

Cultural and Creative Industries in Europe Coherent Policy in a Globalised World

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**Transcript of speech
The Economy of Culture - Proposal for a European Strategy**

**Philippe Kern
Managing Director
KEA European Affairs
www.keanet.eu**

The obvious is that culture and creativity is not a priority policy objective whether at national or European level.

However there are encouraging signs.

In March 2007 at the Brussels Council meeting Head of states and Governments requested the European commission to take the creative industries into account in relation to its internal market policy.

Furthermore the European commission is working on its communication on culture following the report on the economy of culture in Europe. The President of the European commission Mr Barroso is talking about setting a cultural agenda for Europe. The EU is also celebrating the entry into force of the UNESCO convention on cultural diversity.

Now that the creative industries have got the ears of the policy makers we might be for some good surprises in the months ahead. However we should be guarded from excessive optimism. This also means that we have to work hard - together - to ensure that creativity and culture is given the place it deserves in policy making and that the right policies are adopted.

It is against this background that I would like to make my contribution.

I have twenty years experience of the creative industries - mainly in music and cinema. I head a respectable consultancy whose aim is to support the creative sector and enable the latter to speak out. My background is very much the cultural industry and the commercial sector - I know its mechanism, its entrepreneurs. They play a crucial part in art dissemination and in investment in creative activities, whether they are multinationals or a

micro-enterprise, they are guided - often with passion - by the aim to get talents to express themselves and preferably to the largest number of people. They are part of the creative class - courted by the largest cities in the world that sees them as a crucial element in economic and social development.

In the same way as policy makers are calling for an Innovative Europe in the context of the Lisbon Goals (which is to make Europe the most competitive economy) in relation to Research and Development and Information technology, I would like to promote the idea of a “Creative Europe”.

However before making concrete proposals on ways to achieve a Creative Europe, it is important to consider what needs to be done to get that creativity gains the same profile as innovation in the minds of policy makers at national as well as at European level.

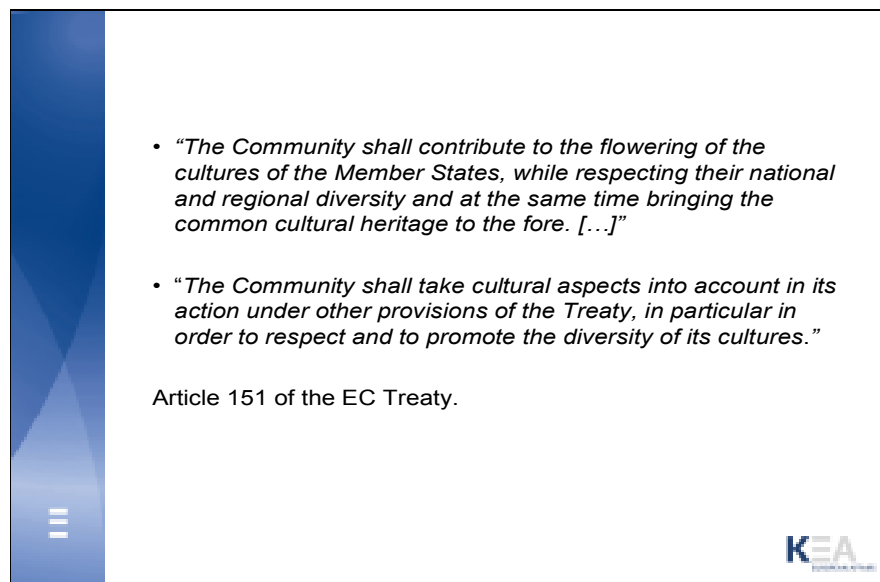
Indeed whatever the worth of any proposal, if we are not able to collectively raise the profile of the sector we will go nowhere and achieve nothing.

So how do we achieve such profile?

First we have to recognise that the EU has extensive competence on cultural issues and act accordingly.


Secondly we - as the cultural sector - work for a better understanding of our sector, its importance and specificity.

According to the EU Treaty the EU has limited competence in the area of culture - it acts under the subsidiarity principle, often used as an excuse to deny the EU any competence in setting a cultural policy.



