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WORKING DOCUMENT

on Cultural Industries

Committee on Culture, Youth, Education, the Media and Sport

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Introduction

This working document is neither a research paper nor an exhaustive enumeration of factors which have produced a crisis in the culture-related industries and ready-made solutions to them. It is, rather, an anthology of elements likely to affect the viability today and tomorrow of the cultural industries in the European Union; and of suggestions about how, and using what instruments, their competitiveness could be enhanced. In short, this working document is intended as a preparation the Committee's public hearing on 22 April 2003, the report on the *ad* hoc questionnaire sent out to the cultural operators, and the forthcoming draft report.

Methodology

The own-initiative report on cultural industries, which the EP Committee on Culture, Youth, Education, the Media and Sport has agreed to draw up, has now been in preparation for almost a year. The path has been clearly defined to ensure that we have original information enabling us to ascertain: the economic impact of culture through production, distribution and consumption of cultural products and services; the important role of such a process for the everyday life and the formation of the cultural identity and values of the European citizens, mainly the young generations; the significance of cultural industries for the dynamic maintenance of cultural diversity in Europe; and finally, the contribution of cultural industries to employment, economic growth and international trade.
All the above require a long-term perspective policy which will sustain the cultural industries enabling them to function optimally in an enlarged European Union.

The preparation to this report falls apart into six more or less complementary parts :
- a stocktaking effort of former initiatives in the field of cultural policy;
- a round up of recent research materials covering all sectors of cultural industries;
- a round of consultations with MEPs, cultural workers and other professionals;
- a questionnaire sent out to some 200 trade associations, federations of industries, companies and experts inviting them to contribute to the field work accompanying the report;
- a public hearing at which the results of the questionnaire will be presented;
- a comparison of the EU - US situation;
- a draft resolution with operational suggestions for action to the competent EU institutions.

This **step-by-step approach** involving all actors is thought to be necessary particularly in view of the importance, scope, complexity and sensitivity of the subject for the EU cultural identity.

Historical background

For over ten years now, the instruments to financially support this consensual model have been established and refined, leading to the "Culture 2000" framework programme. Other European programmes will also finance specific actions, but, on the whole, budgetary means have been sparse and have not reflected the true European dimension we are pursuing. It has not been possible, so far, to go beyond the mere co-operation model, the Member States being wary of actions that, in their view, could undermine their competence on cultural issues.

In an address to the CULT Committee on 20 January 2003, the President-in-office of the Council, Mr Venizelos, emphasised the horizontal dimension of Article 151, paragraph 4, which should serve as future inspiration to EU policies when confronted with cultural issues. These statements carry political messages of the highest importance, opening up the way to more voluntary global policies, planning and support for the culture--related industries in the European Union.

Common cultural values

Article 151 of the Treaty on the European Community defines major objectives for community action in the cultural field. Community action is based on co-operation and respects cultural diversity and the principle of subsidiarity: the Union can only become involved in cultural activity if the its action presents a European added value.
Article 22 of the Charter of Fundamental Rights, which will be incorporated into the Treaties (Treaty) stipulates that "the Union shall respect cultural, religious and linguistic diversity". Successive programmes and various reports have introduced other values and objectives, which have then been translated into actions and means to achieve results.

Cultural industries

One of the Union's tasks is to ensure that the necessary conditions are in place so that European citizens can consume products and services that they need and that European culture related industries can produce if they are competitive (see Article 157 EC). Under specific circumstances, Article 87 EC allows for State granted aids. However, of the whole range of cultural products and services which people consume, the vast majority (film, music, books, newspapers, concerts, CDs) has nothing to do with the public funding system. Europeans pay themselves to read newspapers daily (50% of Europeans), read a magazine at least once a month (60%), read books (44,8%), listen to music every day (61%), go to the cinema, to the theatre, to concerts and dance performances.

