

# THE ECONOMY OF CULTURE IN EUROPE



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# Executive Summary

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## Context

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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. The belief is that growth and employment will be achieved by investing in ICT industries – the flagship industries of the digital economy –, and boosting innovation, in particular in the “knowledge economy”.

**The role of the cultural and creative sector within this context is still largely ignored.** Indeed, the move to measure the socio-economic performance of the sector is a relatively recent trend. Moreover, the exercise is a contentious one. For many, the arts are a matter of enlightenment or entertainment. That leads to the perception that the arts and culture are marginal in terms of economic contribution and should therefore be confined to the realms of public intervention. This may explain to a large extent **the lack of statistical tools** available to measure the contribution of the cultural sector to the economy whether at national or international level, in particular compared to other industry sectors.

**The present study aims to remedy this situation.** It is a first attempt to capture the direct and indirect socio-economic impact of the cultural sector in Europe, thereby assessing its contribution to the Lisbon agenda, and in particular in terms of realising growth, competitiveness, more and better jobs, sustainable development, and innovation.

**It shows how culture drives economic and social development, as well as innovation and cohesion.** The cultural and creative sector is a growing sector, developing at a higher pace than the rest of the economy. The same applies to employment. Indeed this sector provides many different and often highly skilled possibilities, and again the sector's growth in terms of jobs **out-performs the rest of the economy**. It also drives many other sectors of the European economy, and in particular innovation and ICT sectors.

The study also illustrates how **culture promotes European integration** and is a key tool to integrate the components of European societies in all their diversity, to forge a sense of belonging as well as to spread democratic and social values. Culture can contribute to “seduce” European citizens to the idea of European integration.

## The Cultural & Creative Sector

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The first step in assessing the economy of culture in Europe is **the need to define corresponding sectors and activities**.

This is no easy task given the divergence of national and international approaches to date.

Because of the study's objectives, its scope goes beyond the traditional cultural industries such as cinema, music and publishing. It also includes the media (press, radio and television), the creative sectors (such as fashion, interior and product design), cultural tourism, as well as the traditional arts fields (performing arts, visual arts, and heritage). The study also touches upon the impact of the cultural sector on the development of related industries, such as cultural tourism and, perhaps more importantly, ICT industries, and explores the links between culture, creativity and innovation in this respect.

Therefore the scope of the assessment includes:

- The “cultural sector”
  - **Non-industrial sectors** producing non-reproducible goods and services aimed at being “consumed” on the spot (a concert, an art fair, an exhibition). These are the arts field (visual arts including paintings, sculpture, craft, photography; the arts and antique markets; performing arts including opera, orchestra, theatre, dance, circus; and heritage including museums, heritage sites, archaeological sites, libraries and archives).
  - **Industrial sectors** producing cultural products aimed at mass reproduction, mass-dissemination and exports (for example, a book, a film, a sound recording). These are “cultural industries” including film and video, video-games, broadcasting, music, book and press publishing.
- The “creative sector”

In the “creative sector”, **culture becomes a “creative” input in the production of non-cultural goods**. It includes *activities* such as design (fashion design, interior design, and product design), architecture, and advertising. Creativity is understood in the study as the use of cultural resources as an intermediate consumption in the production process of non-cultural sectors, and thereby as a source of innovation.

**Consequently the study's scope of investigation is the “cultural & creative sector”**. This approach enables us to measure more accurately the economic and social, direct and indirect impact of culture and creativity. This is mapped out in the following table:

## Delineation of the cultural & creative sector

CIRCLES	SECTORS	SUB- SECTORS	CHARACTERISTICS
<b>CORE ARTS FIELD</b>	Visual arts	Crafts Paintings – Sculpture – Photography	<ul style="list-style-type: none"> <li>• Non industrial activities.</li> <li>• Output are prototypes and “potentially copyrighted works” (i.e. these works have a high density of creation that would be eligible to copyright but they are however not systematically copyrighted, as it is the case for most craft works, some performing arts productions and visual arts, etc).</li> </ul>
	Performing arts	Theatre - Dance – Circus - Festivals.	
	Heritage	Museums – Libraries - Archaeological sites - Archives.	
<b>CIRCLE 1: CULTURAL INDUSTRIES</b>	Film and Video		<ul style="list-style-type: none"> <li>• Industrial activities aimed at massive reproduction.</li> <li>• Outputs are based on copyright.</li> </ul>
	Television and radio		
	Video games		
	Music	Recorded music market – Live music performances – revenues of collecting societies in the music sector	
	Books and press	Book publishing - Magazine and press publishing	
<b>CIRCLE 2: CREATIVE INDUSTRIES AND ACTIVITIES</b>	Design	Fashion design, graphic design, interior design, product design	<ul style="list-style-type: none"> <li>• Activities are not necessarily industrial, and may be prototypes.</li> <li>• Although outputs are based on copyright, they may include other intellectual property inputs (trademark for instance).</li> <li>• The use of creativity (creative skills and creative people originating in the arts field and in the field of cultural industries) is essential to the performances of these non cultural sectors.</li> </ul>
	Architecture		
	Advertising		
<b>CIRCLE 3: RELATED INDUSTRIES</b>	PC manufacturers, MP3 player manufacturers, mobile industry, etc...		<ul style="list-style-type: none"> <li>• This category is loose and impossible to circumscribe on the basis of clear criteria. It involves many other economic sectors that are dependent on the previous “circles”, such as the ICT sector.</li> </ul>

: “the cultural sector”  
 : “the creative sector”

## Development of specific methodological tools

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In relation to direct impact, existing **statistical tools are not appropriate and available statistics are scarce**. Statistical tools do not enable the cultural & creative sector to be captured properly. At European and national level, statistical categorisations are often too broad. Data are rarely comparable. A considerable amount of cultural activity takes place in establishments whose primary classification is non cultural and therefore not recorded within existing classifications. Self-employed cannot be identified. Electronic commerce, which represents a growing share of the economy of culture, is not taken into account. And it is not possible to properly assess the public economy of culture at pan-European level.

Consequently, the study has required the development of specific definitions, statistical tools, and data collection processes.

In relation to industrial data, in the absence of standardised data categorisations and in order to take into consideration considerable gaps in existing databases, a specific methodology was developed:

- It uses to the extent possible existing statistical categorisations (four-digit NACE) that embrace the sector, and collects the Eurostat data corresponding to these categorisations.
- To complete data gaps due to the absence of harmonised data gathering related to the sector in Europe, the Amadeus database was used. It is the most comprehensive pan-European database containing financial information on approximately 8 million public and private companies from 38 European countries, developed by the Bureau van Dijk Electronic Publishing.

Similar problems were faced in relation to employment data. The study uses the only methodology able to picture employment in the cultural sector to date – a methodology developed by Eurostat Task Force on cultural employment. It is based on a more restricted delimitation of the economy of culture than the delimitation used for the purpose of extracting industrial data.

To address identified loopholes in data collection, the study provides sectors' profiles and case studies to cover specific aspects of the economy of culture, not rendered by current official data collection (notably on the value of collective rights management, and the value of e-commerce).

For these problems to be remedied in the future, more work needs to be done at national and European level to adopt appropriate standards and definitions as well as to prioritise the collection of statistically sound data right across the cultural & creative sector.

## Socio-economic results: Quantifiable contribution to the Lisbon targets

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

The main direct quantifiable socio-economic impacts of the cultural & creative sector are presented below. Despite shortcomings in data availability leading to a blatant under-estimation of the real weight of the sector, the figures show that the cultural & creative sector plays an important economic and social role in Europe: **the sector is performing well, increasing its trend share of economic activity.**

## Quantifiable socio-economic impact of the cultural & creative sector (EU30)

### TURNOVER



**The sector turned over more than € 654 billion in 2003.**

The turnover of the car manufacturing industry (1) was € 271 billion in 2001 and the turnover generated by ICT manufacturers was € 541 billion in 2003 (EU-15 figures) (2).

### VALUE ADDED TO EU GDP



**The sector contributed to 2.6% of EU GDP in 2003.**

The same year:

- Real estate activities accounted for 2.1% of contribution to EU GDP
- The food, beverage and tobacco manufacturing sector accounted for 1.9% of contribution to EU GDP
- The textile industry accounted for 0.5% of contribution to EU GDP
- The chemicals, rubber and plastic products industry accounted for 2.3% of contribution to EU GDP (3)

### CONTRIBUTION TO EU GROWTH



The overall growth of the sector's value added was 19.7 % in 1999-2003.

**The sector's growth in 1999-2003 was 12.3% higher than the growth of the general economy.**

### EMPLOYMENT



In 2004 5.8 million people worked in the sector, equivalent to **3.1% of total employed population** in EU25.

**Whereas total employment in the EU decreased in 2002-2004, employment in the sector increased (+1.85%)**

- 46.8% of workers have at least a university degree (against 25.7% in total employment)
- The share of independents is more than twice as in total employment (28.8% against 14.1%)
- The sector records 17% of temporary workers (13.3% in total employment)
- The share of part-time workers is higher (one worker out of four, against 17.6% in total employment).

(1) "The European Motor Vehicle Industry, Key Figures 2005", a report from the ACEA (Association des Constructeurs Européens d'Automobiles – European Automobile Manufacturers Association), Brussels, March 2006.

(2) "Restoring European economic and social progress: unleashing the potential of ICT", a report for the Brussels Round Table (BRT) by Indepen, Brussels, January 2006.

(3) Eurostat Structural Business Statistics

## **Indirect socio-economic impact: The non-quantifiable contribution to Lisbon**

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**The contribution of the cultural & creative sector to the European economy is not limited to its direct and quantifiable impact.**

The sector also generates important economic performance in other non-cultural sectors, thereby indirectly contributing to economic activity and development, and in particular in the ICT sector as well as in relation to local development.

### **• The interdependence between the cultural & creative sector and ICT**

Broadband penetration has grown exponentially over the last years and broadband uptake is continuing. The diffusion of wireless Internet connections and the mass adoption of 3G mobile phones have turned into a reality the promise of being connected “anywhere, anytime”. The switch-over from analogue to digital broadcasting has already happened (for radio) or is foreseen for the years to come (for TV).

The EU totalled 52,624,403 broadband fixed access lines in October 2005 (from 10,298,139 in October 2002). Broadband penetration rates stand at an average 11% in the EU (from 10% in Greece to 23% in Denmark and 24% in Finland). By way of comparison, average broadband penetration at the end of 2005 was 15% in the US and 16% in Japan. The ICT industry will supposedly drive 25 % of the overall European growth in the years to come.

**The growth of creative content and the expansion of the ICT sector are the two sides of a same coin.**

Technology and in particular the growing diffusion and importance of the Internet is the major driver for growth in the creative media and Internet industry (provided the issue of piracy is properly addressed). The impact on media consumption has been huge in recent years and it will be the major factor for the sector in the future. At the same time creative content is a key driver for ICT uptake. The consultancy firm PriceWaterhouseCoopers estimates that spending on ICT-related content will account for 12% of total increase in global entertainment and media spending until 2009.

**Indeed, the development of new technology depends to a large extent on the attractiveness of content:**

- Sales of DVDs, recordable devices, MP3 devices, home cinema systems, set-top boxes and flat screen TVs are dependent on the availability of attractive content (games, films, music).
- The development of mobile telephony and networks is based on the availability of attractive value-added services that will incorporate creative content.

Music has experienced a true business revolution which has not been painless for the industry. Video games are heavily dependent on transformations in technology. Film and video as well as the publishing industry are currently undergoing similar radical business changes. Even traditional arts sectors such as heritage, visual arts and performing arts cannot escape significant adaptations to the new technological environment.



## • Creative hubs and the contribution of culture and creativity to local development

Firstly, the characteristics of cultural and creative goods are that they cater essentially for a local audience, its languages and cultures. This makes it difficult for the production of cultural goods and services to shift to other continents. Therefore **off-shoring is less developed than in other sectors** of the economy (even at manufacturing level). Job losses in the cultural & creative sector tend to be the result of restructuring, for example due to new forms of distribution and the emergence of new business models. Because of this characteristic (non-delocalisation), and given that Europe is a major producer of intellectual property assets in the world, it would be well advised to try and make the most out of this potential to boost its economy.

Secondly, there is a competitive race to attract talent and creators (*“the creative class”*) to localised environments supporting the clustering of creativity and innovation skills. Europe risks experiencing a talent drain in sectors such as video games and cinema attracted abroad by better conditions, essentially financial.

**Moreover, culture and innovation play a crucial role in helping regions attract investment, creative talents 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. The “location market” is a reality. Cities and regions are competing to attract foreign direct investment 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 and a key factor for boosting local and regional attractiveness.

Thirdly, **culture is a main driving force for tourism**, one of Europe’s most successful industries representing 5.5% of the EU GDP and where Europe holds a 55% of the global market share. Europe is the most-visited destination in the world. In 2005, the continent recorded 443.9 million international arrivals.<sup>1</sup>

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<sup>1</sup> United Nations World Tourism Organization (UNWTO)

## **Contributing to Lisbon's social objectives**

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Another more pervasive effect of culture on local socio-economic context is that **it serves as a tool of social integration and territorial cohesion.**

In many European territories today a growing polarisation is seen between “resource-strong” and “resource weak” communities, groups and individuals such as ethnic minorities, immigrants, youth in difficulty, or long-term unemployed, as well as difficult territories such as mega-poles' suburbs, industrial areas in decay, isolated and declining agricultural areas, etc.

Strategies for “empowerment” aim at giving marginalised citizens and deprived neighbourhoods possibilities to develop those resources. Culture is a useful tool in this regard.

Relevant cultural activities in this context include:

- Fostering grass-roots initiatives aimed at achieving social and socio-economic empowerment (social cultural projects, cultural associations, amateur theatre or dance companies, volunteers launching a festival),
- Top-down projects initiated from administrations and institutions (for example local policies aimed at recycling brownfield sites to socio-economically improve an abandoned area).

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

- Participate in reinforcing social integration and in building an « inclusive Europe ».
- Contribute to fostering territorial cohesion.
- Participate in providing skills that are transferable in other fields of activity and contribute to strengthening the “employability” of their beneficiaries. They contribute to reinforcing self-confidence of individuals and communities.
- Participate to the expression of cultural diversity.

**Culture and creativity used with a social purpose contribute to sustainable development and societies.**

## **Recommendations: Strategy for a creative Europe to achieve Lisbon**

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**The “Lisbon potential” of the cultural & creative sector is very important and a specific strategy is required to unleash this potential.**

In recent years national strategies have shown considerable interest in integrating cultural and economic policies more closely. However efforts of coordination remain scarce and the sector is still marginalised from a policy point of view, in particular at European level.

The proposal is to create in Europe a market that stimulates and encourages creativity. The report presents a strategy with concrete steps to establish a creative Europe which realises the culture & creative sector’s Lisbon potential and boosts Europe’s performance in economic and social terms.

The main recommendations to realise the creative Lisbon potential are the following:

### **1. Intelligence gathering**

- Establish a **strong quantitative evidence base for policy makers**  
A strategic approach to the sector needs to be informed by the development of appropriate statistical tools and indicators at both national and European level. In analogy with tools developed to measure the degree of innovation, an index to measure and monitor “creativity” should be developed (“the EU creativity scoreboard”).

### **2. The Lisbon agenda**

The creative & cultural sector needs to be integrated into the Lisbon agenda. The Lisbon agenda should include as part of its objectives:

- Increasing and improving investment in creativity.
- Improving creation, production, distribution, promotion of, and access to, cultural activities and content.

Priority actions should be:

- Use and **make the most of existing EU support programmes.**  
The 7<sup>th</sup> Framework Programme, EU structural funds and support to SMEs should be used to foster creativity and engage with the creative sector and its SMEs. The EU budget should focus as much on creation as on innovation. It should support as a matter of priority the digital shift – to make the most of opportunities fuelled by technological innovation.
- **Reinforce the Internal Market for creative people, products and services.**  
Encourage artists’ mobility, overcome fiscal and social barriers, adapt accounting standards to promote the valuation of intangible assets.  
This includes support to the testing and development of business models adapted to the constraints of the European market (with its localised markets due to languages and cultures) as well as the support to the digital shift, notably in distribution.

- **Promote creativity and business education** from school through to professional levels.
- Promote **links between creators and technology** by clustering the various competences in creativity platforms. The i2010 initiative, structural funds and the 7<sup>th</sup> FP are insufficiently engaging with the cultural and creative sector.
- **Maximise the use of financial instruments** of the EIB and the EIF, in line with the EIB i2010 Initiative. It is proposed to establish a creative industries bank specialised in financing (or in supporting the financing of) projects based on investment in intangible assets.
- **Integrate the cultural dimension in cooperation and trade agreements** between the EU and third countries with a view to develop exchanges, promote cultural diversity and implement the UNESCO convention.

### **3. Structural reform**

- **Reinforce coordination of activities and policies impacting on the cultural & creative sector within the European Commission.**
- Promote better interaction between European institutions and the cultural & creative sector to ensure proper representation and consultation with such an important sector of the European economy. The focus should be on the maximisation of the sector's economic and social contribution to the European project.
- **Ensure a comprehensive and coherent implementation of article 151.4. of the EC Treaty to take into account the specificities of the sector when implementing notably internal market, competition and trade policies.**

**A strategy for a creative Europe**  
**Main recommendations to realise the creative Lisbon potential**

**INTELLIGENCE  
GATHERING**



- Establish a strong quantitative evidence base for policy makers.

**THE LISBON AGENDA**



- Use and make the most of existing EU support programmes (7thFP- structural funds - support to SMEs).
- Reinforce the Internal Market for creative people, products and services.
- Promote creativity and business education from school through to professional levels.
- Promote links between creators and technology by clustering the various competences in creativity platforms.
- Maximise the use of financial instruments of the EIB, and the EIF, in line with the EIB i2010 Initiative.
- Integrate the cultural dimension in cooperation and trade agreements between the EU and third countries with a view to develop exchanges and promote cultural diversity.

**STRUCTURAL REFORM**



- Reinforce coordination of activities and policies impacting on the cultural & creative sector within the European Commission.

# TABLE OF CONTENT

<b>Executive summary</b> .....	<b>p.1</b>
<b>Table of content</b> .....	<b>p.13</b>
<b>Foreword</b> .....	<b>p.21</b>
<b>Introduction</b> .....	<b>p.23</b>
<b>Chapter I.</b> <b>Introduction. The economy of culture in Europe – Background and context</b> .....	<b>p.27</b>
SECTION I. THE POLITICAL, ECONOMIC AND SOCIAL DIMENSIONS OF CULTURE.....	p.29
I. The political dimension.....	p.29
II. The economic and social dimension(s) of culture.....	p.30
III. The economy of culture: A sector of growth.....	p.35
III.1. The economy of cultural goods and services.....	p.35
III.2. The ICT revolution: Increased growth opportunities for the cultural & creative sector.....	p.35
SECTION II. FROM CULTURE TO CREATIVITY .....	p.36
I. Grasping creativity .....	p.36
II. Realising the Lisbon strategy: understanding the competitive advantage of creativity in the global economy.....	p.38
II.1. The creative imperative in a post-industrialised economy to foster innovation.....	p.38
II.2. The territorial dimension of culture and creativity – “glocality”.....	p.38
<b>Chapter II.</b> <b>Delineating the cultural &amp; creative sector</b> .....	<b>p. 43</b>
SECTION I. OBJECTIVES.....	p.45
SECTION II.DELINEATING THE CULTURAL & CREATIVE SECTOR IN EUROPE.....	p.46
I. Reviewing the multiple methodologies and definitions to determine the economy of culture...	p.46
I.1 National definitions.....	p.46
I.1.1.The UK approach -“creative industries”.....	p.46
I.1.2.The French approach - “cultural industries” .....	p.47
I.1.3.The Nordic approach - “the experience economy”.....	p.48
I.2. International definitions.....	p.49
I.2.1. UNESCO Framework on cultural statistics.....	p.49
I.2.2.The Eurostat LEG-Culture definition.....	p.50
I.2.3.The WIPO approach - “copyright industries”.....	p.50
I.2.4.The OECD approach to “content industries”.....	p.51

II. The proposed definition.....	p.53
II.1. The framework.....	p.53
II.1.1.Cultural and creative sectors.....	p.53
II.1.2. Examining the “borderline” sectors.....	p.54
II.2. Conclusions.....	p.56

### **Chapter III.**

## **Mapping out the economy of culture in figures..... p.59**

SECTION I. CONTRIBUTION TO EUROPEAN GDP, GROWTH AND EMPLOYMENT.....	p.61
I. Contribution to the European economy and growth.....	p.62
I.1. Measuring the economy of culture.....	p.63
I.2. A well-performing economic sector.....	p.65
I.3. Comparison with the performance of other sectors of the economy.....	p.67
I.4. A dynamic sector.....	p.69
II. Cultural consumption at a glance .....	p.70.
III. Cultural employment .....	p.73
III.1. Introduction.....	p.73
III.1.1. Measuring cultural employment.....	p.73
III.1.2.Cultural employment in Europe: A snapshot.....	p.78
III.2. Characteristics of cultural employment in Europe .....	p.83
III.2.1.Cultural employment in the EU25 by gender.....	p.83
III.2.2.Cultural employment in the EU25 by age.....	p.85
III.2.3.Cultural employment in the EU25 by education level.....	p.87
III.2.4.Cultural employment in the EU25 by employment status.....	p.90
III.2.5.Cultural employment in the EU25 by job stability.....	p.92
III.2.6.Cultural employment in the EU25 by work duration.....	p.94
III.2.7.Cultural employment in the EU25 by side-job.....	p.96
III.3. Identifying the main features of cultural employment in Europe.....	p.98
SECTION II. CONTRIBUTION TO EUROPEAN COMPETITIVENESS.....	p.102
I. The unrecognised competitiveness of the sector.....	p.103
II. A comparative insight.....	p.105
III. Investing in intellectual capital: The sector’s importance in the context of innovation in the knowledge society.....	p.107
III.1. The importance of intellectual capital: Turning ideas into business.....	p.107
III.2. Assessing “intangible assets” in the cultural & creative sector.....	p.108
SECTION III. THE SECTOR’S OUTLOOK.....	p.112
I. ICT: The potential for the cultural & creative sector.....	p.113
II. Focus on the European outlook.....	p.114
II.1. Trends in countries.....	p.114
II.2. Trends in sectors.....	p.114

SECTION IV.THE ROLE OF PUBLIC SUPPORT AND SPONSORSHIP .....	p.118
I. The role played by the “public economy of culture”.....	p.119
I.1.The need for public support to realise public value.....	p.121
I.2.The economic value of public funding for culture.....	p.123
II. The role of sponsorship and patronage .....	p.126
II.1. An assessment of the value of sponsorship to the cultural sector .....	p.126
II.2.Recipient sectors.....	p.126
II.3.National overview.....	p.127
II.4.Conclusions.....	p.128

## **Chapter IV.**

### **The indirect and non-quantifiable contribution to the Lisbon Agenda ..... p.133**

INTRODUCTION.....	p.135
SECTION I. THE INTERDEPEDENCE BETWEEN THE CULTURAL & CREATIVE SECTOR AND ICT.....	p.136
I. Increased growth prospects for ICTs.....	p.136
II. Growth prospects for the cultural & creative sector.....	p.140
II.1. Digital technology is radically transforming the production, circulation and consumption of content, leading to new supports, applications and content offerings.....	p.140
II.2.The key challenge: Finding appropriate new business models.....	p.140
III. Conclusion: Content is a main driver for ICT development .....	p.144
SECTION II. CULTURE AS AN ENGINE FOR THE EMERGENCE OF CREATIVE HUBS AND LOCAL DEVELOPMENT.....	p.145
I. Introduction.....	p.145
I.1.Culture and local sustainable development.....	p.145
I.2. Measuring the socio-economic impacts of culture on local development.....	p.146
II. Culture as an engine for tourism.....	p.147
II.1. An overview of the economic impact of tourism activities in Europe.....	p.147
II.2. The multiple ways culture contributes to tourism.....	p.149
II.2.1.Heritage.....	p.149
II.2.2.Arts Fairs.....	p.150
II.2.3.Museums and exhibitions .....	p.152
Case Study: Bilbao Guggenheim museum.....	p.156
II.2.4.Festivals and trade fairs.....	p.158
Case Study: The socio-economic impact of festivals – selected examples.....	p.160
II.2.5.The performing arts.....	p.163
II.2.6.Film tourism.....	p.163
II.3.Conclusion: Assessing the added-value of cultural tourism.....	p.165
III. Creative cities.....	p.166
III.1.The territorial dimension of creativity.....	p.166