- *“The Community shall contribute to the flowering of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore. [...]”*
- *“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.”*

Article 151 of the EC Treaty.



However let’s consider that 80% of rules governing the creative sector are decided in Brussels:

- Copyright rules (remember the recent debate on private copying royalties or the ongoing debate on collective rights management);
- Competition rules (the ongoing revision of the guidelines on state aid for cinema):

State Aid to Cinema

2001 Communication on cinema and audiovisual production:

- Reserved to cultural films (Definition?)
- Territorialisation level of max. 80%
- Set a limite of 50% aid intensity (of the production costs of a film)
- Up to 100% aid intensity for « difficult and low » budget films



- International trade rules (and the need to liberalise services);
- TV and linear services regulations (country of origin rule to overcome cultural policy rules).

I do not contest the ability of the EC to intervene on those matters, as it acts under its mandate but then it should be clear that the EU has full competence on culture as the latter decides on the key regulatory means that underpin a cultural policy. It is important to acknowledge this power. The problem is that culture today is only considered by the EU from an internal market, competition or trade policy point of view. The specificity of the sector is largely denied; its economic mechanic ignored in the implementation of EU rules and worth the sector - being misunderstood - is in addition marginalised in term of funding priorities.

In the meantime “subsidiarity” is an excuse for no action or an excuse for Member States or regions to fend off attempt by the EU to be more active in the development of policies.

The creative sector is asking for more Europe - it requires more Europe to face global competition. It requires in many instances a collective approach and Europe can provide scale in a globalised entertainment and media world. European companies should not be condemned to the niche market or the “local”; their artists aspire to the universal too.

The second step to achieve profile is to get policy makers to better understand the sector and its specificity.

A sector composed of essentially SMEs and micro enterprises, which are active essentially locally for language reasons, will necessarily suffer in terms of political representation.

“Creative people do not get the backing they deserve because you can’t put a figure on creative value”

Ian Livingston, Creative Director Eidos

The sector is moreover handicapped by the lack of data on its economic importance. The common view is that it is marginal, a subsidised economy run by weird and unreliable people.

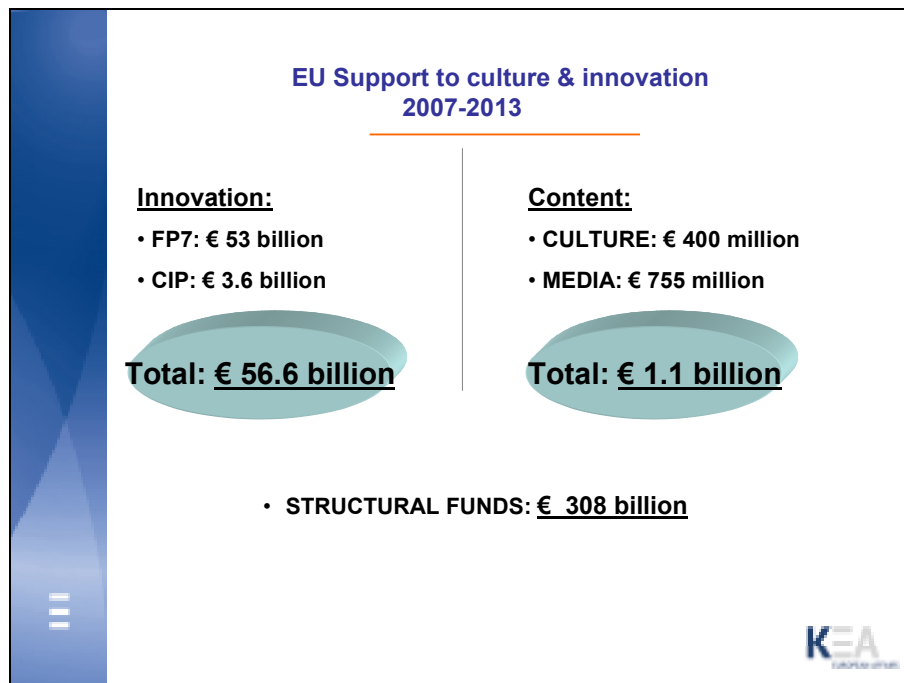
Take innovation, the policy darling at national and European level - Europe is able to measure investment in research and development and it is able to assess the importance of scientific innovation (patents, university degrees, research centers). Policy makers are then able to set targets and policy objectives.