In the recent past, legal measures were adopted to ensure the free movement of culture professionals and the free movement of goods (works of art and cultural items; televisual, audiovisual and cinematographic works) and services (e-commerce and culture). A global industrial strategy and ensuing policy encompassing the culture-related industries fails to exist, and there continue to be numerous shortcomings to the present system (e.g. non achievement of internal market, obstacles to mobility of artists, double taxation, anti-trust legislation applied to public support programmes in various culture-related industries, no legal base for support of promotion of European cultural works in third countries).

Cultural structure

The European cultural economy is characterised by big-scale industries, contributing heavily to the urgent need for development in the sector, and small and medium-sized enterprises excelling in creativity and new ideas. In the absence of a authoritative definition of cultural industries, it is thought that there are currently 7.2 million cultural workers in the EU. From 1995 to 1999, the average annual rate of employment growth was 2.1%, basically concentrated in those areas of arts and culture where the demand for content is greatest, while employment stagnated in the 'traditional' industrial areas (such as the printing industry)[1]. The sector is highly educated, and a very high percentage of those in cultural occupations have

[1] MKW Wirtschaftsforschung, Exploitation and development of the job potential in the cultural sector in the age of digitalisation, Final Report - Summary, June 2001, Munich, p. 9.

some form of higher education. The culture-related field is seen as able to secure sustainable employment, reinforce endogenous regional potentials and shape the future through high levels of creativity via a market in which the majority of goods and services are non-substitutable[1].

We think the best way to ensure cultural diversity for Europe in a turmoil of structural changes is through an active cultural policy that will support viable small and medium-sized enterprises and independent artists and provide diffusion networks that will enable them to be present in every part of Europe. The cultural industries' sector needs to be recognised as such because of its diversity, energy and creativity. The question is how to ensure an environment to be dynamic, competitive, developing, innovative and creative. Another challenge is how to stimulate the industrial actors to respond in time to loud-and-clear customer demand, in particular of the not-so-well-off younger generation, thereby focusing on long-term viability instead of on fast returns.

We suggest putting a crucial role with the Commission in monitoring the current situation, foreseeing future weaknesses in the cultural structures and timely proposing regulatory and other measures deemed at creating a more favourable trade, R&D and fiscal environment for the European cultural industries. The time has come to shape an inspired, efficient and democratically defined long-term cultural policy in order for the Union to make better use of its underdeveloped growth potential, as President Prodi repeatedly advocated in our House[2]

The different cultural sectors

The emergency of technologies of the digital age and the ongoing globalisation is facing the cultural industries with challenges as well as opportunities. Through the variety of culture-related activities with economic consequences, the cultural industries all have a different perspective : some are more dynamic than others ; in some industries the impact of new technologies is highly significant while in others it is almost irrelevant ; some sectors have excellent growth prospects while others may be incurring negative growth. We believe that, starting from a variety of strategies, the EU is to develop a wide range of innovative, flexible and appropriate instruments to promote the competitiveness of European culture-related industries and to improve access to culture, promote cultural production and distribute cultural activities and products.

- The audiovisual sector is felt to comprise the following sub-sector markets[3] : audiovisual services and advertising (including in non-audiovisual mass media); cinema production, distribution and exhibition; video and DVD; television, cable operating and satellite; sound recordings; radio and video games. Not all of these qualify for 'cultural industries', while other industrial activities are perceived as culture-related.
- The overall **audiovisual sector** directly employs about half a million workers in the EU. In addition to its economic importance, it also plays a key social and cultural role. As virtually all households are equipped with a television, it is the most important source of entertainment and an important source of information and education in European societies. Digital technology is reshaping broadcasting, programming, production, delivery and payment systems and is felt to have a significant impact on cultural issues worldwide. The EU has played a leading role by focusing on the primary aims of pursuing

[1] European Research Institute for Comparative Cultural Policy and the Arts (ERICarts), "Culture-gates".
[2] most recently on 12th February 2003
[3] according to Eurostat's nomenclature in statistics on audiovisual services.

key public interest objectives in various areas, and by encouraging the distribution of European works, the capacity for innovation and the competitiveness of the European industry as a whole. It has done so making use of regulatory measures (Television without Frontiers-directive and protection of minors) and of funding (Media and Media Plus programme). These instruments have proved satisfactory in general terms but have neither contributed to the convergence of national conceptions - let alone policies - nor helped to structure the market[1]. The future of EU intervention in this field lies in the research for and promotion of a modern and competitive European audiovisual sector taking account of the changes imposed by the exponential impact of digital technology. The objective should be the creation of a 'European model of the information society', driven by values like legibility, accessibility, diversity and equal opportunities.