III.2.Examples of cultural and creativity clusters.....	p.167
III.2.1.Fostering creative hubs.....	p.167
Case study: Creative cities.....	p.169
III.2.2. European capitals of culture.....	p.173
Case study: European capitals of culture: Lille and Graz.....	p.175

IV. The role of culture in urban and regional organisation .....	p.178
IV.1.Fostering territorial cohesion.....	p.179
IV.1.1. Recycling brownfield sites into cultural attractions.....	p.179
IV.1.2. Social cohesion within regional policy.....	p.181
IV.2. Fostering the social integration of individuals and communities.....	p.184

## **Chapter V.**

### **A strategy for a creative Europe to achieve Lisbon goals..... p.185**

SECTION I. EUROPE'S COMPETITIVENESS RESTS IN CULTURE & CREATIVITY.....	p.187
I. The competitive challenge of the cultural & creative sector.....	p.188
II.The Lisbon process and creativity .....	p.193
II.1. Lisbon's ICT focus.....	p.193
II.2.The complex market structure of the content industry is perceived as a bottleneck for the emergence of a competitive ICT industry .....	p.194

SECTION II. THE MAIN CHALLENGES FOR A CREATIVE EUROPE.....	p.197
I. Challenge 1. Making culture and creativity an EU priority .....	p.198
II. Challenge 2. Harnessing the digital shift .....	p.200
III. Challenge 3. Fostering a creative education.....	p.202
IV. Challenge 4. Supporting creative territories: Winning the global competition to attract talents and investments.....	p.203
V. Challenge 5. Ensuring consistency between EU internal and external actions.....	p.204

SECTION III. RECOMMENDATIONS FOR A CREATIVE EUROPE TO PUSH LISBON FORWARD.....	p.207
I. Establish a stronger quantitative evidence base for policy-makers.....	p.208
I.1. An accurate and comprehensive statistical system.....	p.208
I.2. Establish an index to measure and monitor "creativity".....	p.210
II. Integrating the cultural & creative sector into the Lisbon Agenda .....	p.212
III. Support the digital shift .....	p.213
IV. Address the chronic under funding of cultural & creative industries.....	p.214
V. EU Regional policy to boost creativity.....	p.216
VI. Support cultural diversity in Europe and internationally.....	p.217
VII. Key steps to create coherence and engage with the sector.....	p.218

### **Annexes..... p.219**

Annex 1. Selected Sector Profiles.....	p.221
--	-------

Film.....	p.222
Music.....	p.234
Press and publishing.....	p.254
Television.....	p.262
Video games.....	p.270
Advertising.....	p.280
Design.....	p.285
The art market.....	p.291
The performing arts.....	p.299
Heritage.....	p.303
Annex 2. Statistical Matrix.....	p.307
Annex 3. Contribution of the cultural & creative sector and of other industry sectors to the European economy.....	p.312
	p.314
Annex 4. The development of GDP in European countries 1999-2003.....	
Annex 5. Delimitation of the cultural field in view of extracting employment data.....	p.315
Annex 6. Method of calculation – extraction of employment data.....	p.317
Annex 7. Employment – Tables of computation.....	p.318
Annex 8. ICT Glossary.....	p.326
Annex 9. List of cultural ministries contacted.....	p.327
Annex 10. List of professional organisations, industry professionals and academics contacted..	p.329
Annex 11. List of attendees – EC working session of 19.07.2006.....	p.332
Annex 12. Bibliography.....	p.334

# LIST OF TABLES AND FIGURES

## List of tables

Table 1: Proposed delineation of the cultural & creative sector.....	p. 56
Table 2: Comparison of the proposed delineation with sector delimitation retained by Eurostat, WIPO and the UK DCMS.....	p.57
Table 3: Contribution of the European cultural & creative sector to the European and national economies.....	p.66
Table 4: Contribution of the cultural & creative sector and of other industries to the European economy.....	p.68
Table 5: Contribution of the European cultural & creative sector to the European growth.....	p.69
Table 6: “Cultural employment”, “Cultural and cultural tourism employment”, “Total employment”, in the EU25.....	p.79
Table 7: Evolution of the “Cultural employment”, “Cultural and tourism employment” and “Total employment” in the EU25 from 2002 to 2004.....	p.79
Table 8. The cultural & creative sector in Europe: a comparison with other sectors (2002).....	p.100
Table 9: Assessing the competitiveness of the European cultural & creative sector .....	p.104
Table 10: The productivity of the European cultural & creative sector.....	p.106
Table 11: The profitability of the European cultural & creative sector.....	p.107
Table 12: Level of knowledge and creativity investments within the cultural & creative sector....	p.109
Table 13: Direct public expenditures on culture .....	p.126
Table 14: Top 20 exhibitions having recorded most admissions in the world, 1998.....	p.153
Table 15: Top 20 exhibitions having recorded most admissions in the world, 2005.....	p.153
Table 16: The three ages of museums.....	p.154
Table 17. The 20 leading audiovisual companies worldwide by audiovisual turnover in 2004 ....	p.188
Table 18: EU innovation scoreboard.....	p.210
<b>Tables in Annexes:</b>	
Table 19: European film sector at retail level.....	p.223
Table 20: Operating revenues – European producers, distributors and exhibitors 2000-2003...	p.224
Table 21: Revenues on the VOD market: 2005 and estimates for 2010.....	p.225
Table 22: Estimated losses in the film sector due to piracy.....	p.227
Table 23: World box office top 20 - 2005 (USD million).....	p.229
Table 24: Top 20 leading film companies in Europe according to operating revenues.....	p.231
Table 25: The 20 leading independent film production companies in the European Union .....	p.232
Table 26: Recorded music sales in Europe 2000-2004.....	p.235
Table 27: Worldwide revenues from digital music sales.....	p.236
Table 28: Singles & Albums downloads in the US and in Europe 2004-2005.....	p.237
Table 29: Music sales at national levels in Europe.....	p.239
Table 30: Top-20 albums of 2005 by worldwide sales.....	p.240
Table 31: Contribution of UK music composers, publishing and live performance to national balance of payments (2000).....	p.250
Table 32: Turnover of majors and main independent music companies in Europe .....	p.252

Table 33: Combined turnover of the publishing industry in Europe (2001).....	p.256
Table 34: Number of published titles in Europe i.e. newspapers, magazines, books -2001.....	p.257
Table 35: The evolution of US and European trade in publishing (1994-2002).....	p.259
Table 36: Total number of employees in publishing industries by country (2001).....	p.260
Table 37: Employees in European publishing industries by sector (2001).....	p.260
Table 38: The 20 leading audiovisual companies worldwide according to their 2004 turnover....	p.266
Table 39: Top-20 video game publishing companies in the world in 2004 .....	p.272
Table 40: Financial situation of European video game publishers (€ million) 1999-2003.....	p.273
Table 41: Financial situation of European video game developers (€ million) 1999-2003.....	p.273
Table 42: Advertising expenditures in selected European countries 2005.....	p.283
Table 43: Revenues of leading European fashion groups 2005.....	p.286
Table 44: Global Competitiveness Report 2001-2002/ ranking of countries on the basis of their competitiveness and use of design .....	p.289
Table 45: The European art market 2002: turnover, number of enterprises and jobs.....	p.295
Table 46: The rise in price for works of art .....	p.296
Table 47: The European art market 2002 – number of employees, salary, % of part-time and % women.....	p.297
Table 48: The European art market indirect economic impact .....	p.297
Table 49: Number of employed directly linked to cultural heritage.....	p.303
Table 50: Comparison of public spending on conservation, restoration and rehabilitation of cultural heritage (PSH) (2001).....	p.304

### List of figures

Figure 1. Household expenditure in the UK between 1990-2004, five largest categories.....	p.71
Figure 2. Evolution of French household's consumption 1960-2004.....	p.72
Figure 3. Consumption of cultural-industries related products in value – 1995-2004.....	p.72
Figure 4. Cultural & cultural tourism employment in the EU25 .....	p.78
Figure 5. Total employment in the EU 25 .....	p.79
Figure 6. Cultural employment in the EU 25 - 2004 .....	p.80
Figure 7. Cultural & cultural tourism employment in the EU 25 - 2004 (in thousands).....	p.81
Figure 8. Cultural & cultural tourism employment in the EU 25 in % of total employment.....	p.82
Figure 9. Cultural employment in the EU 25 by gender .....	p.83
Figure 10. Share of women employed in the EU25 .....	p.84
Figure 11. Cultural employment in the EU 25 by age.....	p.85
Figure 12. Share of 25-49 age group employed in the EU25.....	p.86
Figure 13. Cultural employment in the EU 25 by education level – 2004.....	p.88
Figure 14. Share of tertiary education employed in the EU25.....	p.88
Figure 15. Cultural employment in the EU 25 by employment status .....	p.90
Figure 16. Share of independent workers employed in the EU25.....	p.90
Figure 17. Cultural employment in the EU 25 by job stability .....	p.92
Figure 18. Share of temporary workers employed in the EU25.....	p.93
Figure 19. Cultural employment in the EU25 by work duration .....	p.94
Figure 20. Share of part-time workers employed in the EU25.....	p.94
Figure 21. Cultural employment in the EU 25 by side-job .....	p.96
Figure 22. Share of workers with a side-job employed in the EU25.....	p.96

Figure 23. Creative Industries in the EU25 sorted in accordance with the number of enterprises .....	p.99
Figure 24. EU broadband fixed access-lines 2002-2005.....	p.137
Figure 25. EU broadband penetration rate.....	p.137
Figure 26. Penetration of mobile telephones in Europe.....	p.138

**Figures in Annexes:**

Figure 27. Film export in the UK 1995-2004.....	p.226
Figure 28. Digital Music Revenues 2005 / by region.....	p.237
Figure 29. Market share of music publishers, 2006.....	p.242
Figure 30. EU-30 Collecting societies' revenues.....	p.246
Figure 31. Authors and publishers collecting societies' revenues.....	p.247
Figure 32. Producers collected revenues.....	p.247
Figure 33. Performers collected revenues.....	p.248
Figure 34. Authors and publishers collecting societies members.....	p.248
Figure 35. Performers societies members.....	p.249
Figure 36. World leading publishers.....	p.255
Figure 37. Trade in TV programmes between the EU and North America.....	p.268
Figure 38. Share of world leisure software sales.....	p.274
Figure 39. Ubisoft's turnover growth.....	p.278
Figure 40. Turnover in advertising in the EU-25, share by Member State.....	p.280
Figure 41. EU15 total display advertising spending in 2003.....	p.281
Figure 42. Top six marketing and advertising companies in the world based on 2005 revenue..	p.284
Figure 43. Auction houses sales turnover and sales volume by country.....	p.292

## Foreword

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This Study on the economy of culture in Europe was prepared for the European Commission (Directorate-General for Education and Culture). It is a first for Europe. Never before has there been an attempt to assess the economic and social value of the cultural and creative sectors. The report is intended to help the EU harness the economic and social power of the cultural and creative sectors.

The assignment lasted 10 months between November 2005 and September 2006. It was managed by KEA European Affairs (KEA), a Brussels based consultancy which specialises in the cultural, media and entertainment industries sectors. Its research department is experienced in conducting a wide range of studies related to copyright, rights management, trade in cultural goods, regulatory impact assessment and Europe wide comparative analysis.

For this assignment KEA set up and managed a consortium composed of Media Group and MKW Wirtschaftsforschung GmbH.

Media Group is part of the Turku School of Economic and Business Administration in Finland. It specialises in media business and economics, conducting research on a wide range of topics.

MKW Wirtschaftsforschung GmbH is a German consultancy based in Munich with subsidiaries in Sarrebruck and Innsbruck. Their research and consulting focus lies in the field of labour market and employment policy, labour mobility and migration as well as regional economics. MKW Wirtschaftsforschung GmbH is an external expert for the DG of Employment and Social Affairs of the European Commission for the Evaluation Working group of EURES.

Media Group's main task was to advise on the definition and implementation concerning the methodology used to collect statistical data enabling the economic assessment of the cultural & creative sector. Media Group worked mainly on a combination of Eurostat information and data from the Amadeus database. It provided the analysis of the results obtained from this data collection covering 30 European countries and gathered evidence of performances in other industry sectors as well.

The task of MKW Wirtschaftsforschung GmbH was to determine a method that would enable to assess the impact of the culture & creative sector at the employment level. It collected data in relation to employment mainly from Eurostat databases, provided elements of analysis and completed some case studies in relation to tourism, employment and education.

KEA responsibilities included managing the research, defining the analytical framework of the study, defining the scope of the economic and social assessment (Chapter II), completing the sector profiles (Annex 1), carrying out the research in relation to local development (Chapter IV) and policy strategy (Chapter V), preparing the bibliography, managing the contacts with trade bodies and ministries for information gathering, as well as the relationship with the European Commission and the coordination with the members of the consortium, and finally drafting the study.

Trade organisations, industry experts, public bodies and artists that were consulted in the framework of this study are listed in Annex 10. We would like to thank them for their interest, input and encouragements throughout this assignment. A “working session” was organised at the initiative of the European Commission on 19 July 2006 in Brussels with a view to completing stakeholders’ consultation (the list of attendees is available in Annex 11).

National Culture Ministries in the 30 countries surveyed were all formally contacted – a few of them informally (list available in Annex 9). KEA had the opportunity to present its work at the interim stage to ministerial delegations at the CAC (Cultural Affairs Committee) meeting held on April 5-7 in Rust, Austria.

Representatives of international Organisations (such as OECD, WIPO, UNCTAD, UNESCO, Council of Europe) as well as academic experts in the field of the economy of culture were also consulted in the course of the assignment. We also made use of their numerous written contributions and we thank them for providing us with such valuable input.

Finally we would like to thank the European Council and Commission for taking the initiative of this study which, for the first time, will provide an assessment of the economic and social value of the cultural & creative sector in Europe.

## Introduction

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This study considers the contribution of the creative & cultural sector to European growth and cohesion.

In 2004 the European Council identified the need to map this sector in the context of Lisbon when it foresaw a study on *“the ways in which creativity, creative industries, and public-private partnerships in the cultural sector already contribute to European economic, social and cultural potential and thereby to the achievement of Lisbon targets”*.

The Commission’s Terms of Reference confirmed that the objective of this study is to *“allow the European Commission to better understand how the cultural sector can contribute to achieving the Lisbon Strategy targets and thus provide a response to the request from the Council of European Union in the plan of work included in its conclusions of 15 and 16 November 2004”*<sup>2</sup>.

In particular, the study is expected to:

- Refine the definition of the “cultural sector”
- Submit an analysis giving an overview of the cultural sector in Europe from a socio-economic standpoint
- Back-up this analysis with statistical data and case studies
- Analyse the development prospects of the cultural sector in Europe in socio-economic terms against a background of globalisation and relentless spread of new information technology
- Analyse how the cultural sector contributes to the economic and social potential of Europe and thus to the attainment of the Lisbon targets.

Culture is an integral part of the European project. The EC Treaty enshrines the EC’s cultural action around the following principles:

- Bringing Europe’s common cultural heritage to the fore while respecting the national and regional diversity of the Member States
- Encouraging co-operation between Member States and supporting their action in this field
- Fostering cooperation with third countries and with relevant international organisations
- Taking into account the cultural dimension of all the actions the EC carries out under all the provisions of the EC Treaty.

As a result, several EU programmes (such as Media or Culture 2000) promote trans-national cultural exchanges. At an international level, the EU initiated the discussions which led to the signing of the Convention on the Protection and the Promotion of the Diversity of Cultural Expressions under the auspices of UNESCO.

Policy makers recognise that Europe’s true identity is made up of different heritages, multiple languages and diverse artistic traditions. They recognise the importance of culture to forge a “common destiny” and to reconcile identity and openness, dialogue and respect.

Though, while Europe prides in its intellectual and creative past, it has failed to assess the economic value of its cultural heritage and artistic creativity. Today Europe knows the importance of scientific innovation and is able to measure its investment in support of research and innovation. It is, however, unable to gauge the contribution culture and creativity has

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<sup>1</sup> In the work plan adopted as part of the European Council’s conclusions of 15 and 16 November 2004, under the topic *“Lisbon strategy - Contribution of creativity and cultural industries to European growth and cohesion”*.

<sup>2</sup> Invitation N°EAC/03/05, Annex I, Terms of References



on the Lisbon goal to make Europe *"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."*

Europe's indexes measuring its economic performances and competitiveness include figures on R&D investments, patents, IT spending and the number of science graduates. Yet they fail to measure investment in creativity and copyright, as well as the importance of the cultural & creative industries.

The study aims to address the lack of economic visibility in the cultural & creative sector of the EU. It is divided into five chapters.

## **1. Background and context of the economic and social assessment**

This chapter provides some insight on the political, economic and social dimensions of culture. It looks at the reasons for a new interest in assessing the economy of culture in Europe. It considers how the contribution of culture to the economy has recently been acknowledged at both national and international levels and evaluates the constraints of such an assessment. It puts this exercise in the context of the ICT revolution which triggers increased demand for "content". Finally it describes the interaction between culture and creativity to demonstrate the added value of creativity to economic development as this study attempts to gauge the degree in which both culture and creativity have had an impact on the economy of culture.

## **2. The scope of the economy of culture – delineation of the cultural and creative sector**

Chapter II aims at delineating the cultural & creative sector which is subject to the impact assessment. It reviews the various definitions given at international and national levels to circumscribe the sector for evaluation purposes. The study provides its own method to collect the data on the various sectors and activities to measure the economy of culture in Europe.

## **3. Mapping out the economy of culture in figures**

Chapter III is divided into four sections that analyse:

- The contribution of the cultural & creative sector to European GDP, growth and employment.
- The contribution of the cultural & creative sector to European competitiveness
- The sector's outlook
- The role of public support and sponsorship in the European economy of culture.

This chapter considers the methodology used to measure the economic and social contribution in the absence of statistical standardisation in the field. It evaluates the evolution of cultural consumption and the prospect of the sectors particularly in relation to digital technology development.

The specificity of the sector in relation to its funding is considered through the influence of public bodies and/or private foundations. The chapter contributes to mapping out the culture & creative sector in Europe to the largest extent possible.

#### **4. The indirect and non quantifiable contribution to the Lisbon Agenda**

Chapter IV considers the indirect and non quantifiable impact of the cultural & creative sector to the Lisbon Agenda. First it looks at the close interdependence between the content and ICT sectors, resulting in huge development prospects for both sectors.

Then it looks at the impact of culture at local level on the tourism industry, the development of cities and the role of the cultural & creative sector in urban regeneration. It emphasises the role of culture in promoting local development and describes strategies adopted at local levels to attract the “creative class”. This chapter also examines the contribution of culture as a tool for social integration and cohesion.

#### **5. A strategy for a creative Europe**

The study concludes that the establishment of Europe as a creative hub is essential for the Union’s competitiveness in the context of the Lisbon Strategy. It highlights the weaknesses and strengths of Europe’s creative industries and considers the challenges that Europe needs to address if it wants to make the most of its creative potential. The chapter shows the important interaction between the promotion of innovation, a Lisbon priority, and the fostering of creativity. Finally it recommends a few action points that should stimulate the establishment at the EU level of an environment conducive to creativity. In the end, it should put culture and creation at the heart of the European project for the benefits of the European economy and its growth.



**Chapter I.**  
**The economy of culture in Europe - Background and Context**

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*The questions of what Europe can do for culture, and what culture can do for Europe are not new. But in this context they have acquired a new sense of urgency*”.

José Manuel Barroso, President of the European Commission<sup>1</sup>

## **SECTION I. THE POLITICAL, ECONOMIC AND SOCIAL DIMENSIONS OF CULTURE**

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### **I. THE POLITICAL DIMENSION**

*“On ne tombe pas amoureux du marché unique ».*

Jacques Delors quoted by J.C Juncker in his speech pronounced within the *Rencontres pour l'Europe de la Culture*, Paris, 3 May 2005.

Europe is a political project and not simply an economic market. Culture is ideally positioned on the cusp between the economy and the political sphere. Compared to other sectors of the economy, culture has an additional dimension – it not only creates wealth but it also contributes to social inclusion, better education, self-confidence and the pride of belonging to an historic community. Culture is also a powerful tool to communicate values and to promote objectives of public interest that are broader than wealth creation.

Culture has traditionally been considered from the point of view of “enlightenment”. Following an “art for art’s sake” approach, one could say a work of art is important because it enriches its beneficiaries, offering them the pleasure of admiring an embodiment of “beauty”, broadening their “horizons” and/or providing them with a better insight on the complexity of the human being.

Culture performs multiple social and political functions. These have often served as justifications for cultural policies at national levels which have gained an increased relevance in a globalised and multicultural world.

Indeed, culture can be regarded as an “ambassador” and as a vehicle for European “values” (tolerance, democracy, diversity and pluralism, etc.) and its “way-of-life”. For example, from antiquity to the present, from Sophocles to Brecht and Beckett, European theatre has been linked to democracy, providing a place for free-expression. Goya’s caricatures or Picasso’s *Guernica* have marked the minds of generations because of the powerful social and political messages they encompass. Today the films of directors such as Pedro Almodovar, Lars Van Trier, Aki Kaurismaki or Roman Polanski play the same role and are expressions of European creativity.

Europe has succeeded in establishing the principle of cultural diversity as a tenet of international law and in establishing that cultural products are not mere merchandises, but deserve specific treatment.

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<sup>1</sup> Berlin Speech 26 November 2004, Conference “A Soul for Europe”.

But culture is more than a banner for European “values”. It acts as a catalyst for intercultural dialogue within Europe, as well as with the rest of the world. Distributors of films, books or sound recordings give citizens the opportunity to experience the culture of others. Great artists are best positioned to deliver powerful messages. For example, Rostropovitch played the cello to celebrate the fall of the Berlin Wall, Daniel Barenboim conducts an orchestra composed of Israelis and Palestinians.

In a multicultural world culture has a role to play in exemplifying the peaceful and enriching dimensions of exchanges between populations. As expressed by Yehudi Menuhin: *“It is only culture, by uniting diversity that will give us a true European conscience”*<sup>2</sup>.

Culture is also a lever for territorial and social integration. The Bilbao Guggenheim museum opened up the Basque country to the world and reintroduced Bilbao into modernity. Brownfield sites, when they are vested with cultural activities, bring a new economic and social life to our cities. Culture is powerful tool to re-integrating the socially excluded, providing them with the opportunity to set up and fulfil their own project, acquire new skills that can be transferred into other sectors of activities and recover self-confidence .

*“It is art that can structure the personalities of young people with a view to open their minds, to instillate the respect of others and the desire of peace”* Yehudi Menuhin.<sup>3</sup>

## **II. THE ECONOMIC AND SOCIAL DIMENSION(S) OF CULTURE**

By themselves the above arguments justify the interests of policy makers in the field of culture. However, the European Union has historically been built through market forces and the economy. This has enabled Europe to create minimal economic solidarity amongst the European nations upon which they could build. The market prism remains prevalent in the valuation of activities and the attribution of EU competences. In this context it is particularly important to assess the value of culture and creative industries to Europe’s economy.