With regard to arts they relate in animated speeches to the grandeur of our artists (often from the past) and our heritage, but they fail to grasp the reality and its potential.

Yet if we continue to fail to assess the importance of investment in creativity and copyright, creativity will remain forgotten and marginalised at policy level.

We have to share the blame for this reality. Let’s face it.

Therefore I am calling on the industry and the civil society to talk together to raise the profile of the sector. There is still this notion in the cultural sector that the industry is the philistines. We keep ignoring each others whilst we are so small and dwarfed by larger economic interests and this is reflected in policy priorities.



Unless we pool our resources we will always loose out in term of budget allocation. The slide illustrates the challenge.

Working together to raise the profile of the cultural sector - a public, private partnership including the civil society and the industry but to achieve what at European level?

- Achieve recognition of the sector economic and social importance;
- Call for a coherent policy that addresses as a matter of priority:
 - o Investment (with no need for additional public expenses);
 - o Technology and its impact;
 - o Access to third markets.

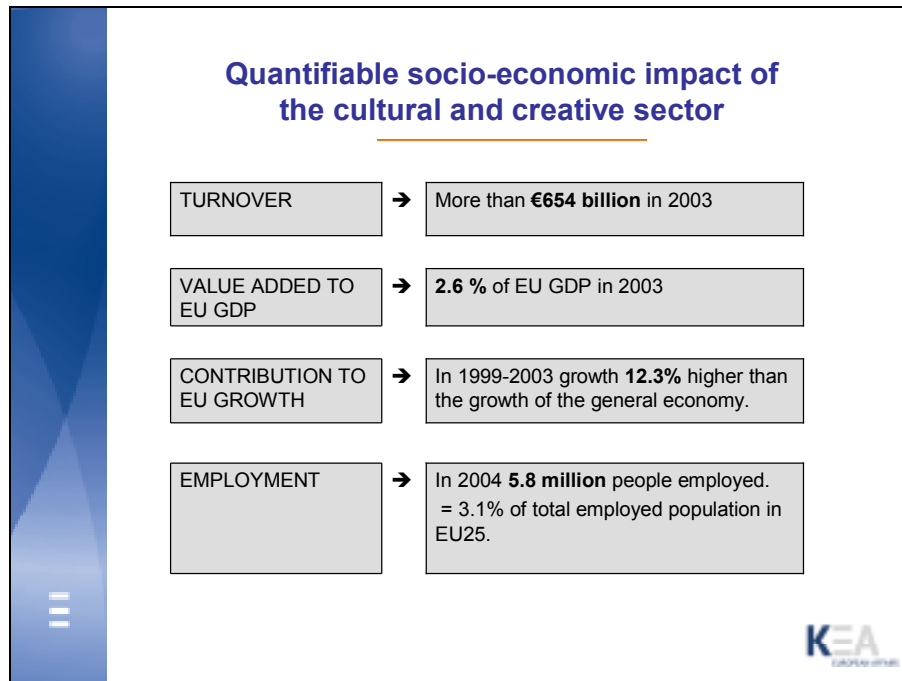
I. THE RECOGNITION OF THE ECONOMIC AND SOCIAL IMPORTANCE OF THE SECTOR

My consultancy was fortunate to manage and write the first ever mapping exercise on the economy of culture in Europe. Independently of the results of the study itself and I will come back to this, the context of such work is interesting as it is linked to the Lisbon process.

Our mission was to identify how culture and the creative sector can contribute to the Lisbon strategy (make Europe more competitive). This is quite a significant assignment and somewhat courageous as the sector is largely ignored or marginalised as economically irrelevant from a policy point of view:

- Take culture and competition policy (cultural diversity is not a competition policy objective);
- Or culture and trade policy (promotion of cultural exchanges ignore creative industries);
- Or culture and enterprise policy (creative industries are excluded from support programmes aimed at SMEs);
- EU funding programs the structural funds or 7th FP are geared towards innovation not creativity;
- Statistical information is scarce - almost non existent (Eurostat).