Overall, the development of new technologies will profoundly modify consumer attitudes in the coming years. A recent study[2] demonstrates that Internet users in the USA watched less television in 2002 than in 2001, and the differences in television viewing become even more pronounced as Internet experience increases.

Now that constantly more people gain access to the Internet, some implications of the so-called "digital divide" need to be verified, whereby issues like access vs. no-access, access via telephone modems vs. broadband access, access at work vs. access at home, etc. need to be addressed.

- In Europe, unlike in the US, **film** producers generally are not organised in a commercial structure which could properly be called a studio, although some important film studios do exist. The majority of European productions are made within a highly fragmented industry where 80% of companies produce no more than one film a year. In 1995-96, the volume of feature film production in the EU increased significantly (+ 28%), while in the ensuing period (1996-2000) the increase remained far more modest (+ 8%)[3]. North America accounts for 23% of the world's film production and Western Europe for 23% of which 21% was accounted for by the EU. The market share for European films in the EU in 2000 was estimated at 22,5%.[4] The audience attending a European non-national film in the EU in the period 1992-2000 increased by 12%, while the attendance of national films increased by 20% and of US produced films by 50%.[5] National and supra-national subsidy incentives aimed at advancing film production have stimulated the co-production activity, with the Media Plus programme being the most appropriate instrument to strengthen the competitiveness of the European audiovisual industry. The growth of the number of TV channels drastically increased the broadcasting volume of feature films, while at the same time renting and selling of films on videocassette and, more recently, on DVD have developed into important film distribution channels. The Communication on future of cinema and audiovisual industry in Europe[6], published by the Commission in 2001 and which led to the European Parliament's Vander Taelen report[7], confirmed that the audiovisual sector in Europe continues to suffer from numerous handicaps hindering the circulation of films and other audiovisual works. We think that some useful suggestions for removing the remaining obstacles were generated but that progress remains sparse.
- Some believe that there are major threats to public service broadcasting in the EU, regulation getting weaker as **media** power grows. Public service broadcasting with limited

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[1] European Parliament, Directorate General for Research, The future of the audiovisual sector in the European Union, EDUC 103 EN, 1998, p. 41.
[2] UCLA Center for Communication Policy, The UCLA Internet Report - Surveying the digital Future, Year Three, Los Angeles, Feb. 2003, p. 33.
[3] Eurostat, Statistics on audiovisual services, Data 1980-2000, 2002 Edition, p. 27.
[4] Source: European Audiovisual Observatory
[5] Media Salles, European Cinema Yearbook, as cited in Deskkrant, 06.12.2002.
[6] COM (2001) 534.
[7] TA-PROV(2002)0347.

finances cannot compete against the massive resources of large global media groups, which are at the same time taking control of the expanding media and leisure market. Europe has its own media big shots, but we also see the Europeanisation of global media groups. In Central and Eastern European countries on the point of joining the EU, the encroachments by Western media groups have prevented or made difficult the development of independent or nationally-based media groups.[1] Print and electronic media contribute enormously to the formation of national or regional cultural identities, but the media in nearly all countries in Europe remain focused on their own national frame, although we face common challenges.[2] In fact, the way most of the media, both public and commercial, currently relate to Europe lags behind the economic and political reality.[3]

The Television without Frontiers Directive, who's objective it was to promote the broadcasting of European works, including those of independent producers, succeeded in its basic aim: in 2000, television broadcasters were devoting an average of 62% of their transmission time to European works, and steadily improving the 'quotas' provided for in the Directive. The Commission sees "an increasing public demand for national and European works, especially of fiction"[4]. In 2000 72.5% of the EU broadcasters met or exceeded the threshold for European works, and that at a time when the number of broadcasters in Europe is increasing dramatically (from 550 at the beginning of 1999 to 820 in 2001, not including regional broadcasters).