For example, is cultural diversity a competitive asset for Europe? Are European creators and industries well positioned for global competition? Do they contribute to Europe’s influence in the world? Is this influence measurable? What are the strengths and weaknesses of the European “cultural sector”? How does the sector compare with other industries? Does it create employment? Does it create wealth or is it a drag on public spending – a bottomless pit for public expenditure with limited returns on investment? Does the sector deserve its place as a priority sector in the Lisbon strategy?

The assessment of the economy of culture at a European level has never been done before and the task is formidable.

The constraints are numerous:

- At statistical levels, the only pan-European source, Eurostat, relies on data provided by national States. Apart from the fact that the majority of the latter have an insufficient system to monitor the cultural sector and do not collect comprehensive data, they use different statistical systems, resulting in a lack of data harmonisation in this field. In addition, the statistical frameworks used at European and national levels are not tailored for the cultural sector. Relevant sub-sectors are scattered around within different categories, or they find themselves lost within categories

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<sup>2</sup> Yehudi Menuhin – Letter to the European Council on 17.02.1999 – *Le Monde* 14 March 1999, page 25.

<sup>3</sup> Yehudi Menuhin, Letter to the European Council, *ibid*.

that are too broad to permit the cultural dimension to be assessed. As a result Europe knows how much it invests in science and innovation, but it is unable to figure out the economic value of art and creation<sup>4</sup>.

- Cultural organisations are sometimes reluctant to participate in an exercise aimed at giving an economic value to the world of art and culture. For these organisations, art has no price and investment in art does not require economic justification. A cultural activity should be disconnected from market reality so as to avoid economic pollution on the artistic minds. The act of creation should be independent from any lucrative thoughts. Moreover, the market may reject some artistic activities on the grounds that they are unprofitable – hence the need for public support to redress market inefficiencies in the world of art.
- Some trade organisations express reluctance in being considered as part of the cultural sector, preferring to be granted the status of industry. This is also driven by a fear of not being taken seriously by decision makers and of being excluded from EU programmes not focused on culture (the fear of the “cultural ghetto”).
- So far the focus of the Lisbon Strategy has been on ICT uptake and network development as well as on research in technology. Technology has been given prominence over other factors that stimulate economic and social growth in Europe. Culture and creativity suffer from an image problem and their economic role needs to be articulated if the sector is to gain better exposure amongst decision makers.
- Analyses of the possible “returns on investment”, in the form of solid and reliable ex-post impact studies and monitoring, are scarce in the sector. Culture has traditionally been looked upon by public authorities (whether local or national) as a cost issue (often as part of the communication budget) and not as an investment justified to tax payers by a proper business plan. In terms of private finance, cultural and creative projects, and businesses, often suffer from financial problems.

However, the situation of marginalisation in the cultural sector is changing. It has been triggered by the following factors:

The contribution of culture to the economy has gradually been acknowledged, in particular with the development of the cultural industries. Culture contributes directly to the economy as it provides products for consumption, namely the cultural goods and services embodied in books, films, music sound recordings, concerts, etc.

In addition, long-term structural changes in our societies give more importance to culture as a product of consumption. The demand for an ever greater number of diverse cultural products is indicative of post-modern consumer behaviour: consumers seek to differentiate themselves by appropriating the signs and values that mark specific products. These behaviours stem from long-term socio-economic structural trends observed in Western societies. Indeed our societies are becoming increasingly “individualised”. Research in human and social sciences stress the rising importance of “the individual” increasingly “free” from traditional loyalties (family, church, social class, etc.). This trend is being reinforced by the average level of education: as it increases, so does the demand for culture. Considering income availability, the richer our societies become, the more immaterial our consumption patterns become. When basic needs are covered and satisfied, consumption is increasingly a cultural statement. This trend is reinforced by the increase in availability of leisure time that can be devoted to cultural activities. All

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<sup>4</sup> In a speech pronounced at the Delft University in The Netherlands on 13 January 2006, European Commission’s President José Manuel Barroso insists that culture and science “are the legs on which Europe stands” and that “constant innovation in art and science has helped Europe to enjoy both rapid development and unparalleled wealth”. And yet, whereas the importance of science and technology is backed up by figures (“a third of the top 25 R&D investing companies in the world are from the EU”, “the investment deficit affecting higher education is now so huge that to close the funding gap with the US, for example, Europe would need to spend an additional €10,000 per student per year”) there is no single figure on culture and creativity.



these social trends converge in sustaining an increasing demand for cultural content consumption and for cultural participation.

It is also increasingly acknowledged that the benefits culture brings to European economies are wider than the mere consumption of cultural goods: culture is indirectly used by many non-cultural economic sectors as a source of innovation. "Creativity" is a complex process of innovation mixing several dimensions such as technology, science, management, and culture. Culture provides tangible as well as intangible assets consisting of artistic heritage, processes, references and skills that interact with other skills and resources to foster innovation. This will be further developed in Section II below. The importance of culture in triggering innovation is not new but it has suffered from the difficulties associated with presenting and naming it as such. In regard to the question "should we be creating a Europe of art, or a Europe of science?" the European Commission's President recently stated: *"Certainly both are important, and particularly since the Renaissance, Europe has excelled at both. Constant innovation in art and science has helped Europe to enjoy rapid development and unparalleled cultural wealth (...) For Europe it must never be a question of art or science, but (...) art and science are the legs on which Europe stands"*<sup>5</sup>.

More importantly, some EU member States have been looking into ways of analysing the commercial value of creative industries without necessarily attempting to capture their cultural and social values. Those countries are developing programmes to turn creativity into industrial successes. These attempts are relayed in cities and regions.

Leading the pack is the UK which set up a Creative Industries Task Force and published the Creative Industries Mapping Documents in 1998 and 2001. On the basis of its initial findings the British Government states that the creative industries are now bringing in 8% of national income and employing 5% of the workforce. Since 1997 the output of the creative industries, according to the UK government, has grown by up to 20% a year, compared with less than 6% for the economy as a whole. Again, according to the UK Trade Secretary, the creative economy is growing at 8% per year. It accounts for one in five of all jobs in London and £ 11.4 billion of UK's balance of trade *"well ahead of the construction industry, insurance and pensions, and twice that of the pharmaceutical sector"*. The creative industries are now bigger than the financial services sector in the UK<sup>6</sup>.

Other countries are focusing their attention on the creative economy as a catalyst for social and economic health as well as competitiveness. This study will in particular refer to the attention given to the "creative economy" by some cities (New-York, Hong-Kong - which ambitions to position itself as the creative hub of Asia - or Montreal), in addition to some countries such as Australia and New Zealand. The USA has long understood the power of image and music to export its way of life and the "American dream".

The following double page provides an overview of selected European national studies on the economy of culture. Beyond a common interest in assessing the cultural sector from an economic standpoint, it shows the variety of methodologies. More importantly it shows the decisive impact of the economy of culture on the overall economy

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<sup>5</sup> José Manuel Barroso, President of the European Commission, « Europe : art or science », speech at the Delft University of technology, 13 January 2006

<sup>6</sup> NESTA, *Creative growth how can the UK develop world class creative business*, April 2006

## DENMARK

Source:	<i>Denmark in the culture and experience economy- 5 new steps</i> , The Danish growth strategy, Danish Ministry of Culture, Copenhagen, September 2003, 66 p.
Approach :	Culture and experience economy
Definition:	Fashion, virtual arts, music, books, theatre, radio/TV, printed media, architecture, design, film/video, advertising, edutainment, content production, events, cultural institutions, tourism, toys/amusement, and sport industries.
Date :	2000-2001
Turnover:	<b>€ 23.4 billion</b> (DKK 175 billion) 7.3% of total private sector turnover
Value added to national GDP:	€ 8.3 billion (DKK 62 billion) <b>5.3% of national GDP.</b>
Workforce (private sector):	170,000 full-time employees <b>12% of the total fulltime workforce</b>
Exports:	€ 9.11 billion annually (DKK 68 billion) <b>16% of total exports</b>

## THE NETHERLANDS

Source:	<i>Our Creative Potential, Paper on Culture and Economy</i> , RAES, S.E.P., Hofstede, B.P., Ministry for Economics Affairs and Ministry for Enterprise, Culture and Science, 2005 (in Dutch), 44 p.
Approach :	Creative economy
Definition:	The "creative business sector" relates to three sectors: the arts (the performing arts, the visual arts, cultural heritage and cultural events), media and entertainment (film, the audiovisual sector, language and literature and journalism), and creative business services (design, fashion, architecture, new media and games, advertising.)
Date :	2004
Turnover:	<b>€ 8.4 billion</b>
Workforce:	240,000 people <b>3.2% of total workforce</b>
Exports:	€ 0.258 billion <b>0.14% of total exports</b>

## THE UK

Source:	<i>The Creative Industries Mapping Document 2001</i> , Department for Culture, Media & Sport, London, 2000.
Approach :	Creative economy
Definition:	The British Department for Culture, Media and Sport (DCMS) defines creative industries as those industries which have their origin in individual creativity. This includes advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer games, television and radio.
Date :	2001
Turnover:	<b>€ 165.43 billion</b> (£ 112.5 billion)
Value added to national GDP:	€ 85 billion <b>6.8% of national GDP</b>
Workforce (private sector):	1.3 million people <b>4,3% of total workforce<sup>7</sup></b>
Exports:	Approx. € 15.1 billion ( £ 10.3 billion) <b>4.7% of total exports</b>

## FINLAND

Source:	Source: <i>Finish Ministry of Culture - Aulake Kimmo</i>
Date :	2004-2005
Turnover:	<b>€ 12.6 billion</b>
Value added to national GDP:	€ 4.3 billion <b>3.8% of national GDP (2002)</b>
Workforce:	85 854 persons (2003) <b>3.2% of total workforce<sup>8</sup></b>
Number of enterprises:	14 517 enterprises

<sup>7</sup> CIA's World Fact-book 2002 figures.

<sup>8</sup> CIA's World fact-book 2005 figures.

<b>Exports:</b>	€ 0.59 billion (including objects of art and antiques, books, journals and other printed matter, fairground amusements, instruments, writing and drawing equipment, video recording and reproducing equipment and sound recording and reproducing equipment. The figure doesn't represent the exportation value of most cultural goods or services and its information value is very limited) <b>1.06% of total exports</b>
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## LATVIA

<b>Source:</b>	<i>The economic contributions of copyright-based industries in Latvia</i>
<b>Approach :</b>	"Copyright industries"
<b>Definition:</b>	The National Culture Policy Guidelines accept the definition approved by the World Culture Conference (Mexico, 1982). Culture in the broadest understanding of the term means the totality of all spiritual, material, intellectual and emotional features of a society or social group and alongside art and literature includes also the way of life, ways of co-existence, systems of values, traditions and views.
<b>Date :</b>	2004
<b>Turnover:</b>	<b>€ 0.83 billion</b>
<b>Value added to national GDP:</b>	€ 0.3 billion <b>4% of national GDP</b>
<b>Workforce:</b>	41 225 employees <b>4,4 % of total workforce</b>

## SWEDEN

<b>Source:</b>	<i>Denmark in the culture and experience economy- 5 new steps</i> , The Danish growth strategy, Danish Ministry of Culture, Copenhagen, September 2003, 66 p.
<b>Approach :</b>	Culture and experience economy
<b>Date :</b>	2000-2001
<b>Value added to national GDP:</b>	€ 17.1 billion <b>9 % of national GDP</b>
<b>Workforce:</b>	400,000 people <b>10% of total workforce</b>

## LITHUANIA

<b>Source:</b>	<i>Evaluation of Contribution of Creative Industries to the Lithuanian Economy</i> , Dr. Starkeviciute, International Business School of Vilnius University, Vilnius, 2003.
<b>Approach :</b>	Creative industries
<b>Definition:</b>	Advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure software, music, the performing arts, publishing, software and computer games, television and radio.
<b>Date :</b>	2002
<b>Turnover:</b>	<b>€0.60 billion</b> (or €0.69 billion including the state subsidies) (2.1 billion LTL or 2.4 billion LTL)
<b>Value added to national GDP:</b>	€0.04 billion <sup>9</sup> <b>0.2% of national GDP</b>
<b>Workforce:</b>	57,000 people <b>4% of total workforce</b>

## POLAND

<b>Source:</b>	<i>The National Strategy for the Development of Culture in 2004-2013</i> ,
<b>Date :</b>	2002
<b>Turnover:</b>	<b>€ 8.7 billion</b> (34.9 billion Polish zlotys)
<b>Value added to national GDP:</b>	€ 17.3 billion <b>5.2% of national GDP</b>

<sup>9</sup> CIA's World Fact-book 2003 figures

### **III. THE ECONOMY OF CULTURE: A SECTOR OF GROWTH**

The revenue model of the different cultural activities or businesses varies considerably. However there are significant commonalities which are also specificities of this sector:

- The products are often short lived with a high risk ratio of failures over success;
- The products are marketed for local audiences with different languages but competing with international products with global appeal. The market structure of the cultural sector and in particular of cultural industries is therefore more complex;
- The market is highly volatile, depending on fashion, trends and consumption uncertainties. Some sectors are strongly "hit driven" (cinema and music for instances);
- The sector has an important social role as a major and attractive communication tool.

#### **III.1. The economy of cultural goods and services**

**Traditional art sectors** (such as visual arts, dance, drama, opera, museums, etc.) have tended to be confined to a non-economic approach. The output of these sectors is generally referred to as "works of art" rather than "cultural goods and services". Their main function was considered as pertaining to the "enlightenment" of the people: the pleasure in enjoying the beauty of a work of art, the historical and educational value attached to it and the philosophical & political dimension they encompass. The economic value they entail is often not regarded as important. These sectors are also seen as "subsidised" sectors, public subsidies being justified by the non-economic and non-profitable nature of the works of art. And yet, their economic value is increasingly acknowledged. As it will be further demonstrated in Chapter IV of this study, the arts field is a powerful tool for local development. It is a sector of growth and a catalyst to the dynamism of creative cities. It acts as a soft location element in a local economic policy aimed at triggering the establishment of companies and talented people. It helps reinforce social integration and ensures territorial cohesion. It is a successful driver to attract tourists.

**Cultural industries** produce market and distribute cultural goods aimed at mass reproduction and mass consumption. Consumption does not take place on the spot, as for works of art: these products are aimed at being disseminated and exported. The economic dimension is here more obvious.

New technology is a powerful driving force that is increasing the economic potential of the cultural and creative sectors.

#### **III.2. The ICT revolution: Increased growth opportunities for the cultural & creative sector**

The ICT sector is central to European growth and competitiveness. It has been identified as a pillar of the European Lisbon Strategy. It accounts for 5.3% of EU GDP and 3.4% of total employment in Europe. In the period 2002-2003 it contributed to more than 25% of productivity growth responsible for more than a quarter of the total European R&D effort<sup>10</sup>.

The development of the ICT sector is heavily dependent on the availability of quality and diverse "content". Although this content is not necessarily cultural (it may be constituted of business information, government services, etc.), cultural content is an essential driver for the take-off, use, and development of ICTs.

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<sup>10</sup> Speech of Viviane Reding, Member of the European Commission responsible for Information Society and Media, *Why convergence is a motor for growth and jobs in the knowledge economy*, held at the Global Forum 2005-11-07.

The unprecedented need for cultural content to feed the digital spaces generated by the proliferation of new media can be illustrated by the following examples:

- The number of distribution channels and platforms has multiplied, thereby increasing the demand for attractive content to feed these platforms. For example, the TV sector is not constrained any more by the limited free-to-air spectrum: digital channels are blossoming on cable, satellite and the Internet.
- Digital technology has enabled the advent of new applications and rich content services such as video-on-demand, IPTV, music downloads, podcasting, etc.
- Thanks to the global reach of the Internet, the well known economics of traditional mass distribution has been supplemented by new economic models. This demand for content represents an opportunity for European industries.

However, the roll out of broadband and the digitisation of production processes will require significant investment for the creative industries to adapt, as well as changes in its management practices. Some industries (notably music) have had to go through aggressive cost restructuring programmes and are experiencing consolidation through mergers.

The main challenge continues to be how one can identify ways to create profitable growth by adopting new business models that often radically impact the traditional ways of doing business. This will also involve increased cooperation between business management and creative staff.

So far the main beneficiaries in Europe of the digital revolution have been the telecom operators acting as Internet service providers with broadband access spending rising very rapidly. This growth is largely due to the availability of free content, for example, 95% of music downloads today are unpaid for. The cinema and publishing industries are increasingly confronted with the same issue: how to monetise activities linked to digital distribution?

## **SECTION II. FROM CULTURE TO CREATIVITY**

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*"The revolutionary reality is that 1.3 kilogrammes of brain holds the key of all our futures. Competitive advantage comes from being different.*  
Kjell A. Nordström and Jonas Ridderstråle in *Funky business*, Bookhouse publishing, Stockholm, 2000

### **I. GRASPING CREATIVITY**

Creativity is a complex process of innovation, combining some or all of the following dimensions: ideas, skills, technology, management, production processes as well as culture. Creativity has the ability to benefit almost all economic sectors.

In this context, culture is not analysed as a source of final consumption (as in the case of films, books, music, cultural tourism, etc.) but as *a source of intermediate consumption in the production process*, most of the time the final products being *functional* (to the contrary of works of arts or to the output of cultural industries).

For example, culture can be used as a source of heritage, providing elements of creativity to other economic sectors – heritage is thereby continuously renewing itself. This is the case when a piece of music is “sampled” to create a new one, or when old images or famous characters of our literature are used to create multimedia artworks or entertainment.

Culture will provide specific skills, working methods and codes that will be transferred into other sectors of the economy and combined with other skills: *“creativity, imagination and the ability to adapt competencies which are developed through the Arts education are as important as the technological and scientific skills”*<sup>11</sup> UNESCO Director-General Mr Koïtchiro Matsuura recently declared.

Multiple examples can be given to illustrate the economic added-value of creativity and of its cultural components:

- Design is the perfect example. It is an activity involving the use of cultural references and education for the production of non-cultural goods and services. Design adds value (aesthetic and ergonomic value) to functional products. For example, in the automobile sector, hiring the best designers can be a determinant in the success of a car. When packaged in a designed cobalt-blue bottle, a random mineral water can reach the world’s finest restaurants’ tables:

#### **Glass design - getting the “cobalt blue bottle” to the finest restaurants around the world**

*Ty Nant* is an example of design applied to glass in the business of mineral water. The family enterprise started with a spring discovered by a farmer in Wales, in 1976. Ty Nant’s innovation has consisted in a well designed cobalt-blue bottle, which departed from traditional bottles, both in relation to its form and colour. In 1989, the small business’ brand was launched at the London Savoy, immediately winning the British glass “First Glass” Award for Design Excellence. This was the first of a long list of Design Awards. Today Ty Nant claims to be ranked first by value in the UK, with an estimated turnover of around £ 4 million. With a distribution network that spans the globe, 60% of the production is being exported, to some 30 different countries. In 2004 the company employed a total of 38 staff in Llanon (Aberystwyth) where it is based.

- Exploiting intangible assets through copyright licensing represents another way for creativity to flourish. This is particularly important for Europe which possesses a huge cultural heritage of current and past “creators”. The following example illustrates this quite well. A character belonging to the Finnish popular cultural heritage was used to develop derived products. The cultural element (i.e. the copyrighted character) was re-used in developing TV series and amusement parks in Asia and throughout the world, thereby generating considerable secondary revenues.

#### **Emerging creative business models based on creative content rights: Oy Moomin Characters Ltd**

Oy Moomin Characters Ltd ([www.moomin.fi](http://www.moomin.fi)) is a Finnish based company that owns and manages the rights to the Moomin literary works and cartoon characters created by their original brother and sister authors and artists, Tove and Lars Jansson.

The Moomin characters are particularly popular among children in the form of books and publications but the characters’ use through syndication and licensing is world wide. Particularly popular are Moomin characters in Scandinavia, Japan, Hong Kong, Taiwan, South Korea as well as in Germany, the United Kingdom and Poland to a lesser extent.

The company holds all the copyrights to the use of the cartoon characters of the deceased artists. According to the company the total value of the Moomin characters based business activities through publishing, licensing and syndication is estimated at € 1.5-2 billion in 2006. The company itself expects to reach a gross income of approximately € 2.8 million in 2006.

The Oy Moomin Characters Ltd directly employs 10 people, six of whom work in the administration department of the company while the other four are employed by the Moomin Shop in the city centre of Helsinki in Finland. The shop is dedicated to selling authorised products based on Moomin characters.

The company does not focus on production activities itself but is a holding company of copyrights. The turnover of the company is based on payments for the right to use and sell authorised Moomin character merchandise.

<sup>11</sup> UNESCO Director-General Mr Koïtchiro Matsuura, speaking at the introduction of the World Conference on Arts Education “Building Creative Capacities for the 21<sup>st</sup> Century”, convened on the initiative of UNESCO on March 6-9 2006.

The economic value of new creative content is mainly realised through the combination of existing creative content (such as images, characters, stories) and new products and services (a film, a TV series, a video game). In the case of Moomin characters, the children's books and illustrations have been used in combinations with many goods since 1950's but the syndication moved to another level when the production of the Moomin TV series by producer Dennis Livson and partly financed by TV Tokyo became very popular in Northern Europe and Japan, in particular.

In 1993 another syndication idea by the same producer was with the development of the Moomin World Theme Park in Naantali, Finland. In November 2005 the Moomin World Theme Park was ranked in the Independent on Sunday as the fourth best theme park in the world, directly after the best selected Walt Disney World Resort in Orlando, the Europe Park in Freiburg, Germany and Disneyworld Hong Kong. Moomin World is annually visited by 220,000 people. The value of creative content like Moomin characters lies mainly in the innovative combinations of goods and services where the content creates added value to other business activities outside the direct holding company.

The key challenge to the Oy Moomin Characters Ltd is that it is only recently that more commercial users and customers are acknowledging the owners' rights to the creative content protected by copyright. The use of company's characters in different materials and products without agreement of the copyright holder remains an issue.

## **II. REALISING THE LISBON STRATEGY: UNDERSTANDING THE COMPETITIVE ADVANTAGE OF CREATIVITY IN THE GLOBAL ECONOMY**

It is important to stress the importance of "creativity" in today's global economic environment as it provides for an essential resource to remain competitive.

### **II.1. The creative imperative in a post-industrialised economy to foster innovation**

Until recently, the two essential parameters of competition were price and technology. Today, consumers are flooded by a market full of products with similar prices and technical performance. A good product can easily be copied at a lower cost.

One traditional (but socially disruptive) response to increased competition, and to the downward pressure on costs, is to shift a significant share of value-added and labour-intensive production activity abroad, allowing for the production of the same products at lower costs.

Alternatively, the situation can be addressed by fostering competitiveness, growth and income within Europe, through an optimal use of "creativity". Competition triggers, in addition to techno-economic knowledge, the need for increased quality and differentiation to gain a competitive edge (as described above in the Ty Nant example of glass design). What increasingly matters today, and constitutes a distinctive competition parameter, lies in the immaterial dimension generated by creative people, skills, ideas and processes; in other terms, creativity.

The cultural sector, its entrepreneurs, its employees and artists which are the main sources of this creativity, therefore deserve closer attention.

### **II.2. The territorial dimension of culture and creativity – "glocality"**

Paradoxically, whereas creativity constitutes a response to some of the economic challenges raised by globalisation, it requires initiative and organisation at a local level. To put it another way, creativity is both global and local – hence the term "glocality". This feature of localisation is a positive aspect of creativity: not only does creativity nurture economic competitiveness but it helps retain talent (and corresponding jobs) locally.