➤ THE ECONOMY OF CULTURE in Europe

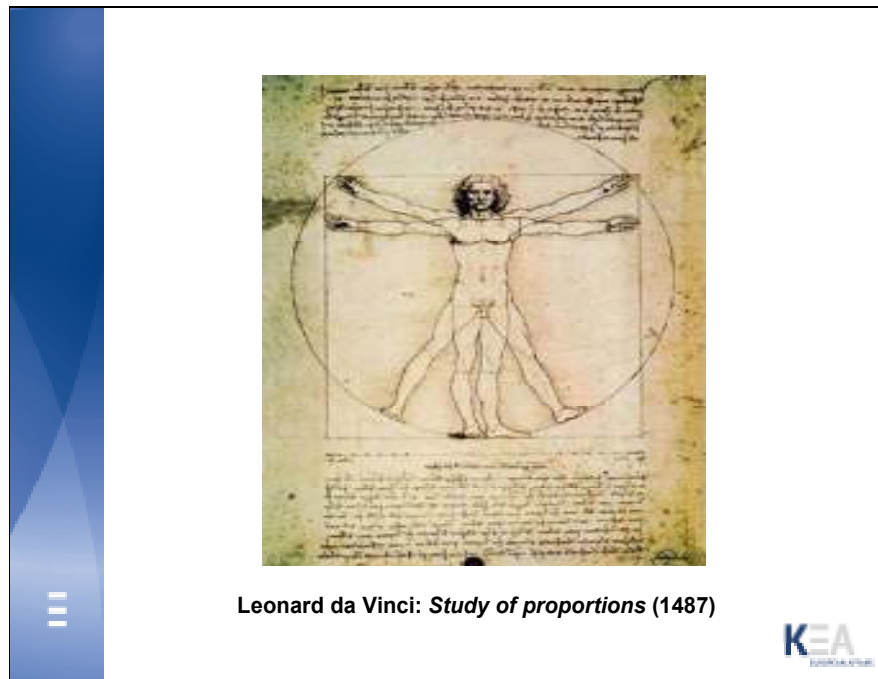


It is assumed that more than half the jobs in manufacturing have been lost since the late 90's yet nowhere in Europe is there a mention of the "the new economy " and the wealth /jobs created in the cultural sectors.

Europe is leader in music, fashion, design, architecture, the art market, game development - does anybody care on the enormous economic potential of European creative minds?

The study - the first mapping exercise of its kind - shows that creativity and culture drive the economic and social development. It outperforms the rest of the economy.

➤ INNOVATION AND CULTURE



Renaissance Europe is linked to a burst of artistic creativity combined with scientific discovery.

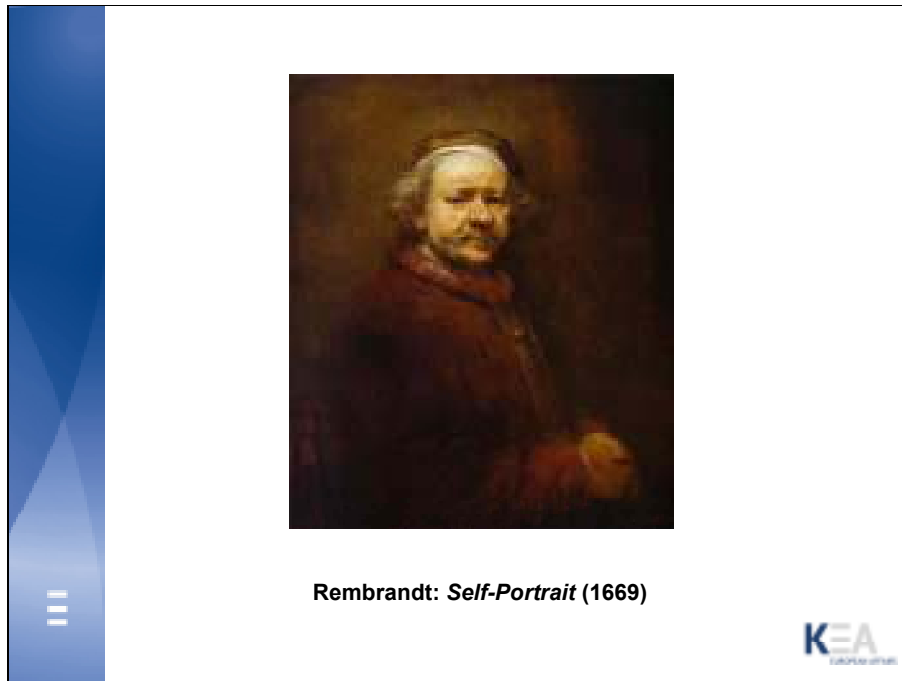
In this respect the report attempts to show that a policy to support innovation is incomplete if it does not take into account creativity - innovation and creativity are intertwined. The success of Europe in information technology is linked to its ability to support the development of creative content that feeds hardware and fibre optic networks, for instance. Today the sector supports the take up of new technology (such as broadband subscription nourished by the availability of free content through P2P networks).

