level and internationally.
- **Education policy**
 - Examine and recommend the best practices of encouraging art education in primary schools.
 - Consider ways of supporting the networking of art schools to promote European excellence.
 - Associate more closely artistic education with the Bologna process.
 - Develop methodologies to evaluate creativity as a key competence.
 - Associate art establishment with "poles of creativity" or "creative communities" gathering cultural operators, industries, R&D centres and universities.
 - Develop public-private partnerships to shift creativity into the market place as well as to integrate technological developments with educational establishments.
 - Integrate management and business skills in curricula to foster a better understanding between industry and art students & creators so as to allow the latter to make a living from acquired creative skills.
 - Help work on an effective and efficient validation of competences and skills.

¹¹ (COM(96)512)

III. SUPPORT THE DIGITAL SHIFT

The growth of the cultural & creative sector will be fuelled by innovation in technology. The growth rate varies significantly from one sector to another. However, music, cinema, broadcasting, advertising and publishing are confronted with the digital technology revolution. Revenue cannibalisation is taking place; traditional business models are under threat leading to costly restructuring programs and increased market concentration.

To achieve the transition to the digital world, companies and creators will require the development of new skills and new ways of managing their businesses. This is an opportunity for European businesses and talents. The EU should address this opportunity and play its part in supporting the changes required to make a creative Europe competitive.

Recommendations for EU action include:

- *Training & Education*: supporting the introduction of new technologies in art schools, improving life-long learning and the update of qualifications.
- Enable the sustainability and growth of a neglected industry group: the cultural & creative sector is faced with *digitisation requirements* and *rights management issues*, entailing significant additional costs.
- Modernise *State aid frameworks* to reflect the challenges brought by the digital world. Support in cinema is still focused on the traditional business models, thus acting as a brake to innovation. For example, film agencies should finance and invest in films that do not necessarily have to be theatrically distributed, taking into consideration new possibilities for distribution for a film to reach the public (not only theatrical but VOD, straight to video/DVD, etc).
- Supporting, for example within the implementation of the 7th FP, the *testing and development of business models* adapted to the constraints of the European market (with its various and localised markets due to language and culture). This includes support to the establishment of creativity platforms addressing the needs of the market as well as clustering.
- Encourage, as part of the 7th FP and Structural Funds, functional links between industry and the arts to foster cooperation.
- *Make creativity in the digital economy an objective* of structural funds for priority expenditure.
- Get the European Investment Bank and the European Investments Fund to focus on a) supporting SMEs and make their schemes useful in practice; and b) supporting ventures in the digital economy that include the creative sector.
- To continuing cracking down on *piracy* which is regarded as a big threat to the growth of these new opportunities. Systems have to be implemented so that rights across all media can be exercised.

IV. ADDRESS THE CHRONIC UNDER FUNDING OF CULTURAL & CREATIVE INDUSTRIES

“You just can’t get the same level of comfort with creative investment as you can with something like semiconductors, say that you can see and touch”.

David Carratt (partner at Kennett Ventures)

The large majority of creative operators are micro businesses and SMEs. The continued vitality and commercial sustainability of creative SMEs is crucial to maintaining Europe’s strength in the sector.

- **An inadequate access to finance**

However, as a general rule, SMEs suffer from inadequate access to finance, especially in the sector of early-stage financing. An important gap persists in the availability of micro-lending (loans below €25,000) and loan guarantees for small businesses.

In this respect the European Commission encourages the development of public support policies to bridge the gap and remedy this market failure.

Funding for creative industries is a particular problem. While other growth sectors such as technology, telecoms and biotechnology have well established routes for entrepreneurs to gain financial backing, the creative industries have few. Investors are more used to industries with fixed assets. Creative people are seen as being less business-minded and more inclined to resist commercial advice. Banks are also reluctant to provide corporate financial services to the creative industries which are often perceived as too risky. This results in people and small companies with creative ideas finding it hard to gain commercial backing.

The issue of financing the cultural & creative sector was supposed to be addressed, to some extent, by the European Investment Bank (EIB) following the 2000 Lisbon Summit. In effect, telecommunication and innovation represent the bulk of projects financed by the EIB.

i2i audiovisual, EIB, EIF funding mechanisms to culture: some facts

The 2000 Lisbon summit mandated the EIB to support the audiovisual industry.

The bank accepts that there is a clear market failure as traditional banks are no longer interested in gap financing and the perceived risk profile of film financing.