*Talent is attracted by creative environments*

Researcher Richard Florida<sup>12</sup> argues that conventional assumptions about the relationship between investment, technology, human capital and growth are not the same as traditionally argued. He says that creative firms will increasingly *follow the talent* (which he labels “the creative class”) because creative people look for cultural amenities and because creative people and resources are more difficult to replicate. In other words, the spatial dimension and the interactions generated on a limited territory are crucial for creativity to emerge and contribute to the economy. A virtuous circle can then be nurtured, because these creative people once concentrated on a territory will create synergies and fruitful collaborations, thereby fostering further creativity.

Speaking at the Conference “*Content for Competitiveness*”, organised by the EU Austrian Presidency in Vienna in March 2006, Pr. Pekka Himanen developed the idea that a global creative economy does not mean that we transcend the limits of time and space. Quite to the contrary, if creativity has to be developed, he insisted, different elements need to be combined at the scale of a limited territory. These elements are: cultural creativity, top-level education, long-term facilitators (agencies, start-ups) as well as business activities. To illustrate his point, Pr. Himanen presented two interesting examples - “central park corner” in New York and Silicon Valley. Whereas the US produces half of the Internet content, inside the US this production is concentrated within five largest cities - New York, Los Angeles, San Francisco, Seattle, and Washington. These five cities produce half of the US content and 20% of the world’s Internet content. In New York, content is produced in the vibrant and creative area “central park corner”. This “dot” on the world map is actually responsible for the production of a significant proportion of content available throughout the globe.

There are other examples too. In Asia for example, Hong-Kong nurtures the ambition of converting itself into a “creative city”, the creative hub of Asia<sup>13</sup>. The cases of Montreal, London and Berlin will also be examined under Chapter IV.

*The territorial dimension of creativity is reinforced by the nature of cultural products and works of art*

At the core of a cultural product is its uniqueness, a combination of factors of production, tangible and intangible, that are very much dependent on the environment. New cultural “trends” are often set within a limited territory (a town, a district) generated through the interaction of the different creative talents and resources concentrated on this territory as the following examples illustrate:

- Hollywood, the Los Angeles community whose film companies produce 80% of world cinema’s box office, is of course, the most famous example. Since its beginning, Hollywood has been a community of international film makers and its trademark cinema culture is found everywhere: in the way people dress, the restaurants they go to, the parties they attend, the negative press they are exposed to, etc. It is a thorough system of interactions that makes Hollywood what it is.
- The vitality of Reykjavik as an artistic centre is also interesting. Centring around the famous pop-star Björk but well before her as well, there has historically been a community of artists in the sectors of audiovisual, music, visual art, and design. This small community lives in a relatively confined area and has developed a specific “culture” which is pervasive in all their productions and constitutes their “distinctiveness”.
- The impact of the “Filmbyen” on the success of the Danish cinema worldwide should also be recognised.

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<sup>12</sup> FLORIDA (Richard) *The Rise of the Creative Class*, 2003.

<sup>13</sup> Hong Kong Art Development Council, *Hong Kong: culture and creativity*, January 2006.



### **Filmbyen – the Danish way of “thinking collective”**

In the outskirts of Copenhagen, Filmbyen is a set of buildings from an abandoned military casern, in the countryside. Zentropa, the production company run by Lars Von Trier and Peter Aalbaeck, decided to settle there, inviting a multitude of SMEs constitutive of the new Danish cinema to join them and thereby act as a magnet. Instructors are provided with small wood huts where they can go to isolate themselves to nurture their inspiration and work on their projects. Nevertheless the overall atmosphere is that of a tightly knit community. The facility was conceived to perform the functions of a “studio”: everything is provided here from technical to distribution services. The place itself is a shooting location for many films and scenes. It welcomes selected students that are invited to work on their projects while benefiting from the advice of some of the more renowned filmmakers. These students provide the companies with upcoming talents and fresh ideas. The place could be considered a village of creativity. The different buildings are organised around small streets converging around a square. A cafeteria constitutes the meeting point where people exchange ideas and discuss their projects while having a cup of coffee. Filmbyen can be considered one of the essential hubs of Danish film creativity – where art house films that were to become international successes, such as *Dancer in the Dark*, *Festen-The Celebration*, were developed, produced and packaged.

While creativity is an essential parameter in global competition, it is fostered and nurtured by exchanges of intangible elements such as information, skills, and experiences at a local level.

The concept of creativity is considered more thoroughly in the following pages as the study attempts to comprehend both culture and creativity in measuring the impact of the economy of culture.

## DEFINING AND ASSESSING CREATIVITY

Creativity seems to have become one of these notions that erupts in the conceptual environment and grants mysterious powers. For example, car manufacturer Renault describes itself as a “creator”, the new Apple Power Mac G5 is “engineered for the creative class” and “creative task forces” are created within our governments... Creativity is increasingly referred to as a critical element to improve and boost our economy, as well as to contribute to a sustainable development.

What is creativity? To what extent does it differ from “creation”? From “innovation”? The following paragraphs aim to give some answers to these questions.

### ■ Creativity as « artistic creativity »

« Il n'est en art qu'une chose qui vaille: celle qu'on ne peut expliquer. » - Georges Braque, *Le Jour et la Nuit*.

Creativity refers to the ability to create something new. It derives from the verb “to create” initially used exclusively in relation to God and referring to making something/someone exist, *ex-nihilo*.

The term was then used to describe the activity of artistic geniuses, those who had been “gifted” by God or Mother Nature. But researchers could not simply live with divine intervention as the only explanation for creativity. They attempted to understand and rationally explain “artistic creativity”. In his seminal work on the economy of culture, “*Economics and Culture*”, David Throsby presents the example of William Duff. From an essay published in 1767 on the nature of original genius, Duff proposed three principal ingredients to explain artistic creativity: **imagination** which takes existing ideas, invents new ones, and finds new associations between them; **judgement** which regulates and controls the imagination as well as sorting out the ideas it generates; **taste** the artist's internal sensibility which arbitrates between compassionate and mean, beautiful and ugly, sensible and ridiculous.

Although some of these elements may be rationally explained (two centuries later, French sociologist Bourdieu would spend much of his research on rationally explaining the social construct of judgement and taste), “artistic creativity” cannot be

fully explained - what is referred to above as “imagination” encompasses a **non rational dimension**.

### ■ Economic creativity – « innovation »

Another approach of creativity is found in economic theories. “Economic creativity” refers here to innovation. The central reference is Schumpeter, in particular his “*Theory of Economic Development*”.

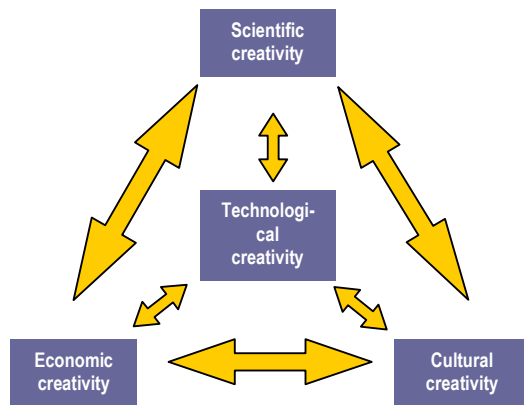
Creativity encompasses activities demanding an innovative approach such as: new combinations in organisation, business and trade; the creation of new business organisations; the opening of new markets etc. **Creativity is seen in terms of innovation, a dynamic process, considered as endogenous to the economy, and that can be rationally explained.** It is to be noted though, that according to Schumpeter, *innovation is not a condition for “artistic creativity”,* in relation to which the essential criterion is *originality in expression*.

After Schumpeter, many other economists have worked on exploring “creativity as innovation”, acknowledging its importance in creating economic value, without agreeing on how to explain it. Is creativity endogenous or external to the production process? Is it a factor of production or a production process? As a consequence, would it be better fostered by improving education, improving public investments, working on the enterprise's internal structures & management of the personnel, investing in intangible assets, etc.?

The answer is likely to be found in a combination of all these elements.

### ■ “Creativity” in today's economy

In this study on the economy of culture, “creativity” is defined in a cross-sector and multidisciplinary way, mixing elements of “artistic creativity”, “economic innovation” as well as “technological innovation”. Here creativity is considered as a **process of interactions and spill-over effects between different innovative processes**, which can be illustrated by the graph below:



As explained above, these spill-over effects often occur on a limited territory where the exchange of ideas and intangible resources is easier.

### ■ Assessing the creativity of our economies

At an international level, recognised indices were developed to measure national competitiveness and innovation, **but there is no such internationally recognised index for measuring creativity**. Nevertheless, in recent years researchers have worked on setting up “scoreboards” to measure creativity and rank the countries according to their creativity performances. Richard Florida’s is a well known example. The most sustained version of his creativity thesis is *The Rise of the Creative Class* (2003). His Creativity Index (reproduced below) represents a composite measure that provides a fuller assessment of national competitiveness in the creative age.

Talent	<ul style="list-style-type: none"> <li>➢ The Euro-Creative Class Index, based on <u>creative occupations</u> as a percent of total employment;</li> <li>➢ The Human Capital Index, based on the percentage of population aged 25-64 with a <u>bachelor degree or above</u> (degrees of at least 4 years);</li> <li>➢ The Scientific Talent Index, based on the <u>number of research scientists and engineers</u> per thousand workers.</li> </ul>
Technology	<ul style="list-style-type: none"> <li>➢ an R&amp;D Index based on <u>R&amp;D expenditure</u> as a percent of GDP;</li> <li>➢ an Innovation Index based on the <u>number of patent applications</u> per million population;</li> <li>➢ a High-Tech Innovation Index based on the number of <u>high technology patents</u> in fields such as biotechnology, information technology, pharmaceuticals, and aerospace per million population.</li> </ul>
Tolerance	<ul style="list-style-type: none"> <li>➢ The attitude Index assesses <u>attitudes towards minorities</u>;</li> <li>➢ The Value Index measures to what degree a country reflects <u>traditional vs. modern</u> or secular values;</li> <li>➢ The Self-Expression Index captures the degree to which a nation <u>values individual rights and self expression</u>.</li> </ul>

Other attempts can be mentioned here as they take into account other factors to assess the creativity levels among nations.

In 2004, the Home Affairs Bureau of the Government of the Hong Kong (HK) Special Administrative Region commissioned the Centre for Cultural Policy Research of the University of HK to devise a framework for a HK Creativity Index<sup>14</sup>, intended to be used to assess and monitor the creative vitality of HK over time. The research team wanted to construct an index from an Asian perspective, noting that the institutional settings in support of innovation and creativity could be different from the developed countries in the West and that Asian “values”, defined in terms of family values, social networks, and attitudes towards self-expression, diversity, freedom, arts and culture are remarkably different, not only between developed and developing countries but also within the Asian region itself.

In Finland<sup>15</sup>, a proposal for a “Cultural Index” was released by the Ministry of Education and Culture to assess the cultural life and the involvement of the cultural sector in the information society. The composite index includes:

- A cultural life index, to measure the availability, participation and production of cultural resources;
- A general overview of the Information Society development through a variety of indicators of development of infrastructures and technology penetration;
- The situation regarding cultural sectors through indicators that measure the use of information and communication technologies in cultural institutions and organisations and media activities.

**At an EU level there is no such “creativity scoreboard”, although efforts were made to build “innovation” scoreboards. Given that that technological innovation is only one out of the multiple components of creativity, this is not sufficient.**

<sup>14</sup> *Hong Kong: culture and creativity*, Report by the Hong Kong Arts Development Council January 2006.

<sup>15</sup> *Means for Overall Assessment of Cultural Life and Measuring the Involvement of the Cultural Sector in the Information Society*, Report prepared by Robert G.Picard, Mikko Grönlund, Timo Toivonen, for the Finnish Ministry of Education and Culture, January 2003

**Chapter II.**  
**Delineating the cultural & creative sector**

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In order to assess the economy of culture in Europe and its contribution to the Lisbon targets, the scope of investigation needs to be determined.

At present, there is no consensus across and outside Europe on what the field of the “economy of culture” should encompass, nor any agreed definitions or criteria for its delimitation. The research team has considered the different approaches at national and international levels and proposes its delineation to assess the “economy of culture”.

Starting point: the definition of culture:

Culture is a difficult concept to define. It can be approached through three angles:

(i) Culture as “art”. This definition uses the agrarian metaphor to describe the work completed with the “mind”. This definition is highly subjective as it includes a quality evaluation of what art is or is not.

(ii) Culture as *a set of attitudes, beliefs, customs, values and practices which are commonly shared by a group*. The “group” may be defined in terms of politics, geography, religion, ethnicity or some other characteristics. For example, culture will be used in the following expressions: the Irish culture, the Jewish culture, the youth culture, the enterprise culture. The characteristics which define the group may be substantiated in the form of signs, symbols, texts, languages, artefacts, oral and written traditions as well as by other means.

(iii) Culture as *a tool to qualify a sector of activity: the cultural sector*. This definition has a more functional orientation. In his seminal work “*Economics and Culture*”, David Throsby states that this definition of culture characterises “*the activities undertaken by a group of people, and the product of these activities, drawing upon enlightenment and education of the mind*”. Here culture is employed as an adjective (“cultural sector”, “cultural industries”, “cultural products”). According to Throsby, three characteristics can be attached to these “cultural” activities”: they involve some form of *creativity* in their production; they are concerned with the *generation and communication of symbolic means*; their output potentially embodies at least some form of *intellectual property*.

A first sketch of classification:

Chapter I provided an overview of the different ways culture can be approached from an economic standpoint, thereby considering the various paths to be explored in view of delimitating the “economy of culture”:

The economy of culture entails respectively the cultural and creative sectors:

- **The “cultural sector”**. It includes industrial and non-industrial sectors. Culture constitutes a final product of consumption, which is either non-reproducible and aimed at being consumed on the spot (a concert, an art fair, an exhibition) or aimed at mass reproduction, mass-dissemination and export (a book, a film, a sound recording).

- **The “creative sector”**. Culture, in regard to the second definition presented above (ii), may also enter into the production process of other economic sectors and become a “creative” input in the production of non-cultural goods. In this case, these activities will be referred to as “the creative sector”.

This approach, consisting of encompassing both the cultural and creative sectors, is **broad**. However, it enables one to grasp more accurately the economic impact of culture *and creativity*. The latter is a process of innovation using culture as an input which influences many economic sectors.

This is the reason why the term the “*delineation*” of the cultural sector will be employed instead of “definition”. Delineation is less definitive and enables some flexibility.

## SECTION I. OBJECTIVES

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### Defining relevant sectors ...

Such delimitation is necessary because there is neither any consensus on the terminology to be used, nor any agreement on the definition of the cultural sector from an economic point of view.

What is striking when investigating existing publications on the economy of culture is the variety of terminologies used beyond the core art field (“artistic activities in the strict sense”). These include for example: “cultural industries”, “copyright industries”, “content industries”, “experience economy”, “creative business sector”, “art centric businesses”, “cultural and communication industries”, “media industries” and “knowledge economy”.

Therefore, existing studies and statistical surveys vary significantly in the approach and scope adopted. For example, beyond a common agreement on the need to integrate drama, dance, film, music and heritage, the relevance of adding architecture, advertising, sport, fashion, or design is often questioned. Similarly, within each sector, while there is a consensus on the need to take into account creation and production activities, other activities such as retail, trade, or education are not systematically retained as constituent parts of the “economy of culture”.

### ... to enable the assessment of the economy of culture

Chapter I, in presenting the different ways culture has contributed to the economy, already provided some elements for a classification:

1. The output of traditional art fields such as performing arts or museums consist of “works of art” that are generally produced outside any objective of mass-reproduction. Their principal advantage, from an economic standpoint, is to bring people into a territory or a venue for the consumption of an “experience” on the spot. They drive local art amateurs and cultural tourists (including business tourists), or act as a soft location factor for other businesses to settle down.

Then a second category seems to emerge, that of industries oriented towards the mass-reproduction and mass-distribution of goods that are entirely “cultural” such as books, films, music, etc. These will be labelled “**cultural industries**”.

Both traditional arts and cultural industries produce cultural outputs having no secondary “utilitarian” function. Together they will be labelled “**the cultural sector**”.

2. There are other industries that use culture as an intermediate consumption in their production process and as a factor of innovation. Although these industries produce functional goods, they integrate cultural elements too, with a view to innovating, adding value to their own production, thereby reaching a competitive advantage. In general, the whole activity, enabling the production, cannot be said to be creative. Therefore it seems more appropriate to speak of “**creative activities**” (ex. the design activity of a car manufacturer)

This preliminary sketch needs to be further refined with a view to determine precisely which activities and sectors will be covered by the study.

## **SECTION II. DELINEATING THE CULTURAL & CREATIVE SECTOR IN EUROPE**

The identification of the relevant sectors and activities was essentially achieved through reviewing existing approaches and analysing their respective strengths and weaknesses in relation to our objectives.

A comprehensive review of definitions adopted at the national level within the 30 countries investigated was carried out. At an international level, the works of the OECD<sup>1</sup>, UNESCO<sup>2</sup>, WIPO<sup>3</sup>, the International Intellectual Property Alliance, as well as, at the European level, the Eurostat's LEG Task Force (which was set up in 1997 to work out on the statistics of the European cultural economy) were reviewed.

### **I. REVIEWING THE MULTIPLE METHODOLOGIES AND DEFINITIONS TO DETERMINE THE ECONOMY OF CULTURE**

#### **I.1. National definitions**

The examples of the UK, France and the Nordic countries are examined herewith, because they are representative of different although complementary approaches.

##### **I.1.1. The UK approach - "creative industries"**

It is difficult to locate the origin of the concept of "creative industries". It is thought to have emerged in Australia in the early 1990s. In 1994, the Keating Government released its cultural policy "Creative Nation", designed to help Australia meet the joint challenges of the revolution in information technologies and the ensuing wave of global mass culture. Creative Nation additionally stated that the cultural policy was also an economic policy.<sup>4</sup>

In Europe, the terminology "creative industries" is attributed to the UK, when in the late 1990s the first Blair administration set up its Creative Industries Task Force to outline the promotion of creative industries as economic drivers. The concept was formalised in the central government Department for Culture, Media and Sport (DCMS) Creative Task Force (from 1997-2000) and the two editions of the DCMS' Creative Mapping Document published in 1998 and 2001.

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<sup>1</sup> Organisation for Economic Cooperation and Development.

<sup>2</sup> United National Educational, Scientific and Cultural Organisation, *Framework for Cultural Statistics*, 1986

<sup>3</sup> World Intellectual Property Organisation, *Guide on Surveying the Economic Contribution of the Copyright-Based Industries* WIPO Publication, Geneva, 2003, 103 p.

<sup>4</sup> *Hong Kong: culture and creativity*, report by the Hong Kong Art Development Council, January 2006.

## CREATIVE INDUSTRIES

• <b>Approach:</b>	Economic
• <b>Definition:</b>	<i>“Those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property”</i>
• <b>Criteria:</b>	- “Creativity” as a central input to the production process - Intellectual property (and not only copyright) as a characteristic their outputs
• <b>Scope:</b>	Advertising, architecture, the arts and antique market, crafts, design, designer fashion, film and video, interactive leisure software, music, performing arts, publishing, software and computer services, radio and television  Activities include: creation, production, distribution, dissemination, promotion, education-related, press-related activities.
• <b>Comparison with other definitions</b>	The scope of the DCMS definition is one of the widest amongst the approaches reviewed.

### I.1.2. The French approach - “cultural industries”

The term “cultural industry” (in singular) appeared in 1944 with a strong negative connotation when the Frankfurt School, and in particular Horkheimer and Adorno, described the culture industry *“as an instrument of the capitalist elite that deprives both artist and the work of art of its intrinsic artistic value and that transforms the consumer to a pseudo-individual”*.

The term “cultural industries” (in plural) appeared in the seventies, this time with a more positive connotation, in the first research on the economy of culture (and in particular with the researcher Mr. Myerscough).

An interesting approach to cultural industries was found in recent French research carried out by the *Département des Etudes de la Prospective et des Statistiques*<sup>5</sup> (Ministry of Culture and Communication).

## CULTURAL INDUSTRIES

• <b>Approach:</b>	Economic / Statistics
• <b>Definition:</b>	<i>“A set of economic activities that ally conception, creation, and production functions to more industrial functions of manufacturing and commercialising at large scale, through the use of material supports or communication technologies”</i>
• <b>Criteria:</b>	- Outputs aimed at massive reproduction - Outputs are characterised by copyright (and not intellectual property)
• <b>Scope:</b>	- Publishing (book, newspapers, magazines and periodicals, music) as well as trade in books, sound recordings and press. - Audiovisual activities (production of films for television, production of institutional and advertising films, production of theatrical films, technical activities related to cinema and television, theatrical film distribution, video publishing and distribution, theatrical film exhibition, radio, production of TV programmes, TV channels editing, distribution of radio and TV satellite package programmes). - And directly related activities (press agencies, multimedia, advertising).
• <b>Comparison with other definitions</b>	In contrast to other definitions, education activities, press critic activities, or the activities of collective management societies are not taken into account under this definition.

<sup>5</sup> DEPS *Aperçu statistique des industries culturelles*, n°16-January 2006



### I.1.3. The Nordic approach - “the experience economy”

According to Segers and Huijgh<sup>6</sup>, the concept was already introduced in 1967 by the situationist movement, in particular by Guy Debord in his “*Société du spectacle*” drawing the attention on the growing impact of spectacle mass society. It was Gerhard Schulze who further described Debord’s spectacle society as the “experience society”.

The concept was then introduced by economists into their analysis. In particular B. Joseph Pine and Joseph H. Gilmore developed this approach to explain that the last two hundred years witnessed several shifts. The agrarian economy based on extracting commodities moved to an industrial economy based on manufacturing goods, then to a service economy based on delivering services and now to an “experience economy” based on staging experiences.

In this economy, the value of physical products only constitutes a fraction of the price. What is being paid for is the history of a product, the setting (people are ready to pay three times the actual price for a cup of coffee if they can sit on Saint Marc’s Place or Montmartre and enjoy it) and therefore the “experience” provided.

EXPERIENCE ECONOMY	
• <b>Approach:</b>	Economic
• <b>Definition:</b>	NA
• <b>Criteria:</b>	“Experience” or what is considered as such by the consumer.
• <b>Scope:</b>	Fashion, visual arts, music, toys and amusement, tourism, books, theatre, radio and television, architecture, sports industries, design, printed media, film and video, advertising, edutainment, content production, events, cultural institutions <sup>7</sup> .
• <b>Comparison with other definitions:</b>	In addition to “creative industries” (advertising, architecture, the arts and antique market, crafts, design, designer fashion, film and video, interactive leisure software, music, performing arts, publishing, software and computer services, radio and television) the experience economy includes <sup>8</sup> : toys/amusement, tourism, sport, edutainment.

The table below demonstrates the variety of approaches adopted at the national level in Europe in mapping out and assessing national economies of culture. As a consequence of this heterogeneity, national reports could only be used in this study as examples and illustrations. Unfortunately these national studies have little value for the purpose of assessing the economy of culture in Europe, as the statistics reflect the divergences and lack of compatibility of the different definitions.

« Creative industries » approach	« Copyright industries » approach	« Experience economy » approach	Sector specific studies
<ul style="list-style-type: none"> <li>• Austria</li> <li>• Flemish Community of Belgium</li> <li>• Denmark (2000)</li> <li>• Estonia</li> <li>• Latvia (2005)</li> <li>• Lithuania</li> <li>• Sweden (2002)</li> <li>• Romania</li> <li>• Bulgaria</li> </ul>	<ul style="list-style-type: none"> <li>• Denmark (2006)</li> <li>• Finland</li> <li>• Hungary</li> <li>• Latvia (2005)</li> <li>• Norway</li> </ul>	<ul style="list-style-type: none"> <li>• Sweden (2004)</li> <li>• Denmark (2003)</li> </ul>	<ul style="list-style-type: none"> <li>• French Community of Belgium</li> <li>• France</li> <li>• Ireland</li> <li>• Poland</li> <li>• Portugal</li> <li>• Slovak Republic</li> <li>• Spain</li> </ul>

Note: the table does not pretend to be exhaustive and is based on the responses received to our questionnaire

<sup>6</sup> SEGERS (Katia), HUIJGH (Ellen), *Clarifying the complexity and ambivalence of the cultural industries*, Re-creatief Vlaanderen, Gent, 2006, 17 p.