“Le Peer-to-Peer opère comme une subvention au déploiement des infrastructures de distribution”

Olivier Bomsel, Economist, École des Mines, Paris.

➤ TOURISM AND CULTURE

It shows the importance of creative industries in tourism (5.5% of EU GDP).



Example - Tourism:

- The Year of Rembrandts in the Netherlands has attracted 2.1 million visitors in Holland generating 190 million Euros in revenues (400th anniversary of the painter).
- *Guggenheim Museum - Bilbao*: 132 million Euro investments generating 1.3 billion Euros in revenues since 1998.



Guggenheim Museum, Bilbao, Spain



I hope for the sceptics that I have provided you with sufficient evidence of the economic importance of the sector - but as we all know culture is more than mere figures.

“Not everything that counts can be measured, and not everything that can be measured counts.”



➤ **THE SPECIFICITY OF THE SECTOR**

As a result the report highlights the structural specificity of the sector - essentially composed of SMEs largely active in a domestic market (language and cultural issues makes it difficult to consider Europe as one market unless you are a Hollywood movie or an Anglo American pop star - the single market is a distant dream for a Portuguese songwriter or Greek game developer). This is very important to take this structural specificity into account when devising policy.

➤ **THE VALUE ADDED OF THE SECTOR**

What would politicians say if there is no longer music or films available that their creative industries have been wiped out? They are key tools to foster social cohesion and shared emotions. Culture is a tool to educate and spread values such as tolerance and freedom, equality, justice. Culture contributes to the promotion of openness, knowledge and exchange.

This in turn creates respect and a culture of tolerance which support European integration.

“Culture will help us to counter the growing imbalance between the rational and the emotional sides of European affairs. This imbalance fuels a sense of indifference and distance towards Europe among our people.”

Commission President Barroso - Speech in Lisbon, 3 December 2005.

Finally let us now consider the policy recommendations - There are 7 recommendations in the Report - I would like to highlight three of them.

II. CALL TO PUSH FOR A COHERENT POLICY

In my view there are three priority challenges that Europe needs to confront collectively, united and in a decisive way because beating the European neighbour will not be sufficient for Europe to exist in a globalised media environment:

- Encourage investment in creativity and creative industries;
- Support the digital shift which is an opportunity for our creative industries;
- Incorporate the cultural dimension in cooperation, development and trade policy goals.