Whilst the decision of the Lisbon summit was extremely significant politically, the mandate produced little results in addressing the financial bottlenecks of the sector. EIB’s aggregate lending to the cinema sector remains very small. Since 2003 it has been limited so far as to providing risk sharing credit line limited to the French cinema market. €80 million of pre financing cash flow was made possible because of the French film market peculiarity.

The EIB estimates that in 2003 its loan support in relation to audiovisual (essentially infrastructure financing for public broadcasters) amounted to €423 million - out of €17billion. The leverage effect recorded on the operations for French cinema to date is on average, about 7 times EIB’s loan amounts.

So far the EIB has failed in its objective to support the cinema sector (at launch it was announced that the loan capacity would exceed €500 million). Out of a lending volume of €14.4 billion at the end of its first two years i2i review, very little went the way of the creative industries. It appears that none of the financial products offered by the bank would meet the economic needs of the sector.

Telecommunication still represents the bulk of projects financed by the bank by a very wide margin. The EIF records that loans in audiovisual are even more dismal. It manages a portfolio of 184 funds corresponding to a commitment in excess of €2.5 billion as at 1 January 2003. Very few funds are focusing on creative industries despite the fact that the EIB is, in principle, committed to supporting the development of SMEs and entrepreneurship.

- **The difficulty to value intangible assets**

Financial operators agree on the difficulty of the task of measuring the effective value of untraditional business assets such as copyright, licenses and royalties. Not only are these unpredictable variables but they also present particular complexities with regards to their exact valuation. Accounting standards represent an important tool to gain the investors confidence. Financial information is harmonised at EU level to allow transparency and comparability. It is based on the guidelines elaborated by the International Accounting Standard Board (IASB) to harmonise accounting principles. The IASB recognises that investment in intangible assets has increased significantly but again the dominant opinion values intangible assets from a traditional knowledge economy point of view, giving preference to patents and R&D. Little attention is paid to equally valuable intangibles such as creativity, invention, originality and talent – which constitute the main assets owned by creative industries.

The maximisation of the use of the financial instruments of the EIB, and the EIF, in line with the EIB i2010 Initiative, is recommended. Furthermore, European expertise in project evaluation and risk assessment in the cultural & creative sector should be gathered and made accessible to financial operators.

It is further suggested that a “creative industries bank” be established to address the under funding of the sector (as part of the I2010 initiative of the European Investment Bank).

V. EU REGIONAL POLICY TO BOOST CREATIVITY

The EU can support European cities and regions to position themselves in the global race to attract investments, creative talents and tourists. Culture is a key tool to succeed.

It is recommended that EU structural funds support both traditional art and heritage sectors and cultural industries on the following grounds:

- They significantly contribute to employment at local levels;
- They have a significant potential for growth;
- They play a significant role in improving social integration and territorial cohesion;
- Using culture as an economic & social tool can be a winning strategy in urban, industrial as well as agricultural areas.

The European Commission should monitor activities and initiatives in this field and highlight best practices – currently the information available is very limited.

Finally it should support the completion of impact assessments from the investments made to support such projects.

VI. SUPPORT CULTURAL DIVERSITY IN EUROPE AND INTERNATIONALLY

The EU has to make further progress to implement a coherent external action that reflects the importance of culture & creativity. In the same way as the EU internal action (in the field of competition, internal market, or other core policies) needs to better integrate the principles enshrined in article 151.4 of the EC Treaty, the external action requires similar consistency in relation to the implementation of the common commercial, development and cooperation policies.

The EU has an important role to play in promoting cultural exchanges and the diversity of cultural offer so as to avoid standardisation and homogenisation in taste and cultural offers. Globalisation must work for all cultures.

The US market which is the largest in the world is also the most difficult to access for non US cultural products and services because of structural barriers. European, African and Asian films account for less than 5% of the US market. In relation to music, US artists have a 92% market share in their home territory despite the fact that three of the four major record companies are European (Universal, EMI and BMG). British artists had a 30% market share in the US 15 years ago – in 2004 it dwindled down to 6%. Too little is done to help European creative businesses seize the opportunities abroad, and notably in the emerging economies in Asia or Latin America.

- During the negotiation of the UNESCO Convention on cultural diversity, the EU committed itself to support the exchange of cultural products and services. It must show this commitment will find concrete translations in particular in its relations with developing countries.
- The EU must support business exchanges and distribution arrangements between European cultural operators and their counterparts in third countries to facilitate licensing agreements and to sustain cooperation. Culture is an important tool for economic development – industries should be associated in the implementation of development policies.