<sup>7</sup> *Denmark in the culture and experience economy- 5 new steps*, The Danish growth strategy, Danish Ministry of Culture, Copenhagen, September 2003, 66 p.

<sup>8</sup> *Denmark in the culture and experience economy – 5 new steps* op.cit.

## I.2. International definitions

### 1.2.1. UNESCO Framework on cultural statistics

UNESCO developed its *Framework for Culture Statistics* (FCS) in 1986. It consists of proposing a classification of categories to be considered when producing cultural statistics.

UNESCO identifies nine sectors and five functions in the process of cultural production. These sectors and functions delineate the cultural sector in UNESCO's point of view. The intersection between the two axes, breadth (cultural categories) and depth (processes of production), results in a data matrix. Users are encouraged to collect data to populate the 45 cells of the matrix (9 cultural categories X 5 processes of cultural production).

The Framework has served as a reference in many countries. Three countries have utilised it and pursued it with considerable rigour: New Zealand, Australia, and Canada. Each has developed a strategy for collecting National cultural statistics.

<b>UNESCO's FRAMEWORK FOR CULTURAL STATISTICS</b>	
<ul style="list-style-type: none"><li>• <b>Approach:</b></li></ul>	Statistics
<ul style="list-style-type: none"><li>• <b>Definition:</b></li></ul>	Non applicable
<ul style="list-style-type: none"><li>• <b>Criteria:</b></li></ul>	Non applicable
<ul style="list-style-type: none"><li>• <b>Scope:</b></li></ul>	Nine categories: (1) cultural heritage; (2) printed matter and literature; (3) music; (4) performing arts; (5) audio media; (6) audiovisual media; (7) socio-cultural activities; (8) sports and games, and (9) environment and nature.  Five cross-cutting 'processes of cultural production': (1) creation, (2) production, (3) distribution, (4) consumption and (5) preservation.
<ul style="list-style-type: none"><li>• <b>Comparison with other definitions</b></li></ul>	Like other approaches having a statistical purpose, UNESCO defines both sectors and cross-cutting activities. It is the only definition including environment and nature in the scope of the cultural sector.

In addition, the UNESCO Convention on the Protection and the Promotion of Cultural Expressions defines "cultural industries" in the following terms (articles 4.4 and 4.5):

"Cultural industries" refers to industries producing and distributing cultural goods or services (article 4.5).

"Cultural activities, goods and services" refers to those activities, goods and services, which at the time they are considered as a specific attribute, use or purpose, embody or convey cultural expressions, irrespective of the commercial value they may have. Cultural activities may be an end in themselves, or they may contribute to the production of cultural goods and services (article 4.5).

The definition is both the most recent and the most consensual – as 148 countries agreed on its content.

However, the definition was not retained in the framework of this study because the criteria "irrespective of their commercial value" seems to enter in contradiction with the objective of the study which aims to assess the economic contribution of the cultural & creative sector.

## I.2.2. The Eurostat « LEG-Culture » definition

From 1995 onwards the awareness of the lack of cultural statistics at an EU level was raised in various international fora and Member States requested Community institutions start working in this area. In 1995 the Council adopted a Resolution on the promotion of statistics on culture and economic growth. This called on the Commission, in close co-operation with Member States, "to ensure that better use is made of existing statistical resources and that work in compiling cultural statistics proceeds smoothly".

The Leadership Group on Cultural Statistics (LEG-Culture) was consequently set up by the Statistical Programme Committee in 1997. It conducted a three year-project aimed at (i) determining a common definition of the cultural sector, (ii) suggesting changes in statistical classification to enable better taking account of culture (iii) reviewing existing data collections (iv) producing indicators to enable assessing employment, financing and participation in the cultural field. It was composed of experts from Member States' cultural ministries as well as representatives from Eurostat and the Commission. Its final report was delivered in 2000.

The LEG group started with the UNESCO definition but departed significantly from it, establishing more limited parameters for the cultural sector: sport, environment, and games were excluded; visual arts grouped into a single category, and new areas such as architecture were introduced. The LEG report also adds to the cultural field activities relating to trade in cultural goods and services.

<b>The LEG-Culture delimitation of the cultural field</b>	
<b>• Approach:</b>	Statistic led, with the objectives of: - defining a common set of core areas for activities recognised as being cultural without disqualifying national interpretations, - identifying and listing the activities in each area.
<b>• Definition:</b>	Non applicable
<b>• Criteria:</b>	Non applicable
<b>• Scope:</b>	The LEG Group identified - 8 domains (artistic and monumental heritage, archives, libraries, books and press, visual arts architecture, performing arts, audio and audiovisual media/multimedia); - 6 functions designed to situate economic activities (preservation, creation, production, dissemination, trade/sales and education).
<b>• Comparison with other definitions</b>	The delimitation of the sector does not include: advertising, sport or games. It must be stressed that it includes trade in cultural goods and services as well as architecture.

## I.2.3. WIPO's approach - "copyright industries"

Traditionally copyright has been examined from a legal perspective. Yet today the usefulness of copyright as a way to assess economic performance is widely acknowledged: *"the growing interest in copyright is generated also on the business side where licensing, investment, trade and transfers have attracted a fair amount of attention. Copyright is seen today more than a legal system providing a secure and stable environment for creative activity in different markets"*<sup>9</sup>.

<sup>9</sup> WIPO *Guide on Surveying the Economic Contribution of Copyright-Based Industries*, op.cit.

As summarised by the Director General of WIPO in 2002: “*In the 21<sup>st</sup> century intellectual property is a powerful driver of economic growth. When linked to the development of human capital, it results in educated, skilled, and motivated individuals and becomes a dynamic combination in terms of stimulating creativity and innovation, generating revenues, promoting investment, enhancing culture , preventing “brain drain” and nurturing overall economic health*”.

World Intellectual Property Organisation therefore established a methodology to assess the economic impact of copyright industries with its *Guide on Surveying Copyright Industries*<sup>10</sup>.

<b>COPYRIGHT INDUSTRIES</b>	
• <b>Approach:</b>	Economic
• <b>Definition:</b>	Those industries that are engaged in the <i>creation, production and manufacturing, performance, broadcast, communication and exhibition, or distribution and sales of works and other protected subject matter</i>
• <b>Criteria:</b>	Copyright is a characteristic of their outputs
• <b>Scope:</b>	Press and literature, music, theatrical productions, operas, radio and television, photography, software and databases, visual and graphic arts, advertising services, copyright and collective management societies.
• <b>Comparison with other definitions:</b>	Software and databases are included, which is not the case in the definition of cultural industries. An important feature is the addition of copyright and collective management societies.
	Interestingly, WIPO recommends that the assessment of the economic impact of the copyright industry be complemented by the assessment of “non-core” copyright industries i.e.:
	- Those that support core copyright-based industries, producing for examples: TV sets, VCRs, CDs players, and other equipment, computer and equipment, photography equipment and services;
	- And those that are inter-related to core copyright industries such as for instance: business machines, architecture, jewellery, furniture, china and glass, clothing and footwear, wall coverings, and engineering.

The WIPO methodology has been widely used, for instance, by the US based International Intellectual Property Alliance and in numerous country reports within the EU (in Finland and Denmark for example) as well as outside the EU, (such as in Canada, the US and New-Zealand). At the EU level, the methodology was used to complete the 2003 Report commissioned by the European Commission on “*The Contribution of Copyright and Related Rights to the European Economy*”.<sup>11</sup>

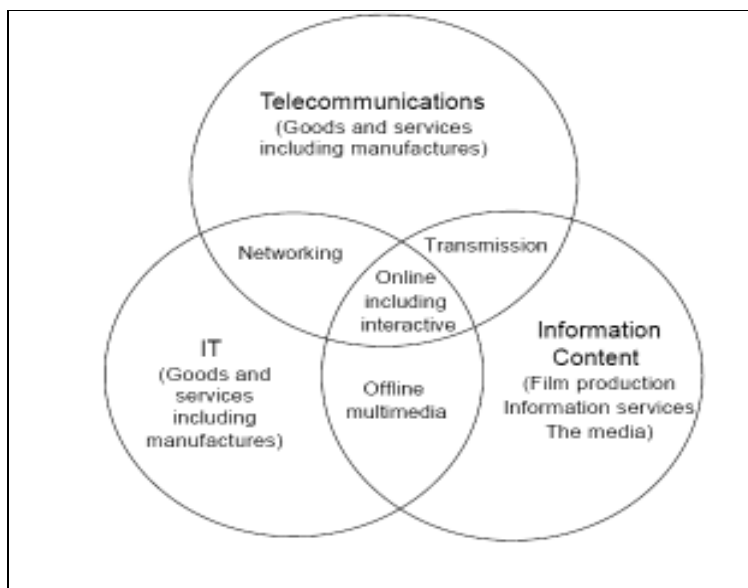
#### **1.2.4. The OECD approach to “content industries”**

In an Annex to its “*Guide to measuring the information society*’ (2005),<sup>12</sup> the OECD defines the ICT sector and stresses the overlap between the information technology, telecommunications and *information content activities* of firms, as demonstrated in the following diagram.

<sup>10</sup> WIPO *Guide on Surveying the Economic Contribution of Copyright-Based Industries*, op.cit.

<sup>11</sup> *The Contribution of Copyright and Related Rights to the European Economy*, report by Media Group, Business Research and Development Centre, Turku School of Economics and Business Administration, prepared for the European Commission DG Internal Market, October 2003.

<sup>12</sup> DSTI/ICCP/IS(2005)6/FINAL (404ANNEX 1B: OECD DEFINITION OF THE ICT SECTOR) available at the OECD website:  
<http://www.oecd.org/dataoecd/49/44/35930616.pdf>



“Content industries are here referred to as distinct from, although complementary to the ICT sector:

While the “ICT industries” are defined as “those industries which facilitate, by electronic means, the processing, transmission and display of information”<sup>13</sup>, this definition explicitly “excludes the industries which create the information, the so-called ‘content’ industries”.

Both the ICT and content industries are described by the OECD Panel as constitutive of the “Information Society”. The OECD publication adds that: “The next steps in building indicators for the information society is agreement on a definition of the content industries which, when added to the ICT definition, will provide a working definition of the information economy.”

<sup>13</sup> Under this OECD definition, ICT industries include: (1) for goods or manufacturing industries, the products of a candidate industry must: be intended to fulfil the function of information processing and communication, including transmission and display; or use electronic processing to detect, measure and/or record physical phenomena, or to control a physical process. Components primarily intended for use in such products are also included; (2) for service industries, the products of a candidate industry must be intended to enable the function of information processing and communication by electronic means. The proposed definition of ICT includes the following ISIC Rev. 3 industries:

Manufacturing

- 3000 Manufacture of office, accounting and computing machinery
- 3130 Manufacture of insulated wire and cable
- 3210 Manufacture of electronic valves and tubes and other electronic components
- 3220 Manufacture of television and radio transmitters and apparatus for line telephony and line telegraphy
- 3230 Manufacture of television and radio receivers, sound or video recording or reproducing apparatus, and associated goods
- 3312 Manufacture of instruments and appliances for measuring, checking, testing, navigating and other purposes, except industrial process control equipment
- 3313 Manufacture of industrial process control equipment

Services – goods related

- 5150 Wholesale of machinery, equipment and supplies
- 7123 Renting of office machinery and equipment (including computers)

Services – intangible

- 6420 Telecommunications
- 7200 Computer and related activities.

Although there has been no full agreement within OECD delegations on the exact definition of “information content products” and “digital information products” so far, the organisation agrees on the following elements of definitions:

- The “content sector” consists of industries which produce “information content products”
- The “electronic content sector” is a subset of the “content sector”. It consists of industries which primarily produce “electronic content products” (or “digital content products”).

<b>CONTENT INDUSTRIES</b>	
• <b>Approach:</b>	Technology-driven
• <b>Definition:</b>	The definition needs to be further elaborated.
• <b>Criteria:</b>	The expression “content industries” is used to describe the industries which produce “information content products”, whether or not digital.
• <b>Scope:</b>	It needs to be further elaborated.
• <b>Comparison with other definitions</b>	The approach is useful in a comparative perspective as it stresses the need to take fully account of “digital content” which is generally not grasped by traditional statistical tools used to assess the economy of culture.

## II. THE PROPOSED DEFINITION

Delineating the cultural & creative sector for this study requires determining a new framework taking into account the specific objectives of this study.

### II.1. The framework

#### II.1.1 Cultural and creative sectors

We propose a new framework based on the need to distinguish between a “**cultural sector**” constituted of traditional art fields and cultural industries, whose outputs are exclusively “cultural”, and the “**creative sector**” which gathers the remaining industries and activities that use culture as an added-value for the production of non-cultural products.

In order to investigate in more detail what both sectors entail, it is proposed to present the economy of culture as a “radiation process”: “*a model of the cultural industries centered around the locus of origin of creative ideas, and radiating outwards as those ideas become combined with more and more other inputs to produce a wider and wider range of products*”<sup>14</sup>.

The radiation process enables identifying the different categories of activities/sectors covered by the economy of culture:

- The **centre** is constituted of non-industrial cultural products, i.e. “**the arts field**”.
- A **first circle** around this core includes industries whose outputs are exclusively cultural, namely “**cultural industries**”.
- A **second circle** includes activities whose outputs are functional but which incorporate elements from the two previous layers into the production process, “**creative industries and activities**”. In this case, “activities” are referred to, and not only

<sup>14</sup> Carmen Marcus, in a Working Document published by the European Commission DG Research in 2005: *Future of Creative industries, implication for research policy*, European Commission, Foresight working documents series, DG Research, April 2005), quoting David Throsby (*Economics and Culture*, Cambridge University Press, 2001) as well as Tom O’Regan (*Cultural Policy: Rejuvenate of Wither*, Professorial Lecture, Griffith University, Queensland, Australia, 2001).

“industries”. Taking the example of design, not all *industries* that use design *activities* to incorporate creativity and improve their performances are included in the definition. The whole car industry cannot reasonably enter into the assessment of the economy of culture because of its design activities- yet, its design activities are very important to its overall performances.

- The fundamental criterium which is common to all these circles is **copyright**. All these outputs, whether they are goods ( for example a book, a film, a sound record, an object of design) or services (a performance), functional (a teapot designed by Italian designer Alessi) or not (an abstract painting), mass-reproduced (a Placebo album) or not (a temporary exhibition at Centre Pompidou), produced for exports (Hollywood films) or for consumption on the spot (festivals) have one thing in common: they embody ideas, values, and creativity which become concrete and tradable once protected by copyright.

Taking WIPO into consideration, the definition includes a **third circle** consisting of “related industries”. This circle does not belong to the “cultural & creative sector” but it is strongly linked to it. In this case, culture and creativity are not production inputs. However, these industries depend on cultural and creative products as they specialise in the “*production, manufacture and sale of equipments whose function is wholly or primarily to facilitate the creation, production or use of works and other protected subject matter*”.

In our view, this radiation process is more inclusive and provides a more true illustration of the economic impact of the sector. It shows that the contribution of “culture” is diverse, both directly (as a final consumption product) and indirectly (either because it brings elements of creativity into the production process of non-cultural goods or because the growth of some other economic sectors is directly linked to the production of cultural goods and services by the cultural sector).

The table presented below under II.2. sets out the sectors included.

### II.1.2. Examining the “borderline” sectors

In the review of national and international approaches, a large number of sectors were recurrent in the definition of the economy of culture. On the other hand, there is no consensus in some sectors.

(i) **Sectors that are included into the proposed delineation:**

- **Video games.** The games industry meets the two criteria of “copyright” and “mass reproduction”. As a result, it is categorised as a cultural industry, although some question whether video-games are “cultural products” or belong to another category of products (such as toys).
- **Design** is a key example of how cultural resources are used in an indirect way to contribute to innovation in non-cultural activities. People working in the design sector (fashion design, product design, graphic design, etc) often originate from either the visual arts or the audiovisual sector. Contrary to what was found in some studies, design is treated separately here to visual arts because the visual aspects of design are neither the sole nor the most important of its attributes.
- **Heritage** is part of the traditional arts field, providing for the consumption of on the spot cultural experiences in the form of museums, exhibitions, visits to a heritage site or building, etc. In addition the sector is particularly important for cultural tourism, an issue which is explicitly addressed in the study.
- Similarly, **advertising** should be considered as part of “creative industries”. Different reasons trigger this choice: advertising techniques require essential “creative” inputs and the contribution of creative skills (in

particular professionals coming from the following sub-sectors: film, television, design, etc.). Thus a sector can be considered a creative industry where culture adds value and fuels creativity as well as innovation into the production process.

- This is also the case with **architecture**. Although the objective is “functional”, cultural resources and references contribute to enhancing the creative potential of this sector.

(ii) **Sectors that are excluded from the proposed delineation:**

- At the request of the European Commission, **sport** is not taken into account as a relevant sector. Yet it is included by some Member States such as the UK in the most recent versions of the UK’s DCMS classifications, as well as the Nordic approach to “the experience economy”.
- **Software databases** are not included in our delineation as the input of cultural elements seems to be remote from the production process.

(iii) **Sectors that were “associated” to our delineation**

- **Related industries** are impossible to circumscribe, but they encompass industries that rely on content production. These are not captured in statistical classifications and comprise, for example, the production and distribution of “blank media”, cinematographic supplies, TV receivers, CD/DVD players, MP3 players, musical instruments, computer equipment and mobile phones. Yet, should paper and ink be taken into account in relation to publishing? Should cable networks be included, because they are essential to the infrastructure that exploits digital content via radio, television and film?

This broad category is not taken into account in the statistical assessment of the economy of culture proposed in this study. It is used merely to show the interdependence with the cultural and creative sector. However, as the economic performance of these industries depends on those of the cultural & creative sector, the category is “associated” to our delineation. For example, this study provides case studies to illustrate their importance and to show the influence that the cultural economy has on a wide range of industries, in particular in the new technology sectors (telecom, consumer electronics, etc.).



## II.2. Conclusions

The following table presents the delineation used in this study to enable a true assessment of the contribution of culture and creativity to the European economy.

**Table 1: Proposed delineation of the cultural & creative sector**

CIRCLES	SECTORS	SUB- SECTORS	CHARACTERISTICS
CORE ARTS FIELD	Visual arts	Crafts Paintings – Sculpture – Photography	<ul style="list-style-type: none"> <li>• Non industrial activities.</li> <li>• Output are prototypes and “potentially copyrighted works” (i.e. these works have a high density of creation that would be eligible to copyright but they are however not systematically copyrighted, as it is the case for most craft works, some performing arts productions and visual arts, etc).</li> </ul>
	Performing arts	Theatre - Dance – Circus - Festivals.	
	Heritage	Museums – Libraries - Archaeological sites - Archives.	
CIRCLE 1: CULTURAL INDUSTRIES	Film and Video		<ul style="list-style-type: none"> <li>• Industrial activities aimed at massive reproduction.</li> <li>• Outputs are based on copyright.</li> </ul>
	Television and radio		
	Video games		
	Music	Recorded music market – Live music performances – revenues of collecting societies in the music sector	
	Books and press	Book publishing - Magazine and press publishing	
CIRCLE 2: CREATIVE INDUSTRIES AND ACTIVITIES	Design	Fashion design, graphic design, interior design, product design	<ul style="list-style-type: none"> <li>• Activities are not necessarily industrial, and may be prototypes.</li> <li>• Although outputs are based on copyright, they may include other intellectual property inputs (trademark for instance).</li> <li>• The use of creativity (creative skills and creative people originating in the arts field and in the field of cultural industries) is essential to the performances of these non cultural sectors.</li> </ul>
	Architecture		
	Advertising		
CIRCLE 3: RELATED INDUSTRIES	PC manufacturers, MP3 player manufacturers, mobile industry, etc...		<ul style="list-style-type: none"> <li>• This category is loose and impossible to circumscribe on the basis of clear criteria. It involves many other economic sectors that are dependent on the previous “circles”, such as the ICT sector.</li> </ul>

: “the cultural sector”  
 : “the creative sector”

**Table 2: Comparison of the proposed delineation with sector delimitation retained by Eurostat, WIPO and the UK**

The following table sheds light on our approach in relation to other existing approaches:

PROPOSED DELINEATION	Eurostat LEG's approach to the cultural field <sup>15</sup>	WIPO's approach to copyright industries	DCMS' approach to creative industries (1)	
Books and press	Books and press	Press and literature	Publishing	
The performing arts (theatre, dance, opera, circus, festivals)	Performing arts (music, dance, musical theatre, theatre, multidisciplinary, other performing arts)	Music, theatre production, operas	Performing arts (dance, theatre, circus, live entertainment, festivals)	
Film, video, radio, television, music (including live music performances), <i>including software games but excluding other software and databases.</i>	Audio, audiovisual and multimedia (film, radio, television, video, sound recording, multimedia) <i>Software and databases are not included</i>	Motion picture and video	Film and video	
		Radio and television	Radio and Television	
		Photography	Music	
Visual arts (including crafts, paintings, sculpture, photography)	Visual arts	Visual and graphic arts	Arts and Antiques market	
			Crafts	
			Design	
			Design Fashion	
Design is treated separately from visual arts				
Advertising	<i>Advertising is not included</i>	Advertising	Advertising	
Copyright collection societies are the object of a case study for the music sector	<i>Copyright Collection societies are not included</i>	Copyright Collecting Societies	<i>Copyright Collection societies are not included</i>	
Heritage (museums, archaeological sites, libraries, archives)	Heritage (protection, museums, archaeological sites, others) Archives Libraries	<i>Heritage is not included</i>	<i>Heritage is not included (1)</i>	
Architecture	Architecture	<i>Architecture is not included</i>	Architecture (1)	
<i>Sport is not included</i>	<i>Sport is not included</i>	<i>Sport is not included</i>	<i>Sport is not included (1)</i>	
Cultural tourism	<i>Tourism is not included</i>	<i>Tourism is not included</i>	<i>Tourism is not included (1)</i>	
<i>Software and computer services are not included</i>	<i>Software and computer services are not included</i>	Software and computer services	Software and computer services	

(1) Note that in its 2004 « DCMS Evidence toolkit », the DCMS « recognise that the range of activities defined as cultural is (...) at their most inclusive (...) covering: visual arts, performances, audio-visual, books and press, **sport**, **heritage**, and **tourism**..”

<sup>15</sup> The LEG Group is a task force that was set up by Eurostat in 1997 to work on statistical methodologies to better explore the economy of culture in Europe



**Chapter III.**  
**Mapping out the economy of culture in figures**

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## SECTION I. CONTRIBUTION TO EUROPEAN GDP, GROWTH AND EMPLOYMENT

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This chapter is about the direct and quantifiable contribution of the cultural & creative sector to the Lisbon Agenda.

The process of measuring the economy of culture in Europe focuses on the “value added to the economy” i.e. the increase in wealth due to the cultural & creative sector. The methodology used provides with the turnover and value added to the European GDP (1.2), a comparison with other sectors of the economy (1.3) and its contribution to European economic growth (1.4).

The section further investigates employment in the cultural sector (II) and concludes with an insight into cultural consumption (III) and an outlook on expected future developments (IV).