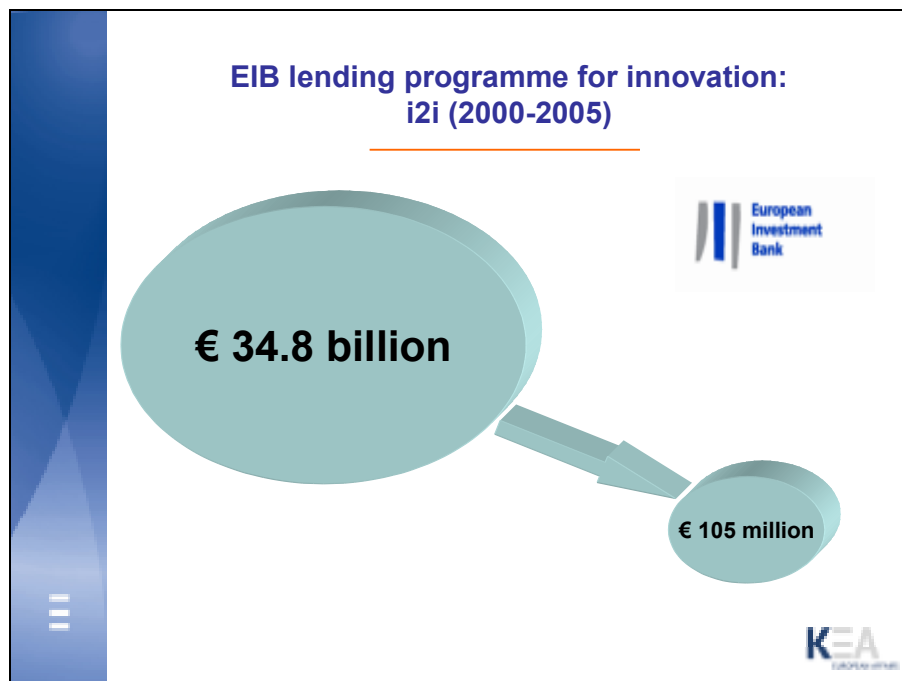
1. Encourage investment in creativity

“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, Kennett Ventures.

The report points out to the difficulty of accessing finance for micro- enterprises and SMES. These are points common throughout Europe, VC and financiers are geared towards innovation and not creativity. There is a need to overcome the difficulty in valuing intangible assets which would require the need to review accounting standards in this respect.

The European Investment Bank, the financial arm of the EU is not equipped to deal with creative industries. It does not understand the sector and is only able to manage large infrastructure project.



However it is important to highlight that the EIB has a mandate from the head of states and government since 2000 to invest in the audiovisual sector as part of the Lisbon agenda.

The record of the European Investment Fund, a branch of the EIB (who is responsible to fund VC funds), is even more dismal - more than 180 funds are supported - none of them focuses on creative industries.

European governments that are shareholders of the EIB should get the EIB/ EIF to live up to its commitment to deliver for the creative sector as part of the Lisbon pledge.

There is a need to encourage investment in the sector. The following is required:

- Improve relation and understanding with financial community - there is no lack of money there is lack of understanding on both sides - understand the risk profile, the management of talents that are not necessarily commercially driven;
- Overcome the problem that creative industries have no fixed assets;
- It is important to encourage the setting up of VC funds and (role of the EIB and EIF)
 - Today European VC invests in the USA. There is a lack of specialist funds and this should be remedied.

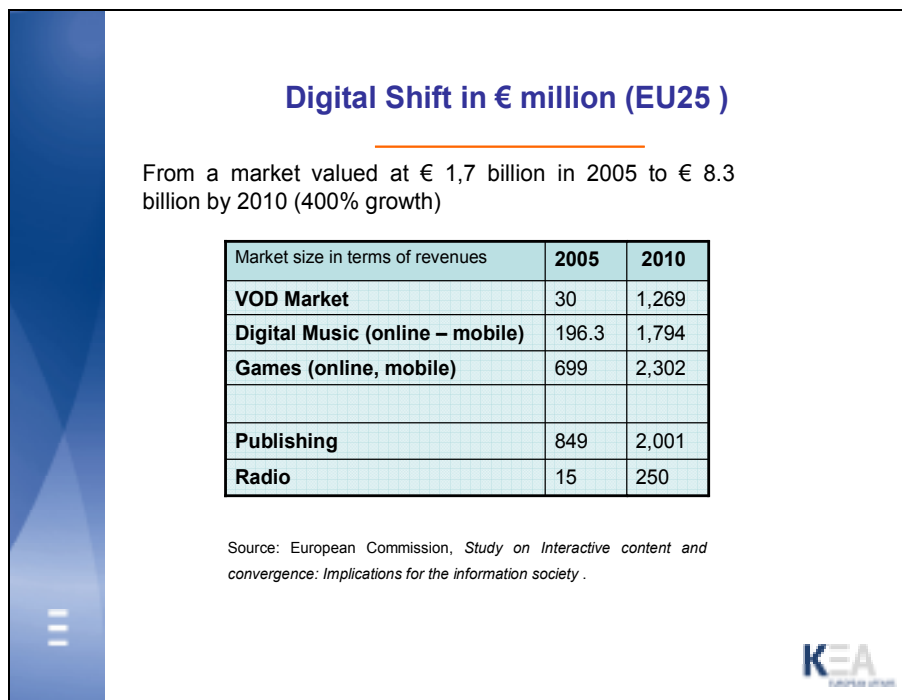
➤ **PUBLIC INVESTMENT**

We need to look into public investment in art and see how it negatively contributes to the fragmentation of the market by encouraging businesses to remain inward looking.