Recommendations, within the framework established by the UNESCO Convention “on cultural diversity”, include:

- Integrating the cultural dimension into trade, cooperation and association agreements at bilateral & multilateral levels between the EU and third countries outside multilateral trade agreements and mere liberalisation commitments.
- Considering applying, in specific cases, preferential treatments for cultural products. For example audiovisual and film co-productions completed in partnerships with a country party to one of the agreements referred to above could be eligible to become a “European audiovisual work” and therefore be eligible to European “quotas” as defined in the European Television Without Frontiers Directive (and in the future Audiovisual Media Services Directive). In this respect the proposal for a new Article 6 of the latter proposal for a Directive, and in particular the new 6.1.c. provision, is a key step forward in this direction¹². Additionally, co-productions with third countries as well as distribution or licensing agreements should be encouraged to promote cultural diversity within and outside Europe.
- Supporting third country artists and professionals’ attendance and participation in European trade fairs and festivals. Supporting the establishment of trade organisations representing local industries in developing countries to facilitate self-determination, collective bargaining, trade exchanges and licensing agreements.
- Supporting European cultural and creative professionals in prospective external markets (completing market research, identifying partners, easing administrative burdens through the setting up of one-stop-shops in third countries on the model of “export bureaux”).

¹² Article 6.1.c is replaced by the following « works co-produced in the framework of agreements related to the audiovisual sector concluded between the European Community and third countries and fulfilling the conditions defined within each of these agreements ».

VII. KEY STEPS TO CREATE COHERENCE AND ENGAGE WITH THE SECTOR

The European Commission is managing creativity and cultural goals through various departments and policies. In relation to culture, the coherence of all these actions rests with the implementation of Article 151.4 of the EU Treaty which provides that *“the Community shall take cultural aspects into account in its action under other provisions of this Treaty, in particular in order to promote the diversity of its cultures...”*

While culture is an integral part of the decision making process, the reality shows that the role of culture remains limited in practice. Culture tends to be viewed from the perspective of competition or trade law rather than in the perspective of cultural diversity and other related public interest objectives. As a result culture is taken into account by means of exception and exemptions – that is in a negative way – in relation to the aims of the EC Treaty which are essentially market driven. Article 151.4 is not comprehensively implemented.

Furthermore, the human resources of the European Commission dealing with the creative sector are essentially focused on audiovisual (in particular cinema) and the media (press and publishing) within DG Information Society and the management of a cultural programme (DG Education & Culture).

Whereas the ICT industries are able to interact with the European Commission – essentially through DG Information Society and DG Enterprise – the cultural and creative industries are not in a position to engage with the EC services to the same extent (with the notable exception of the cinema sector through the MEDIA programme).

- The establishment of an entity within the European Commission that enables the coordination of activities and policies impacting on the cultural & creative sector is necessary. This entity would ensure that:
 - The promotion of cultural diversity is at the heart of the European project
 - Community policies and decisions, in particular Internal Market (including Intellectual Property) and competition policies, effectively take into account the specificities of the cultural & creative sector
 - EU support programmes are mobilised and coordinated to respond to the need to develop the creative sector (in particular in the framework of the 7th Research Framework Programme, programmes and actions carried out by the EU Structural Funds, the i2010 initiative and cultural programmes)
 - Creativity goals are part of the Lisbon Strategy's priorities.

This entity would focus on the sustainability of cultural & creative industries in Europe as well as on fostering commercial innovation and growth.

- In the same way some Member States (in particular Denmark , the Netherlands and the UK) set up task forces involving the participation of different ministries (in addition to the Cultural Ministry, the Ministries of Economy and Finance, and the Ministry of Trade), it is recommended that a “Creativity Task Force” be established within the European Commission. It would include representatives from the following Directorates Generals: DG Education & Culture, DG Information Society & the Media, DG Research, DG Enterprises, DG Competition, DG Trade, DG Development and DG Internal Market.

The task force would consider the strategy to make a creative Europe and in particular ensure:

- A better interaction with the cultural & creative sector and focus on the sustainability of this sector in Europe as well as on the maximisation of the economic & social contribution the sector can bring to the European project
- A comprehensive and coherent implementation of article 151.4. of the EC Treaty.