### A SNAPSHOT

<b>Turnover:</b>	➤➤➤➤	The cultural & creative sector generated a turnover of more than € 654 billion in 2003.
<b>Value-added to European GDP:</b>	➤➤➤➤	The cultural & creative sector contributed to 2.6% of the EU GDP in 2003.
<b>Growth:</b>	➤➤➤➤	The growth of the cultural & creative sector in Europe from 1999 to 2003 was 12.3% higher than the growth of the general economy.

## I. CONTRIBUTION TO THE EUROPEAN ECONOMY AND GROWTH

The sectors analysed in this section, in line with the delineation of the cultural & creative sector proposed in Chapter II, are the following:

- The arts field including: visual arts (crafts, painting, sculpture, photography), performing arts (theatre, dance, circus) and heritage (museums, arts and antiques market, libraries, archaeological activities, archives).
- Cultural industries including film & video, radio & television broadcasting, video games, book & press publishing and music.
- Creative sectors including design (fashion design, interior design, graphic design), architecture and advertising.

However the methodology adopted does not allow capturing exhaustively the wealth generated by these sectors.

More details on the different sub-sectors and the corresponding activities and statistical categorisations retained under each sector can be found in Annex 2 (the Statistical Matrix).

Additional figures and analyses on the different sectors can be found in the sector profiles presented in Annex 1.

CIRCLES	SECTORS	SUB-SECTORS	SOURCES
CORE ARTS FIELD	Visual arts	CRAFTSPAININGS - SCULPTURE PHOTOGRAPHY	Amadeus (+Eurostat for photography)
	Performing arts	THEATRE – DANCE – CIRCUS- FESTIVALS.	Amadeus
	Heritage	MUSEUMS – LIBRARIES- ARCHIVES. ARCHAEOLOGICAL SITES	Amadeus + UNESCO
CIRCLE 1: CULTURAL INDUSTRIES	Film and Video		Amadeus except European Audiovisual Observatory for video sale through and rental
	Television and radio		Amadeus
	Video games		Amadeus + Eurostat
	Music	RECORDED MUSIC MARKET	Eurostat+Amadeus
		LIVE MUSIC PERFORMANCE REVENUES OF COLLECTING SOCIETIES IN THE MUSIC SECTOR	
	Books and press	BOOK PUBLISHING MAGAZINE AND PRESS PUBLISHING	Eurostat+Amadeus
CIRCLE 2: CREATIVE INDUSTRIES	Design	INTERIOR, GRAPHIC. FASHION, PRODUCT	Amadeus
	Architecture		Eurostat
	Advertising		Eurostat
CIRCLE 3: RELATED INDUSTRIE	PC and MP3 player manufacturers, mobile industry, etc...		

**= sub-sector included into data research and extraction**

## 1.1. Measuring the economy of culture

### • The “value-added” approach

The methodology adopted focuses on the “value added to the economy”. As mentioned above, it is the increase in wealth resulting from the activities of the cultural & creative sector.

The point of departure is the **Gross Domestic Product (GDP)**. This measures the total annual output of goods and services produced by residents of a particular country. It includes exports but excludes income from abroad. When this income is added to GDP, the result is **Gross National Product (GNP)**. GNP and GDP measure the economy’s output. The gross output of an industry measures the industry’s value of sales in a particular year. However, gross output of an industry overestimates an industry’s contribution to national income because it also includes the value of inputs produced by other industries. **Gross Value Added** is therefore usually taken to represent the true contribution that an industry makes to the national economy. This is the value of gross outputs minus the value of inputs from other industries. This added value of a particular industry is equivalent to the total staff costs plus profits before tax.

### • Implementing the value added approach – The issue of extracting appropriate data at European level

In an ideal world, national and European databases related to cultural & creative sectors and activities would be harmonised, using the same definitions and statistical classifications thereby enabling a consistent application of the “value added approach”. Unfortunately the reality is rather different:

- There is no uniform definition of the cultural sector & creative at national and European levels
- The current NACE<sup>1</sup> statistical classifications are not capable of covering the entire cultural sector
- Data is neither comprehensively nor efficiently collected at national levels

#### ***The LEG-Culture project on cultural statistics in Europe***

A creditable attempt at setting-up an appropriate approach for the purposes of the statistical analysis of the cultural sector in Europe is the LEG-Culture project on cultural statistics in Europe (see also under Chapter II, point I.2.2.). The Report produced by LEG-Culture in 2002 presented very interesting and comprehensive suggestions and recommendations for the categorisation of the cultural sector & creative sector and their translation into corresponding NACE categories. It gives excellent guidelines for the development of a coherent statistical infrastructure in Europe.

Unfortunately, current statistics collected do not enable the implementation of the LEG guidelines:

- Classifications differ amongst the many countries, **making the comparison difficult or in some cases impossible**
- Current **statistical categorisations are often too broad or co-mingle activities, making it impossible to analytically grasp various cultural sectors.**

The problems resulting from the deficiency of detail in European classification standards, the disparity of the classifications used in each country, and the absence of any operational framework for international comparative measurement of the cultural sector was further stressed in a recent OECD Report.<sup>2</sup>

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<sup>1</sup> **NACE** is the acronym (from the French 'Nomenclature statistique des Activités économiques dans la Communauté Européenne'-Statistical classification of economic activities in the European Community) used to designate various statistical classifications of economic activities developed since 1970 by the European Union. It is designed to categorise data relating to “statistical units”, in this case a unit of activity, for example an individual plant or group of plants constituting an economic entity such as an enterprise. It provides the basis for preparing a large range of statistics (output, inputs to the production process, capital formation and financial transactions) of such units.



### ***Alternative methodology implemented in this Study***

As a result, Eurostat industry statistics present large gaps as far as the coverage of countries and the coverage of some categories all together are concerned. A methodology was developed in the framework of the present study by Media Group, to try and overcome the problems identified by widening the sources of data and by standardising the categorisation of data to the furthest extent possible:

- As a first step, a matrix listing each sector and corresponding activities that were subject to the data collection, with the respective NACE categorisations was set up. It can be found in Annex 2.
  
- As a second step, for each activity and NACE categorisation, the availability of data was inspected, and as a consequence:
  - Eurostat database was exclusively used for *advertising*.
  - In relation to the other sectors investigated, several databases, and in particular the Amadeus database, were used in order to complete and fill-in data gaps due to the absence of harmonised data gathering related to these sectors. The Amadeus database, developed by Bureau van Dijk Electronic Publishing, is the most comprehensive pan-European database containing financial information on approximately 8 million public and private companies from 38 European countries. This methodology had already been used by Media Group in completing the 2003 study on the contribution of copyright and related rights industries to the European economy for the European Commission DG MARKT. As a result:
    - A combination of Eurostat and Amadeus databases was used for: *photography, software games, music, books and press*.
    - The Amadeus database was exclusively used for: *design, crafts, painting, sculpture, theatre, dance, circus, radio and television*.
    - A combination of Amadeus and the European Audiovisual Observatory databases was used for: *film and video*.
    - A combination of Amadeus and UNESCO databases was used for *museums, arts and antiques market, libraries, archaeological sites, archives*.

### ***Limits of the methodology adopted***

Whereas Eurostat includes the total figures for each country, the Amadeus database provides representative samples of actual company data<sup>3</sup>, **excluding, however, the self-employed, small companies, and large parts of the public economy.**

Whereas the Eurostat data portrays a landscape of the industry in terms of *value* and contribution, the Amadeus data enables one to observe the *trends* developing in these industries. The estimates provided in the study are conservative.

**Assessing the under-estimation of the sector's economic weight is impossible** to carry out in the absence of more adapted statistical tools.

To provide a more comprehensive view on the economic and trade size of the sectors, Annex 1 of the study provides "sector profiles". They are based on research and information made available by trade associations as well as public bodies. This

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<sup>2</sup> OECD, International measurement of the economic and social importance of culture, draft report prepared by Joahn C. Gordon and Helen Beilby-Orrin, Statistics Directorate, August 2006

<sup>3</sup> Business activities are categorised by the classifications provided by the companies *themselves* to public sources, as found in the Amadeus database. Consequently, the cultural and creative aspects of a company's output are not systematically taken into consideration when a company defines itself, for statistical purposes, as principally active in other fields as culture. Without additional coding in relation to a company's "secondary activities", these activities that are often linked to culture (such as design activity in a car company), are not visible.

-Additionally, some large cultural players (such as some broadcasting groups) are defined by company classifications as "holding company", which excludes them from the strict remit of cultural and creative companies.

data has been used solely to profile some important sectors of the economy of culture. To respect the coherence of the methodology, they were not added to obtain aggregate figures.

The following paragraphs present the study's quantitative findings.

## **I.2. A well-performing economic sector**

**In 2003, the turnover of the cultural & creative sector in Europe amounted to € 654,288 million. In terms of value added to the European economy as a whole, it represented 2.6% of Europe's GDP.**

The relative importance of the cultural & creative sector becomes more apparent when its value added to Europe's GDP is compared with that of other industries. For instance, real estate activities (including the development, buying, selling and letting of real estate), one of the driving sectors of the European economy in the last years, accounts for 2.1% of Europe's GDP – a figure that is inferior to the cultural & creative sector's contribution. The economic contribution of the cultural & creative sector is also higher than that of the sector of food, beverages and tobacco manufacturing (1.9%), the textile industry (0.5%) and the chemicals, rubber and plastic products industry (2.3%)<sup>4</sup>.

Table 3 below summarises the findings of the study with regard to the economic contributions from the cultural & creative sector in Europe. Data refers to 2003 figures and is presented on a country-by-country basis:

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<sup>4</sup> Extensive data on the contribution of various manufacture and service industries to the European economy are available in annex. See Annex 2.

**Table 3: Contribution of the European cultural & creative sector to the European and national economies**

	Turnover 2003, all sectors included (€ million)	Value added to national GDP (all sectors included)
Austria	14,603	1.8%
Belgium	22,174	2.6%
Cyprus	318	0.8%
Czech Republic	5,577	2.3%
Denmark	10,111	3.1%
Estonia	612	2.4%
Finland	10,677	3.1%
France	79,424	3.4%
Germany	126,060	2.5%
Greece	6,875	1.0%
Hungary	4,066	1.2%
Ireland	6,922	1.7%
Italy	84,359	2.3%
Latvia	508	1.8%
Lithuania	759	1.7%
Luxembourg	673	0.6%
Malta	23	0.2%
Netherlands	33,372	2.7%
Poland	6,235	1.2%
Portugal	6,358	1.4%
Slovakia	2,498	2.0%
Slovenia	1,771	2.2%
Spain	61,333	2.3%
Sweden	18,155	2.4%
United Kingdom	132,682	3.0%
Bulgaria	884	1.2%
Romania	2,205	1.4%
Norway	14,841	3.2%
Iceland	212	0.7%
<b>Total EU 25</b>	<b>636,146</b>	
<b>Total 30 countries*</b>	<b>654,288</b>	

Source: Eurostat and AMADEUS

Data elaborated by Media Group

\*The countries covered by the statistical analysis include the EU25 Member States plus the two countries that will join on first January 2007 (Bulgaria and Romania), plus the three EEA countries – Iceland, Norway and Liechtenstein. However for lack of available data Liechtenstein is not systematically covered in all tables.

Table 3 leads to the following observations:

- **Prevalence of large countries.** The economic output is concentrated in the largest countries, especially in the UK and Germany. The five largest EU Member States (UK, Germany, France, Italy and Spain) account for almost three quarters of the economy of the cultural & creative sector in Europe. This is in line with the general economic outlook of Europe, whereby the sum of the national GDPs of the five largest economies equals around 74% of the EU25 GDP.
- **Situations at national levels.** As far as national economies are concerned, the value added of the cultural & creative sector to national GDP is at its highest in France, UK, Norway, Finland and Denmark. In all of these countries the contribution of the cultural & creative sector to the respective national economies is higher than 3%.  
In the following national economies the contribution of the cultural & creative sector is between 2% and 3%: Belgium, Czech Republic, Germany, Estonia, Spain, Italy, the Netherlands, Slovenia, Slovakia and Sweden.

The analysis of the economic weight of the cultural & creative sector on a country-by-country basis shows that the latter is stronger in Nordic countries (Scandinavia and Finland)..

### **The difficult comparisons with US assessments of creative industries**

Comparisons with third countries' performances are difficult because of the problem with the comparability of definitions, statistical frameworks, data and indicators.

- According to the US' "Americans for the Arts" report of 2005, the number of so-called "art centric businesses" grew in the US by 5.5 % (548,281 to 578,487) as compared to a growth rate of only 3.83% for all US businesses (12.8 million to 13.2 million).

These "art centric businesses" include the following sectors: museums and collections; performing arts; visual arts and photography; film, radio and TV, design and publishing; as well as arts schools and services.

The sector was defined by using 643 eight-digit Standard Industrial Classification Codes. There is, however, no mention of "turnover" or "value added to national GDP".

- The Intellectual Property Alliance's report on "*Copyright industries in the US economy - 2002*" (completed by Stephen E. Siwek Economists Incorporated) states that:

- In 2001 the US copyright industries accounted for 5.24% of US GDP or USD 535 billion
- Over the last 24 years (1977-2001) the US' copyright industries share of the GDP grew more than twice as fast as the remainder of the US economy (7% vs. 3%)

However, the definition used in this report is different from the one used in the present study. It includes "*those [industries] represented by IIPA namely the producers of all types of computer software, including business software and entertainment software (such as video games CD-ROMs and cartridges, personal computer CD-ROMs and multimedia products) theatrical films, television programs, DVDs and home video and digital representations of audiovisual works, music, records, CDs and audiocassettes, and textbooks, trade books, reference and professional publications and journals (in electronic and print media)*".

### **1.3. Comparison with the performances of other sectors of the economy**

While the cultural & creative sector in Europe generated over **€ 654 billion** during 2003, the turnover of the car manufacturing industry in 2001 was € 271 billion<sup>5</sup> and the turnover generated by ICT manufacturers was € 541 billion in 2003 (EU-15 figures).<sup>6</sup>

Table 4 shows the contribution of the creative & cultural sector to the national economies of the countries examined in this study, as compared with contributions provided by other manufacturing and services sectors:

<sup>5</sup> "The European Motor Vehicle Industry, Key Figures 2005", a report from the ACEA (Association des Constructeurs Européens d'Automobiles – European Automobile Manufacturers Association), Brussels, March 2006.

<sup>6</sup> "Restoring European economic and social progress: unleashing the potential of ICT", a report for the Brussels Round Table (BRT) by Indepen, Brussels, January 2006.

**Table 4: Contribution of the cultural & creative sector and of other industries to the European economy (percentage of GDP)**

	Manufacture of food products, beverages and tobacco (%)	Manufacture of textiles and textile products (%)	Manufacture of chemicals, chemical products and man-made fibres (%)	Manufacture of rubber and plastic products (%)	Manufacture of machinery and equipment n.e.c. (%)	Real estate activities (%)	Computer and related activities (%)	Cultural and creative Sector (%)
Austria	1.7	0.5	1.1	0.7	2.2	2.2	1.1	1.8
Belgium	2.1	0.8	3.5	0.7	0.9	1.0	1.2	2.6
Cyprus	2.7	0.4	0.5	0.3	0.2	N/A	0.6	0.8
Czech Republic	2.8	1.0	1.3	1.5	2.3	1.4	1.2	2.3
Denmark	2.6	0.3	1.7	0.7	1.9	5.1	1.5	3.1
Estonia	2.2	1.9	0.6	0.6	0.6	2.8	0.7	2.4
Finland	1.5	0.3	1.1	0.7	2.1	1.8	1.5	3.1
France	1.9	0.4	1.6	0.7	1.0	1.8	1.3	3.4
Germany	1.6	0.3	1.9	0.9	2.8	2.6	1.4	2.5
Greece	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.0
Hungary	2.9	N/A	1.9	0.9	1.2	1.8	0.8	1.2
Ireland	5.3	0.2	11.5	0.3	0.5	1.2	1.7	1.7
Italy	1.5	1.3	1.2	0.7	2.1	1.0	1.2	2.3
Latvia	3.2	1.2	0.5	0.3	0.5	2.1	0.7	1.8
Lithuania	2.5	1.6	0.4	0.5	0.4	1.1	0.3	1.7
Luxembourg	1.0	0.9	0.4	2.0	0.6	N/A	1.2	0.6
Malta	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.2
Netherlands	2.2	0.2	1.7	0.4	1.0	2.3	1.4	2.7
Poland	4.7	0.8	1.4	0.9	1.2	1.3	0.6	1.2
Portugal	1.9	1.9	0.8	0.5	0.7	0.6	0.5	1.4
Slovakia	1.5	0.7	0.6	0.9	1.5	0.5	0.6	2.0
Slovenia	2.0	1.3	3.4	1.4	2.2	0.4	0.8	2.2
Spain	2.2	0.7	1.3	0.7	1.0	3.0	1.0	2.3
Sweden	N/A	N/A	N/A	N/A	N/A	4.0	2.2	2.4
United Kingdom	1.9	0.4	1.4	0.7	1.0	2.1	2.7	3.0
Bulgaria	2.2	2.0	1.1	0.4	1.3	0.4	0.3	1.2
Romania	1.9	2.1	0.8	0.5	1.0	0.5	0.5	1.4
Norway	1.7	0.1	0.8	0.2	0.8	2.7	1.3	3.2
Iceland	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.7

Source: Eurostat and AMADEUS

- By way of comparison with other industry sectors, there are very few manufacturing and services industries that contribute more than 3% to national GDPs - this is the case of food and beverages in Ireland, Latvia and Poland; chemical products in Belgium, Ireland and Slovenia; manufacturing of electrical and optical equipment in Ireland, Hungary and Finland; and real estate activities in Denmark and Sweden.
- In France, Italy, the Netherlands, Norway and the UK, the cultural & creative sector provides the highest contribution to national GDP amongst all the sectors investigated.
- This means that in most European countries, the creative & cultural sector is a leading contributor to the growth of national wealth.

## I.4. A dynamic sector

Overall, the cultural & creative sector exhibited an impressive performance during the examined period - the years from 1999 to 2003. Whilst the nominal growth of the European economy in this period was 17.5%<sup>7</sup>, the growth of the cultural & creative sector in the same years was 12.3% higher - in other words, the overall growth of the cultural & creative sector's value added was 19.7%. This means that the cultural & creative sector grew faster than the general economy and that it was therefore a vital driver for development in Europe.

Furthermore, as far as the dynamic of the contribution of the cultural & creative sector to European GDP is concerned, figures show a positive trend over the years, meaning that the sector grew in economic importance and that its contribution to the general wealth of Europe has become more and more significant.

Table 5 presents the results of the evolution of the cultural & creative sector in Europe for the period 1999-2003:

**Table 5: Contribution of the European cultural & creative sector to the European growth**

	Average turnover growth (1999-2003)	Growth in value added to European GDP (1999-2003)
Austria	5.4%	2.8%
Belgium	5.2%	7.7%
Cyprus	N/A	N/A
Czech Republic	15.5%	56.0%
Denmark	2.7%	-1.9%
Estonia	11.5%	9.1%
Finland	7.1%	11.1%
France	6.7%	7.1%
Germany	4.9%	6.6%
Greece	5.4%	4.4%
Hungary	17.1%	7.6%
Ireland	7.7%	8.8%
Italy	5.3%	7.3%
Latvia	7.7%	17.0%
Lithuania	5.1%	67.8%
Luxembourg	2.9%	N/A
Malta	0.1%	N/A
Netherlands	5.0%	N/A
Poland	6.1%	13.0%
Portugal	10.6%	6.3%
Slovakia	3.9%	15.5%
Slovenia	17.9%	5.4%
Spain	10.5%	9.0%
Sweden	7.8%	2.6%
United Kingdom	6.6%	1.7%
Bulgaria	13.8%	N/A
Romania	20.2%	29.0%
Norway	4.8%	3.8%
Iceland	8.3%	4.1%
Total EU 25	5.4%	6.6%
Total 30 countries	8.1%	12.3%

Source: Eurostat and AMADEUS - Data elaborated by Media Group

<sup>7</sup> table with the figures for nominal growth of GDP in market prices for the EU30 countries is presented in Annex 4

**Note:** For the new EU member States and acceding countries, the reported value added for the year 1999 has somewhat larger data gaps than the reported value added for the EU15 (+ Norway and Iceland) countries. The calculated growth figures therefore tend to overestimate the growth for the new and acceding states to some degree, but remain a significant indicator of trends in the sector.

Results presented in table 5 can be summarised as follows:

- The average **turnover growth** is a useful indicator to measure the sector's growth in comparison to the overall economy in a given timeframe. The total value for the EU25 is 5.4% (8.1% for EU30).

In EU15, growth of turnover of the cultural & creative sector was higher than average in Spain and Portugal and to a lesser extent in Ireland, Finland, Sweden, the UK and France. The only negative results were observed in Denmark where the contribution of the sector fell by 1.9% between 1999 and 2003 - explanations for this negative figure are to be found in the analysis of some industry sectors which under performed in the timeframe considered (this is notably the case of the Danish publishing, music and advertising industries).

In EU10, it is notable that average turnover growth was higher than in the EU15 countries: new Member States are rapidly catching up with their European neighbours in terms of wealth creation, in the new Member States the cultural & creative sector is significantly contributing to economic growth.

- In the cultural & creative sector, between 1999 and 2003, the **growth in value added to GDP** was 6.6% for the EU25 and 12.3% for Europe<sup>8</sup>. As for turnover growth, the highest results are to be found in new (or acceding) Member States.

## **II. CULTURAL CONSUMPTION AT A GLANCE**

Currently, there is no comprehensive assessment of cultural consumption by countries at the EU level.

International data does exist, such as the OECD figures on consumption in "culture and recreational goods and services" but this category (which includes items such as camper vans, caravans, sports equipment, toys, domestic pets and related products, gardening tools and plants, tickets to football matches, cinemas and theatres, service charges on lottery tickets and other forms of gambling) obviously needs to be taken with caution, as an indicator of trends, and not as a precise assessment of cultural consumption. Unfortunately, national reports consulted are similarly based on the assessment of "cultural and recreational" consumption.

The case-study below highlights the following trend:

- A steady growth of cultural and recreational consumption in the last decades.
- The French example shows that since the advent of the digital revolution, a change in the structure of cultural consumption has been noticed. It corresponds to an increase in the consumption of related cultural goods (equipment) at the expense of more traditional cultural goods and services.

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<sup>8</sup> The following example helps in the interpretation of the growth of contribution figures: if the total contribution of an industry to the GDP in a give year is 10% and in the next year it is 11% then the growth in contribution is 10%.

## Household expenditure on culture in Europe

In the past ten years, households have been spending more and more on culture. Several studies on this have been carried out. They include culture within a large sector together with recreation, in respect of the UN definition<sup>9</sup>. Despite their vagueness, these studies reveal a new tendency where culture can be considered as a potential of growth.

The results of the current works on household expenditure on “culture & recreation” differ somewhat but still show the same progress. In Europe, Eurostat surveys show that household spending on “culture & recreation” regularly increased over the past ten years. **The shares of household expenditure on “cultural & recreational products” rose by 0.6% between 1995 and 2004.** This growth has been more important in the Eastern countries such as the Baltic States, and on average weaker in the Western countries. This phenomenon can be explained by the fact that household expenditure on “culture & recreation” is already high in Western countries.