Public subsidy mechanisms amount to close to 50 billion Euros public funding in Europe for the arts (excluding lottery funding and tv licence fees), this constitute a powerful leverage to impact on structures. However there is too much emphasis on heritage and preservation not enough on creative businesses, apart the film business (2 billion Euro subsidy a year) - tax breaks for music and video game developers are only nascent.

Public aid will remain very important as private investments are not geared towards the creative sector.

2. The Digital shift



Every sector of the creative industries (whether cinema, music, publishing, radio and tv) is struggling to find a business model to monetise internet delivery. Even more so for the vertically integrated companies which are in the business of controlling distribution. This is an opportunity for our industry - reactive, innovative, small etc to get a foothold on the international distribution.

This requires vision from policy makers to support the risk takers and help smaller structures to get organised.

Europe may not have the Google, yahoo or... but it has the companies that are not reluctant to make their productions available to be seen by the widest numbers and without which a Google cannot pretend to be global.

Initiatives aimed at facilitating the licensing process for SMEs to access the digital market should be supported. This means pooling catalogues - reaching a critical mass - gaining bargaining powers - that is leveraged at commercial level by licensing deals that do not discriminate against smaller players.

The Long Tail

Chris Anderson in October 2004 in the Wired Magazine argued that products in low demand or have low volume can collectively make up a market share that rivals or exceeds the relatively few current bestsellers and blockbusters thanks to the Internet. With internet inventory storage and distribution costs becoming less significant, it becomes therefore economically viable to sell less popular or mainstream products. In aggregate those products sell more than popular. This allows the emergence of an entirely new economic model for the entertainment industries. People are no longer constrained by shelf space - this will address the poor supply and demand matching which makes the assumption of popularity an artefact. Internet could be a market response to inefficient distribution and market access problems when 600 films produced in Europe hardly reach the US market. (The Triplets of Belleville - nominated for the best animated feature Oscar in 2004 - opened on just 6 screens in the USA!)

For Chris Anderson this could be the end of the hit driven economics when only popularity (often driven by high marketing spent) has a monopoly of profitability. The long tail re-establishes the concept of word of mouth and viral recommendation which is the chance for lower production costs entertainment - a feature of the European creative industries.

3. Culture and Diplomacy

The third pillar of European intervention relates to Europe's commercial policy with third countries.

Europe's is the largest trading power in the world. It has numerous trade or cooperation agreements with third countries or regional association of countries. Technical assistance or cooperation agreements should systematically include creative industries as priority areas for economic exchanges.

This would have the following advantage:

It would contribute to cultural exchanges but also to the most talked upon intercultural dialogue.

Culture should stop being used as a diplomatic tool to serve as background of mundane cocktail - creators and creative industry businessmen should be part of trade delegations visiting third countries such as China and India. Moreover we might achieve more in term

of market access than the Americans with their mighty industry will ever do. A commercial policy cannot be based only on the fight against piracy.

Conclusions

In my view a coherent policy at European level entails the following:

- Develop statistical information to lead to informed policy decisions. Understanding the economic and social value of creative industries will do a great deal to trigger actions promoting investment in the sector;
- Support entrepreneurs in the creative sector (in particular the digital shift through a better arbitration of resource allocation between content and infrastructure - in effect no additional funding is required);
- Improve financing capability to encourage risk by mobilising EIB resources;
- Make culture an element of Europe's cooperation, trade and development policy.

Thank you for your attention.



KEA
EUROPEAN AFFAIRS

**51 rue du Trône
1050 – Brussels
Tel: +32 2 289 26 00**

***PDF file of the study
available on www.keanet.eu***

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