- The European **music industry** has developed along the lines of the free market economy with little or no government support, and it is only recently, in a climate of falling revenues, that the sector has shown an interest in public authority involvement and regulation. Some 650 000 people are estimated to be directly or indirectly employed in or by the European music industry. The global music market in sound recordings was worth 34 billion € in 2001 at retail level, the European share of the world market in value representing some 23.5%.[5] Digital online distribution is expected to greatly affect consumption patterns as well as sale channels; the online sales of recorded music has continued to grow, although its market share still seems rather marginal.[6] Authorized download services are slashing prices in an effort to boost sales by luring subscribers.[7] Contrary to the film industry, dominated by Hollywood-based productions, European productions and local music have a large and allegedly growing market share (approx. 40%) in Europe, but remains heavily underrepresented in other markets. According to the music industry, the sharp drop in recent sales of soundcarriers is to a great extent due to CD burning and unauthorized copying via the internet: two in five recordings sold are pirate. Pirates do not engage in marketing and promotion and counterfeit titles that are already heavily promoted by the record companies.[8] The music industry is devoting huge amount of resources to fight **piracy**, e.g. by developing 'locking technologies', by calling for tighter legislation to protect copyright material, or by improving the electronic infrastructure for digital products through streamlining of the process of tracking online music purchases. Some company's internal divisions reflect those in the marketplace, where entertainment executives have declared war on consumers over file-sharing[9]. Other

[1] European Federation of Journalists, European Media Ownership: Threats on the Landscape, Sept. 2002, p. 1-2.
[2] Fritz GROOTHUES, Imagine: a European identity, in openDemocracy, 14.03.2002.
[3] Fritz GROOTHUES, The Role of the Media in a Developing European Union, in Collegium, No.24, Summer 2002, p. 55.
[4] European Commission, November 2002
[5] European Music Office, Music in Europe - Profile of the European Music Sector, Cannes, Midem, 19.01.2003.
[6] it rose from 1% of the value of the UK market in 1999 to 5.2% in 2002 (Music in Europe, p 4).
[7] Los Angeles Times, 13.02.2003. Internet Addict, 22.11.2002.
[8] IFPI Music Piracy Report 2002, p. 2-3.
[9] The Civil War inside Sony, in Wired, February 2003.

sources[1] consider that the music industry has not been able to meet the changing consumer demand, which tends to expect a more global and sophisticated offer than at present available. The digital music market potential is estimated at over 2 billion € by 2007, but some are wondering whether, in time, it does not make too much music available: as content becomes increasingly ubiquitous, it loses value.[2]

- **Video games** have grown into a significant force in entertainment, sales worldwide having surpassed movie sales last year (with a USD 9.4 billion take) and a video game like Mario having brought in twice as much revenue as all five Star Wars films combined. Another quirk of the video game industry, that has expanded its audience into the mainstream like never before, is that its products operate on multiple platforms that compete with one another for market share.[3]
- There is a close link between some of the culture-related industries, and the horizontal issue of **intellectual property rights**, the protection of which has both economic, social and cultural aspects. Since 1991 a number of directives aimed at protecting intellectual and artistic creativity have been adopted. In recent years, various other initiatives were initiated by the Commission,[4] some of them applauded by the industries themselves. As recent as 30 January 2003, the 'creative sector', although being supportive of the Commission's initiatives on piracy, expressed dismay at the draft EU Enforcement Directive.[5] As it happens, the value of the global pirate market (film, video, music, business and interactive leisure software sectors) is estimated to have risen to €4.5 billion annually. This means lost jobs in the EU, funds lost to governments in tax revenues and less money available to invest in new creative works.[6] The Rightholders' Coalition[7] suggested urgent improvements in the following areas : genuinely deterrent levels of damages, harmonised criminal penalties EU-wide, reasonable presumption of copyright ownership, measures to seize and preserve evidence of piracy, right to information about manufacture and distribution, compulsory use of identification codes on optical discs.
- In a context of commercialisation of the **book business**, industry experts say that commercialisation is not incompatible with quality. The changed industrial structure, categorized by the emergence of book conglomerates whose prime focus is nice profit margins and short-term high returns, allegedly has had little impact on the proportion of high-quality literature and non-fiction being published versus books with mass appeal. One of the highest priorities of the European bookselling industry is to promote reading at European level. An April 2002 Eurobarometer survey found out that over 40% of European citizens had not read a book in the last 12 months. Yet, reading skills are needed to sustain widespread participation in economic, social, cultural and political life and are a prerequisite to work and social insertion. This will be all the more true in the knowledge-driven economy. In the past, the fixed book price has been advocated and implemented in several Member States with positive results for the viability of smaller specialized booksellers and -publishing houses and the diversity of bookselling offer, in particular in the non-bestseller segment. However, VAT rates applied by EU Member States to printed books throughout the EU currently varies from 0% tot 25%. Innovative policies to reduce VAT on books implemented in nordic countries (Finland and Sweden) have shown that book prices went down and sales increased.