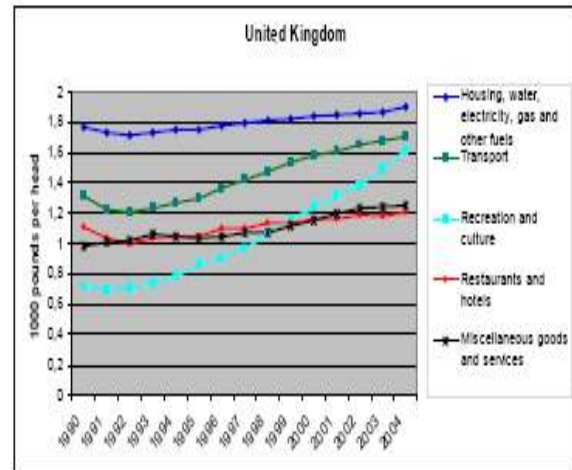
### ■ The UK household expenditure on “culture & recreation”<sup>10</sup>

The UK is the European country with the highest increase of total expenditure in the past ten years. Statistics from the UK Government reveal that “culture & recreation” is one of the areas where spending has increased most rapidly, rising by 66.6% between 1994 and 2003, and accounting for 14 per cent of all households’ expenditure in 2004/05. Between the periods of 2002/03 to 2004/05, an average household spent £ 57.60 per week on TVs, computers, newspapers, books, leisure activities and package holidays. This is only £ 3 less than on transport, the highest weekly expenditure, and £ 14 more than on food and non-alcoholic drinks for instance.

<sup>9</sup> According to the COICOP (UN), household expenditure on recreation and culture is defined as including purchases of audio-visual, photographic and computer equipment, CDs and DVDs, musical instruments, camper vans, caravans, sports equipment, toys, domestic pets and related products, gardening tools and plants, tickets to football matches, cinemas and theatres, service charges on lottery tickets and other forms of gambling and newspapers. It excludes expenditures on restaurants, hotels, travel and holiday homes but includes package holidays. (source: In the OECD Factbook 2006)

<sup>10</sup> Source: *Family Spending Report on the 2003-04 Expenditure and Food Survey*, by the Office of National Statistics on housing expenditure, children’s expenditure and equivalised.

**Figure 1. Household expenditure in 1990-2004 in the UK, five largest categories**



Source: 30<sup>th</sup> CEIES Seminar 2006 Report

### ■ Belgian households’ expenditure on leisure and culture

In Belgium, households’ expenditure on “culture & recreation” increased until the end the 1990s. While they were spending 7.30% of their income on culture and leisure in 1978/1979, the figure rose to 9.2% in 1997/1998.

As in many Western countries, the rise of cultural consumption slightly stagnated after 2000 and reached 8.60% in 2004.

### ■ French households’ cultural consumption

The report consulted departs from the classical analysis of consumption of “cultural & recreational products”, to focus solely on cultural consumption.

In the long term, a trend towards a growing consumption of the cultural industries’ goods can be observed.

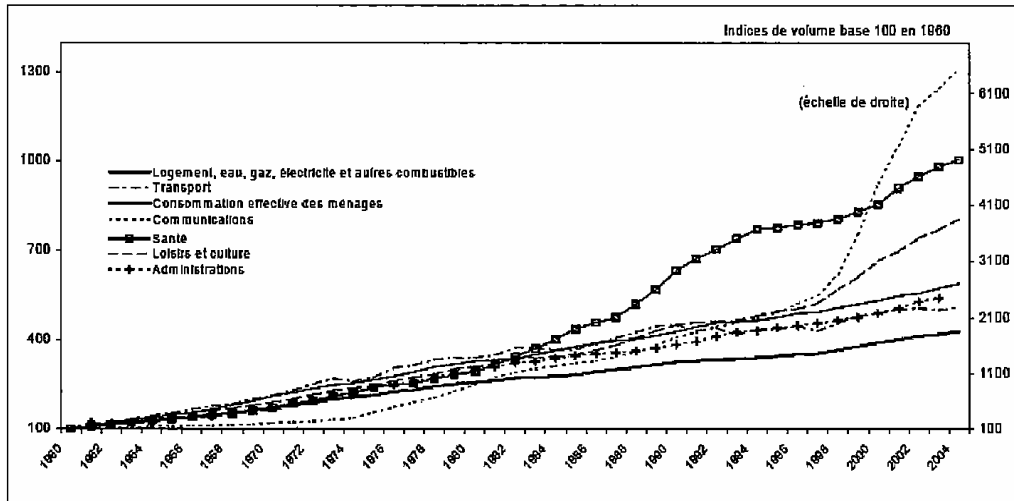
In absolute value, the average French household’s consumption of these goods (excluding performing arts) **grew by over one third (35%) from 1995 to 2004.** This growth surpasses the growth of other household expenditures.



A peak occurred around 2000, with an increase of expenditures related to ICTs (audiovisual equipment, computer related equipment – for ex. expenditure on mobile telephony grew by 22.9% in volume from 2003 to 2004, and associated services by 4.4%).

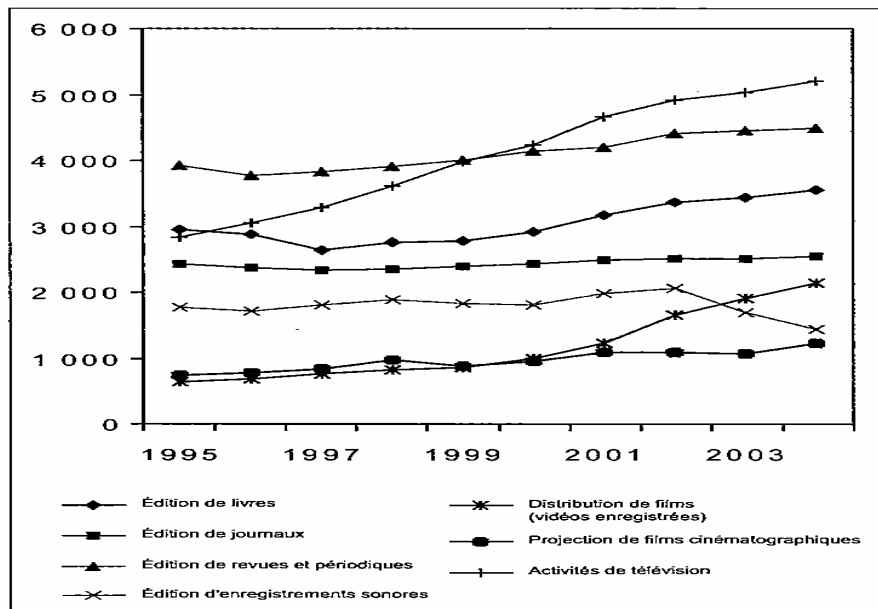
This evolution has a significant impact on households' expenditures on culture and leisure (+ 4.8% in volume from 2003 to 2004) yet a negative impact can be observed on services such as photography printing, sound recordings and possibly video).

Figure 2. Evolution of French household's consumption 1960-2004



Source : Comptabilité nationale

Figure 3. Consumption of cultural-industries related products in value – 1995-2004



Source : Comptabilité nationale

Source: La consommation des produits d'industries culturelles, DEPS/DAIE, Ministère de la Culture et de la Communication, Avril 2006

### III. CULTURAL EMPLOYMENT

#### III.1. Introduction

##### A SNAPSHOT

- In 2004, a minimum of 4.714 million people worked in the cultural & creative sector alone, equivalent to 2.5% of the active employed population in the EU25.
- An additional 1.171 million were employed in the sector of cultural tourism.
- The distribution by gender and age differs little between cultural employment and total employment.
- 46.8% of workers in the cultural sector have at least a university degree in comparison with 25.7% in total employment.
- The share of independent workers is more than twice as high in the cultural sector than that of total employment.
- The sector records 17% of temporary workers, compared with 13.3% in total employment.
- The share of part-time workers is higher than in total employment.
- The share of workers with side-jobs is much than in total employment.

#### III.1.1. **Measuring cultural employment**

In every European country the method for collecting employment data is different. Starting in 2007, however, every country in Europe is expected to begin using the same method (after the 2007-9 NACE revision).

In completing the study, the availability of employment data at the European level was considered as the first step.

##### • **The difficult capture of employment statistics**

Two harmonised European classifications exist: the **NACE for activities** and the **ISCO-COM<sup>11</sup> for occupation**. Cultural activities are scattered in both classifications, making it impossible to present them as a unified sector.

ISCO refers directly to occupations. It is the most precise way to capture cultural employment in its diverse forms. ISCO codes are in theory available in “2-digit”, “3-digit” and “4-digit” forms: the more digits, the more precision in the categories of occupation examined. **In order to capture the cultural sector, “4-digit” ISCO codes are required** because “2 digit” and “3-digit” codes do not provide the level of precision necessary to capture cultural occupations. The 4-digit NACE classification was used (as presented above in relation to industry statistics), with the objective of further defining appropriate 4-digit ISCO matrix of occupations. **However, obtaining ISCO data at the “four-digit level” for all the sectors and countries included in our study did not provide a satisfactory result:**

- For many countries, data was missing;
- In most of the cases the only available data corresponded to “3 digit codes” (which do not allow for the accurate assessment of cultural employment in a proper way)<sup>12</sup>.

<sup>11</sup> **ISCO** stands for International Standard Classification of Occupations. The current version of the International Standard Classification of Occupations, ISCO-88, was approved by the ILO Governing Body in 1988. ISCO-88 provides a system for classifying and aggregating occupational information obtained by means of population censuses and other statistical surveys, as well as from administrative records. ISCO-88 groups jobs together in occupations and more aggregate groups mainly on the basis of the similarity of skills required to fulfil the tasks and duties of the jobs

<sup>12</sup> For example, Eurostat’s *Labour Force Surveys* generated from households’ surveys provide data in the form of 3-digits, and countries are actually only obliged to deliver 2-digit sequences of data.

- **Exploiting the work carried out by the Eurostat Task Force on Cultural Employment**

As pointed out earlier, the "*Leadership Group (LEG) on Cultural Statistics*" was set up at an EU level in 1997. After producing its final report including some recommendations in 2000, it was converted into a Eurostat Working Party with the mandate to continue the activities of the LEG in close cooperation with Member States. The operational structure of the LEG was designed in such a way that one Task Force addressed fundamental methodological issues while the other three worked on the development of thematic fields: cultural employment, cultural expenditure and participation in cultural activities.

In 2005 the French Culture Ministry's Department for Studies, Perspectives and Statistics which had been coordinating Eurostat Task Force 2 on cultural employment, produced a report in 2005 under the title "*Cultural Employment in Europe in 2002*".

The report is the most comprehensive document on European cultural employment today. It is based on a specific definition of cultural employment and uses a very complex method based on both ISCO and NACE codes (for more details, please refer to Annexes 5 and 6). This method is necessary because the traditional approach to evaluating employment needs to be modified when analysing cultural employment. As rightly highlighted in a recent OECD Report,<sup>13</sup> "*a significant number of individuals in cultural occupations do so in industries not normally included within the scope of culture and an approach which uses combination of industry and occupation to define the overall size and structure of the sector is required*".

The definition and methodology implemented are presented on the next page.

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<sup>13</sup> OECD, International measurement of the economic and social importance of culture, draft report prepared by Joahn C. Gordon and Helen Beilby-Orrin, Statistics Directorate, August 2006

**Cultural Employment in Europe in 2002**  
**Report completed in the framework of Task Force 2 on cultural employment by the**  
**Département des Etudes de la Prospective et des Statistiques, French Culture Ministry.**

**Definition used:**

Cultural employment is defined as “*the total of active workers having either a cultural profession, or working with an economic unit within the cultural sector*”. This includes three distinct situations:

- Workers with a cultural profession working in a cultural sector (e.g. an artist in an opera);
- Workers having a cultural profession but working outside the cultural sector (e.g. a designer in car industry);
- Workers having a non-cultural profession and working in the cultural sector (e.g. a secretary in a film production company).

Cultural professions include:

- Archives, library employees and documentarians;
- Artists (creators and performers), authors, journalists;
- Photographers and technicians for recorder players and sound;
- Intermediate professions in artistic creation and performances;
- Architects.

Cultural sectors include:

- Editing (books, newspapers, magazines, sound recording, etc.);
- Film, video, radio, and television activities;
- Performing arts;
- Press;
- Museums, archives, libraries;
- Wholesale and retail of cultural goods;
- Architectural activities.

**Methodology implemented:**

The report uses a unique mathematical formula generated by cross multiplications between NACE and ISCO codes representing cultural occupations and activities: 13 “4-digit ISCO” and 9 “3-digit NACE” entities. More information on this method is included in Annex 5 and 6.

## • Findings presented in the present study

Since the methodology above described is the only to permit the capture of employment in the cultural & creative sector to date, MKW Wirtschaftsforschung GmbH worked in collaboration with the Eurostat “Task Force 2 on cultural employment” (currently updating its 2005 report). As a result, in addition to presenting 2002 figures as in the aforementioned report, the collaboration with this Task Force enabled the collection of figures from 2003 and 2004. However:

- Whereas the data generated is available on a country by country basis, **the methodology used does not make sector-by-sector data available.**
- **The scope investigated by Eurostat Task Force 2 is more limited than the present Study's scope** (in relation to the delineation of the cultural sector as well as its economic assessment). Whereas the approach used for collecting industry data in Section I above takes into account seven domains with 49 ISCO and 70 NACE codes, the approach retained for describing cultural employment only uses 13 ISCO and 9 NACE entities. As an example, archaeological sites, design and advertising are not covered by the Eurostat Task Force 2.
- As a result, the figures calculated on the basis of this methodology are **conservative estimates.**

In addition, MKW Wirtschaftsforschung GmbH undertook to collect data on employment in the sector of cultural tourism, as the latter generates significant employment linked to cultural activities. To calculate the proportion of cultural jobs that relates to tourism, MKW Wirtschaftsforschung GmbH considered that they represented 15% of the total jobs in the tourism sector. The approximate figure of 15% was validated by different experts working in this field (The “European Tourism Institute (ETI)” in Trier for example) as well as by MKW Wirtschaftsforschung GmbH's previous assignments in this field.

As a result, in this section:

- “Cultural employment” refers the definition used in the 2005 Eurostat Task Force 2 report mentioned above – i.e. employment in the cultural sector. The table next page related this definition to the definition presented in Chapter II.
- “Cultural tourism employment” refers to 15% of the employment recorded in the tourism sector;
- “Cultural and cultural tourism employment” refer to the addition of the previous two definitions;
- “Total employment” refers to the total employment in the EU25.

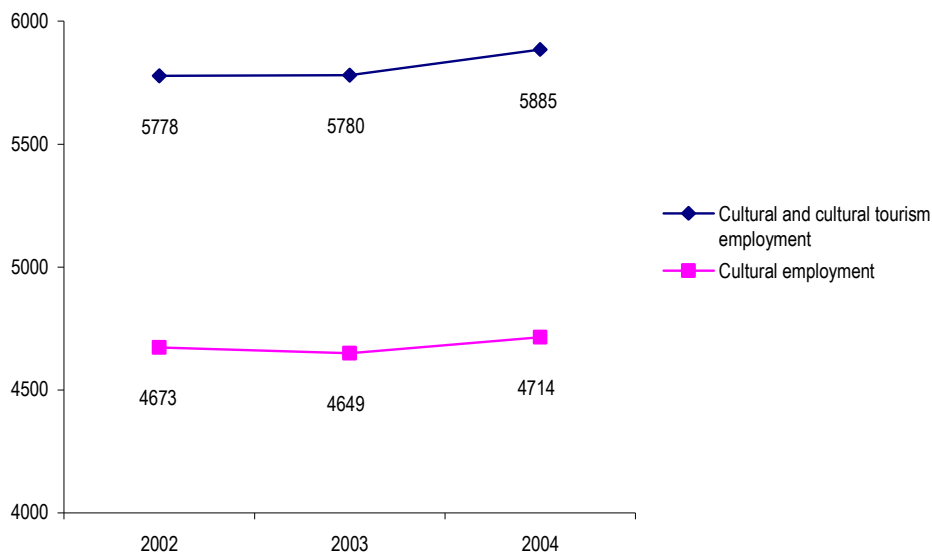
CIRCLES	SECTORS	SUB-SECTORS	SOURCES
CORE ARTS FIELD	Visual arts	CRAFTS – PAINTINGS - SCULPTURE PHOTOGRAPHY	Eurostat
	Performing arts	THEATRE – DANCE - CIRCUS FESTIVALS.	Eurostat
	Heritage	MUSEUMS – LIBRARIES- ARCHIVES.	Eurostat
		ARCHAEOLOGICAL SITES	
CIRCLE 1: CULTURAL INDUSTRIES	Film and Video		Eurostat
	Television and radio		Eurostat
	Video games		Eurostat
	Music	RECORDED MUSIC MARKET	Eurostat
		LIVE MUSIC PERFORMANCES REVENUES OF COLLECTING SOCIETIES IN THE MUSIC SECTOR	
	Books and press	BOOK PUBLISHING MAGAZINE AND PRESS PUBLISHING	Eurostat
CIRCLE 2: CREATIVE INDUSTRIES	Design	FASHION, GRAPHIC, INTERIOR, PRODUCT DESIGN	
	Architecture		Eurostat
	Advertising		
CIRCLE 3: RELATED INDUSTRIE	PC manufacturers, MP3 player manufacturers, mobile industry, etc...	CULTURAL TOURISM	

sub-sector included into data research and extraction

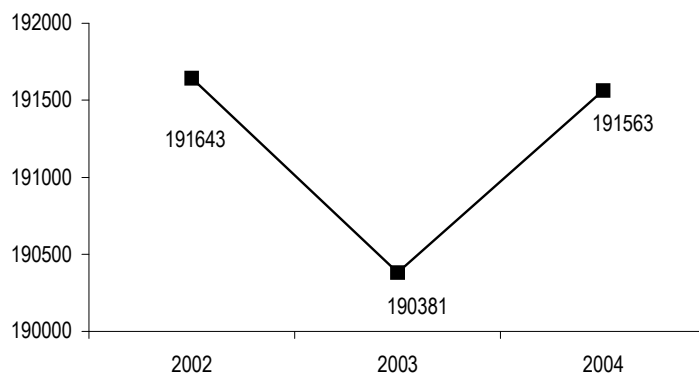
### III.1.2 Cultural employment in Europe: A snapshot<sup>14</sup>

In 2004, **5.885 million** people worked in the cultural and cultural tourism sectors, equivalent to **3.1%** of the active employed population in the EU25.

**Figure 4. Cultural and cultural tourism employment in the EU25 (in thousands)**



**Figure 5. Total employment in the EU 25 (in thousands)**



<sup>14</sup> In the tables and graphs presented, the following abbreviations are used: Footnote Austria (AT), Belgium (BE), Cyprus (CY), Czech Republic (CZ), Denmark (DK), Estonia (EE) Finland (FI), France (FR), Germany (DE), Greece (EL), Hungary (HU), Ireland (IE), Italy (IT), Latvia (LV), Lithuania (LT), Luxembourg (LU), Malta (MT), the Netherlands (NL), Poland (PL), Portugal (PT), Slovakia (SK), Slovenia (SI), Spain (SP), Sweden (SE), and the United Kingdom (UK).

The above graphs show that:

- The contribution of cultural employment (with and without cultural tourism) over the 3 mentioned years in the EU25 is characterised by its stability and seems to indicate an upward trend.
- Whereas total employment in the EU25 slightly decreased between 2002 and 2004, cultural employment (with and without cultural tourism) **increased over the same period**. This trend supports the view that the cultural sector constitutes an engine for employment at the European level.

The tables below present the basis for the computations of the previous graphs. Cultural employment accounts for 2.5% of EU25 total employment. With cultural tourism employment added to cultural employment, the share grows to 3.1% in 2004. Between 2002 and 2004 it increased from 3% to 3.1%.

**Table 6: “Cultural employment”, “Cultural and cultural tourism employment”, “Total employment”, in the EU25**

Year	Cultural employment (in millions)	Cultural employment (in % of total employment)	Cultural and cultural tourism employment (in millions)	Cultural and cultural tourism employment (in % of total employment)	Total employment (in millions)
2002	4.673	2.5%	5.778	3.0%	191.643
2003	4.649	2.5%	5.781	3.0%	190.381
2004	4.714	2.5%	5.885	3.1%	191.563

**Table 7: Evolution of the “Cultural employment”, “Cultural and tourism employment” and “Total employment” in the EU25 from 2002 to 2004**

	Evolution 2002-2004
Cultural employment	+ 0.88%
Cultural and cultural tourism employment	+ 1.85%
Total employment	- 0.04%

The following graphs detail the situation in 2004 for each of the EU25 countries.

Not surprisingly, Germany, the UK, France, Italy and Spain are the countries whose cultural sector employs the most people in Europe. Nearly three quarters of the jobs in the cultural sector are attributed to the five most populated European countries. The figures of total employment show the same situation.

In these five countries, employment in the cultural sector (with cultural tourism) accounts for around 3.1% of total employment (from 2.5% in France to 3.8% in the UK). Without cultural tourism, it accounts for around 2.6% of total employment (from 2% in France to 3.2% in the UK).

In the EU25, figures vary significantly, from 1.9% in Slovakia (1.3% without cultural tourism) to 6.5% in Hungary (5.1% without cultural tourism).

It should be noted that the share of cultural employment (with and without tourism) within total employment is higher in Northern Europe than Southern Europe.