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[1] Forrester Research, as quoted in ZI-biz, 22.08.2002.
[2] The Guardian, 28.02.2003.
[3] Publishers Weekly, 10.02.2003
[4] e.g. see Press releases IP/02/1436 and IP/02/1824.
[5] EU Enforcement Directive falls far short of providing urgently needed tools to tackle piracy, 30.01.2003
[6] International Video Federation, Joining forces in a bid to stamp out piracy (no date).
[7] Business Software Alliance, International Federation of the Phonographic Industry, Motion Picture Association, International Video Federation, Interactive Software Federation of Europe, International Association of Film Producers Associations.

- The sectors of **visual and performing arts** appear to be quite different from the more 'industrial' culture-related fields. The overall corporate culture has a tendency to put qualitative evaluation criteria above everything else, including profit. The true value delivered to society by cultural heritage institutions may be indirect and non-financial as they strive to provide intellectual enjoyment, raise awareness about cultural and historical knowledge, and occupy a prominent position to transfer their 'values' to an ever larger audience, due to the digitalisation of the cultural heritage sector.[1] Yet often government funding is ever harder to get, budgets are drastically reduced or, in extreme cases, halted, thereby endangering the viability of cultural heritage institutions or the accessibility of collections[2], and, in some Member States, privatisation policies are lurking. On the whole, there is some wariness with regard to the development of key-performance measuring indicators in these fields. In many cases, marketing of the artistic core product ('the performance', 'the exhibition') is impossible or undesirable, while the total product (ticketing, accessibility, reception and payment facilities, comfort, membership,...) is perfectly fit for marketing purposes.[3] Cultural institutions in these areas could benefit from opening up their structures to higher efficiency, effectivity, flexible pricing mechanisms and the right brand of product marketing. They should also try to explore innovative ideas as to how and where to perform, in search for a new and healthy dimension to the relationship between performing artists and public.[4]

International cooperation

The EU should enhance synergies between its own activities and that of other international organisations with a specific competence and expertise in cultural matters, among them UNESCO and the Council of Europe. This cooperation should be developed in a flexible and pragmatic way recognising and making full use of the specificity and the potential of each side and taking into consideration the principle of subsidiarity in order to determine the various levels of cooperation.

[1] European Commission, The DigiCULT Report - Technological landscapes for tomorrow's cultural economy; Unlocking the value of cultural heritage, January 2002, p. 14. For an example: Leonardo da Vinci, Master Draftsman, at www.metmuseum.org.
[2] Cast in doubt: Museum suffers spending Crunch, Copenhagen Post (Periskop), 14.02.2003.
[3] E. Temmerman, Meer management in the culturele sector?, in Bruggen bouwen tussen cultuur en economie, Stichting voor Kunstpromotie.
[4] Leader of the Pack, in: The Guardian, 28.02.2003.