Figure 6. Cultural employment in the EU 25 - 2004 (in thousands)

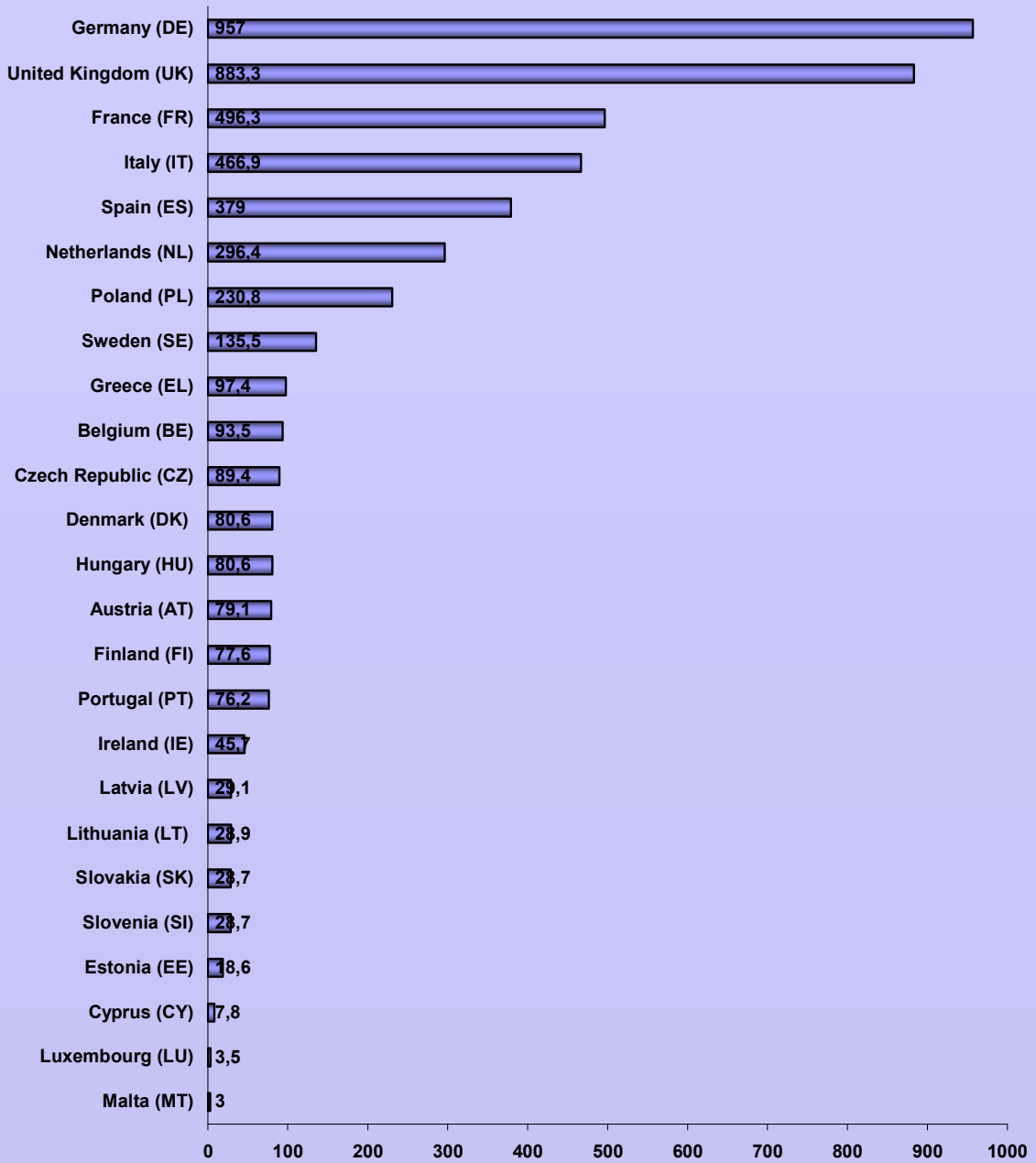


Figure 7. Cultural & cultural tourism employment in the EU 25 - 2004 (in thousands)

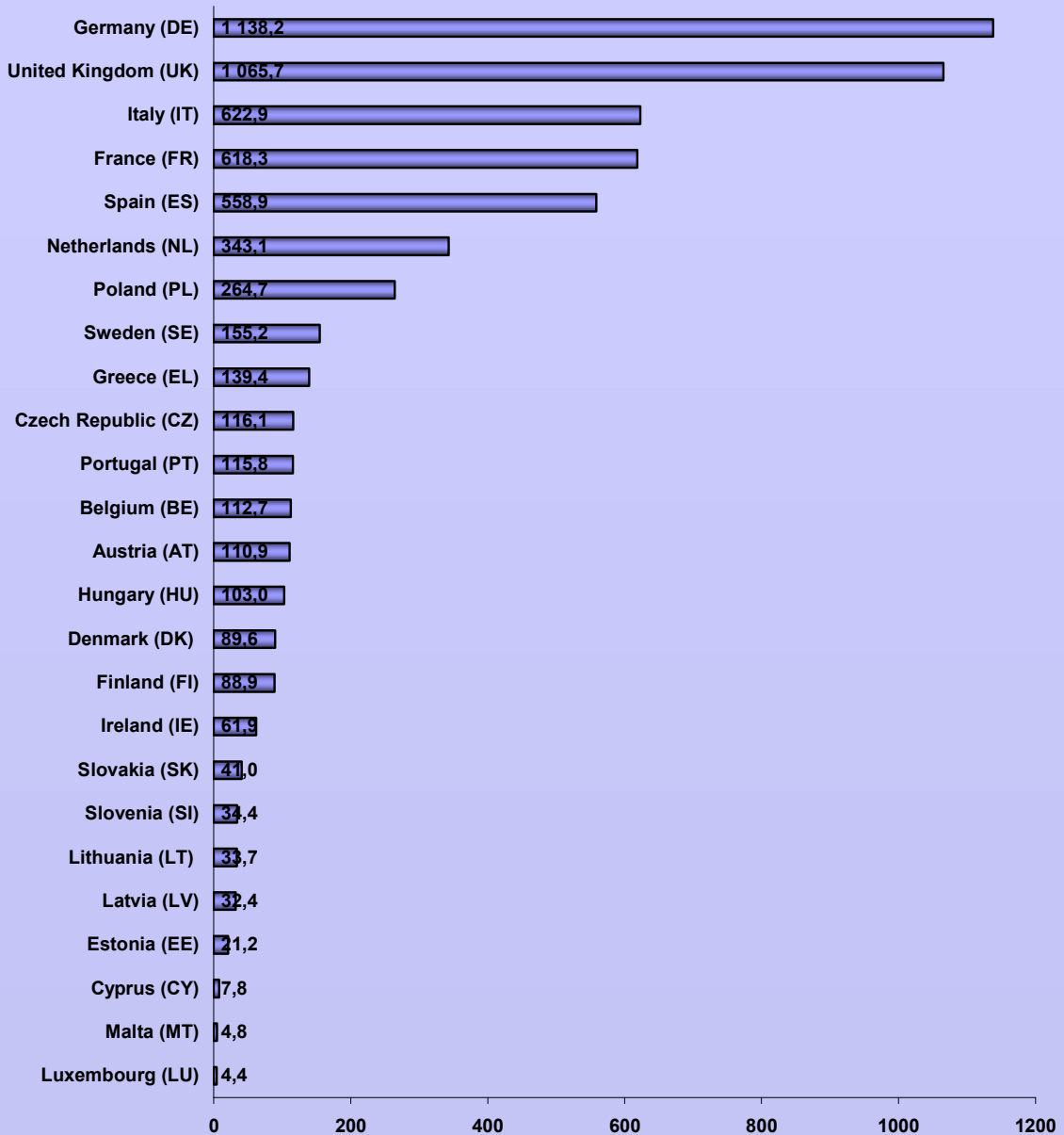
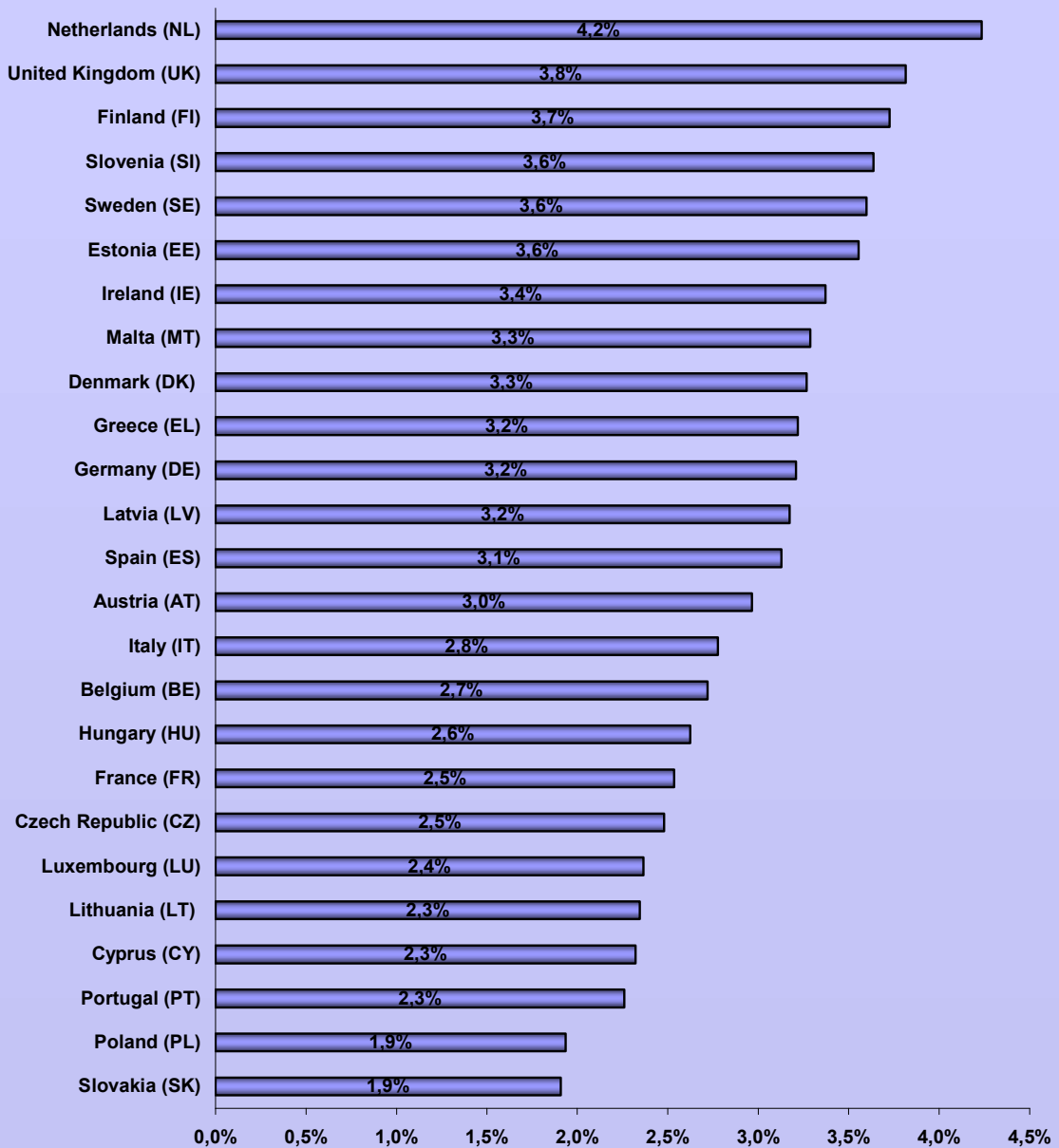
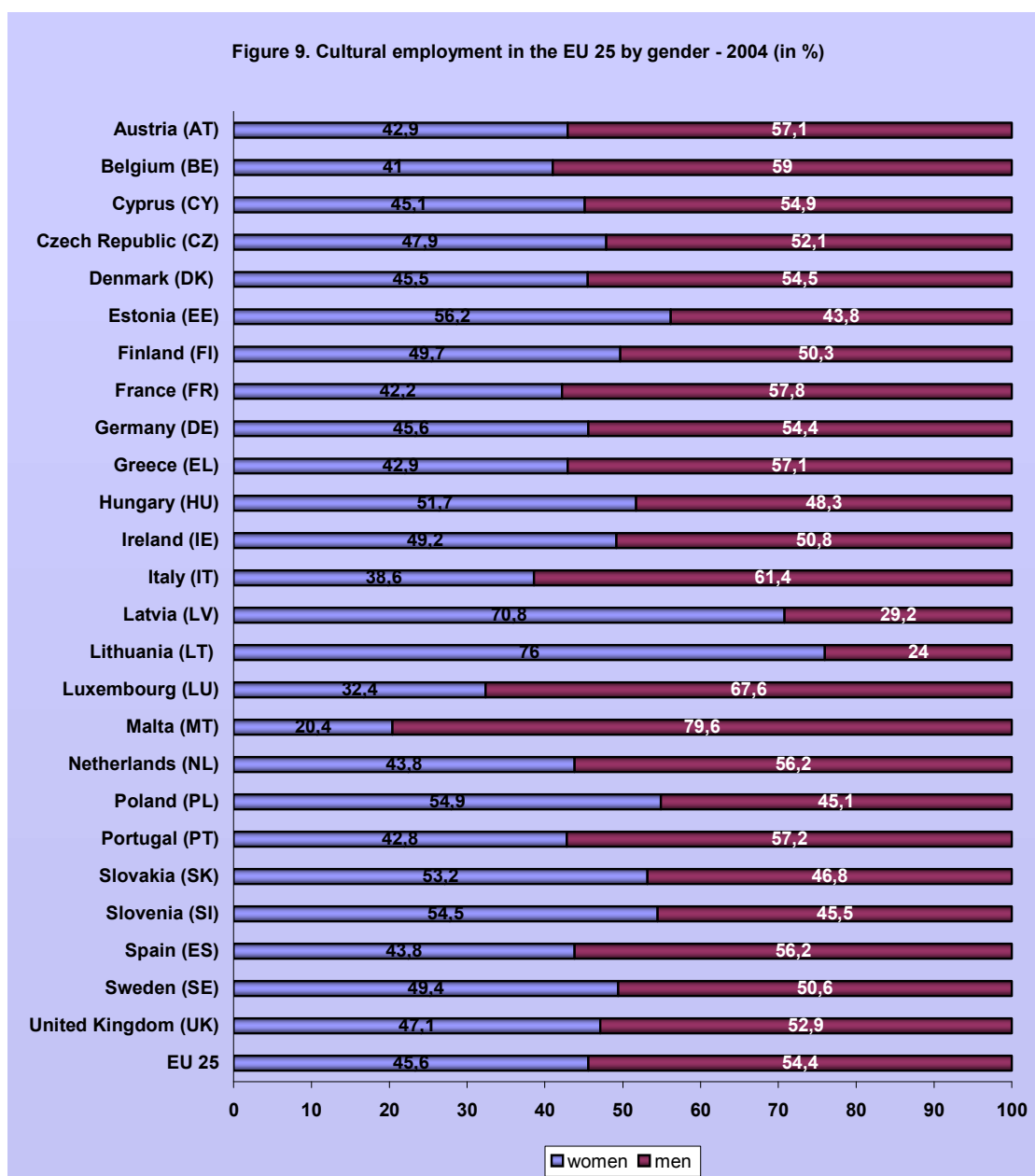


Figure 8. Cultural & cultural tourism employment in the EU 25 in % of total employment - 2004



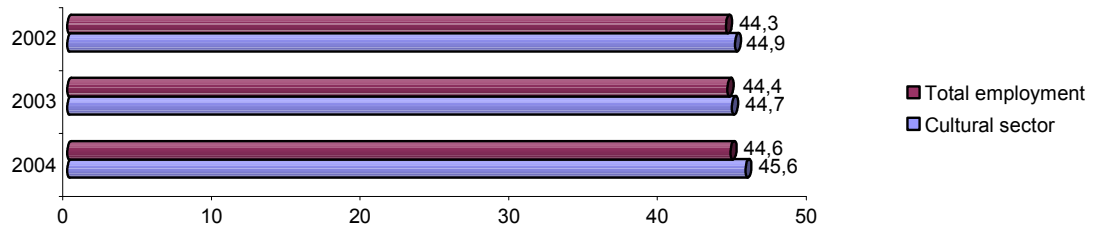
## III.2. Characteristics of cultural employment in Europe <sup>15</sup>

### III.2.1. Cultural Employment in the EU25 by gender



<sup>15</sup> All tables and figures presented in this section were completed by MKW GmbH. Those excluding cultural tourism figures are based on the data that were kindly provided by Eurostat Task Force 2 on cultural employment, as well as other Eurostat and national sources consulted by MKW GmbH

Figure 10. Share of women employed in the EU25 (%)



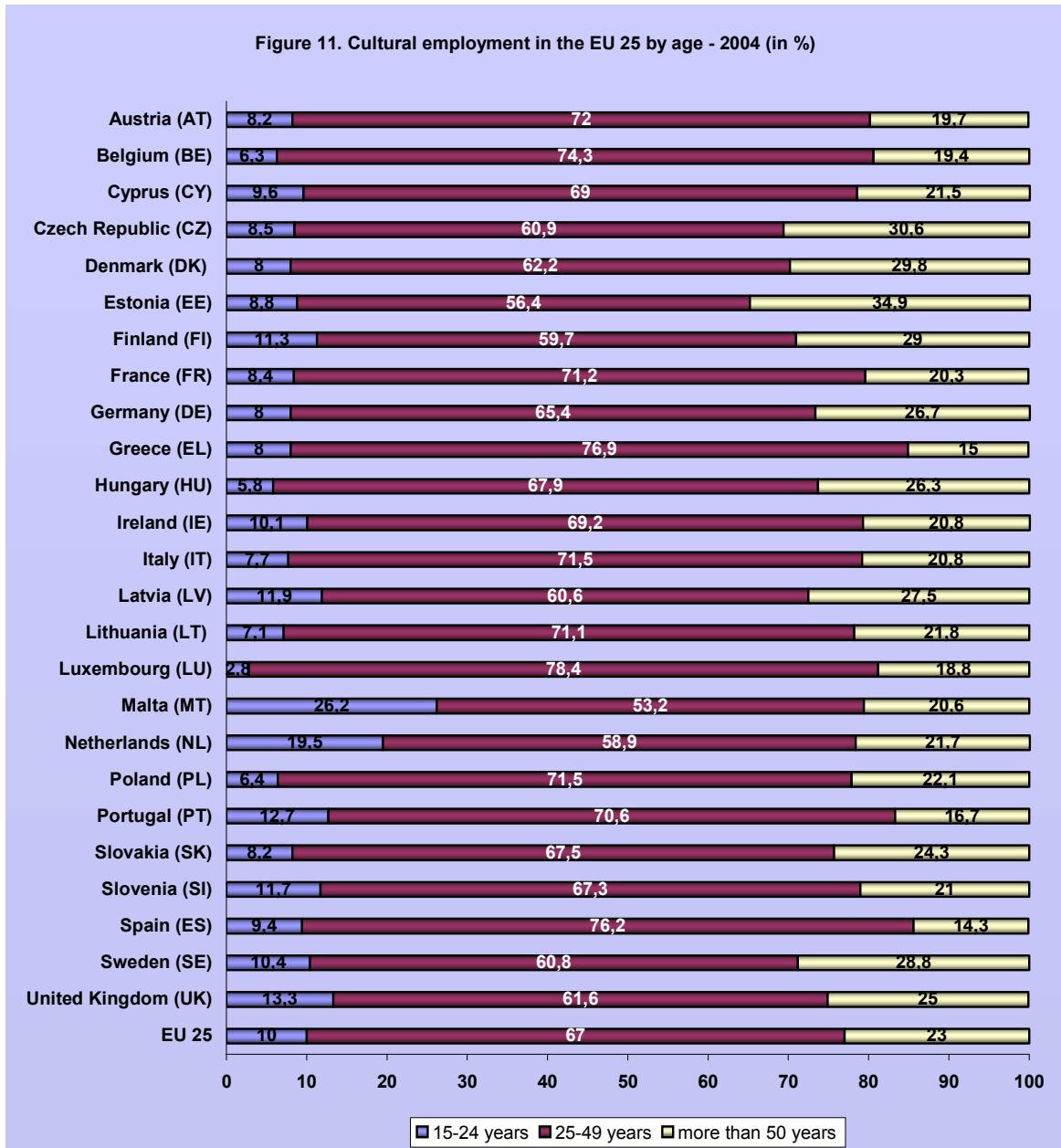
➤ The distribution by gender differs little between cultural employment and total employment.

In 2004, 45.6% of the cultural jobs in the EU were occupied by women as opposed to 44.6 % in the total employment.

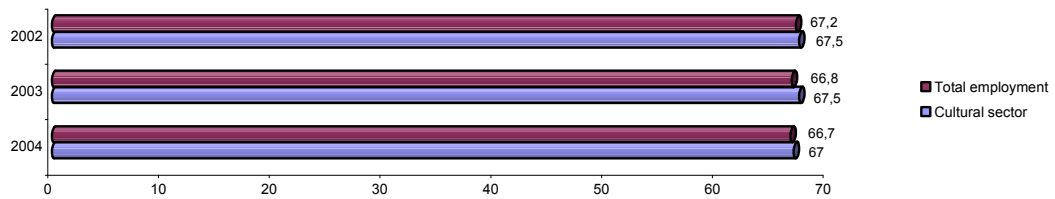
The per country analysis reveals certain peculiarities. In Eastern European countries, particularly Latvia and Lithuania, the quota of women (respectively 70.8% and 76%) is higher than in other countries. The share of women employed in the cultural sector is globally lower than the average in Southern countries. Malta by far has the lowest share of women employed in the cultural sector (20.4%). Despite the fact that the cultural sector as a whole employs more men than women, the trend varies in some sub sectors. For instance, the share of women employed is higher in the art market (52%<sup>16</sup>) than in the cultural sector as a whole (45.6%).

<sup>16</sup> TEFAF Report on the art market in Europe, 2002

### III.2.2. Cultural employment in the EU 25 by age



**Figure 12. Share of 25-49 employed in the EU25 (%)**



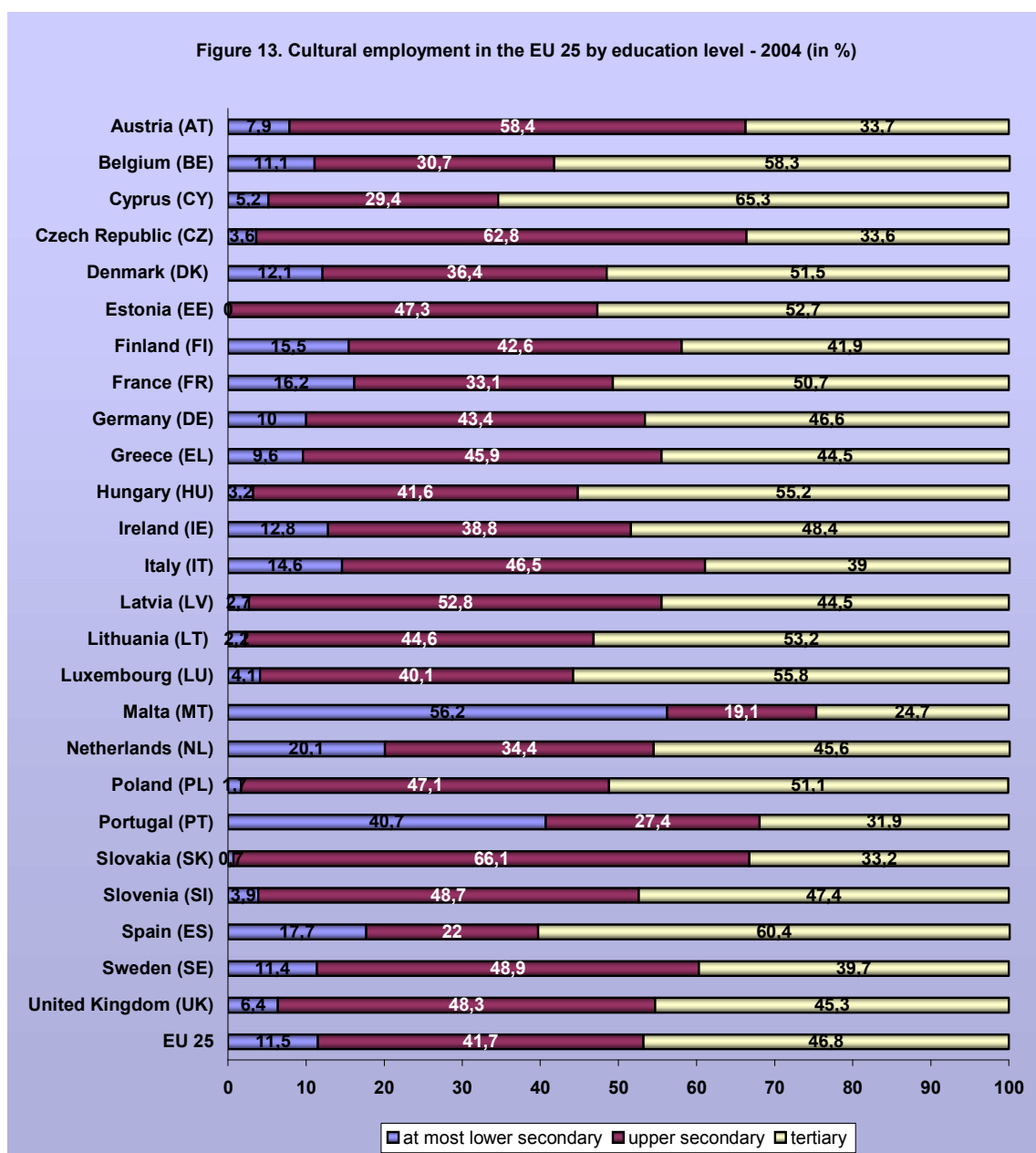
➤ **The distribution by age differs little between cultural employment and total employment.**

The vast majority of employees and the self-employed belong to the 25-49 years old demographic: as an average for all countries, the 25-49 demographic represents between 60 to 75% of the employees within the cultural sector, with very few exceptions. The lowest shares of employment from within the 25-49 demographic are to be found in Northern Europe and Malta. This perfectly reflects the situation of the national economies as a whole.

Some 10% of the employees in the cultural sector are 15-24 years old, compared to 10.6% in total employment. The fraction of the 15-24 years old employed in the cultural sector is the highest in Malta (26.2%), the Netherlands (19.5%) and the United Kingdom (13.2%).

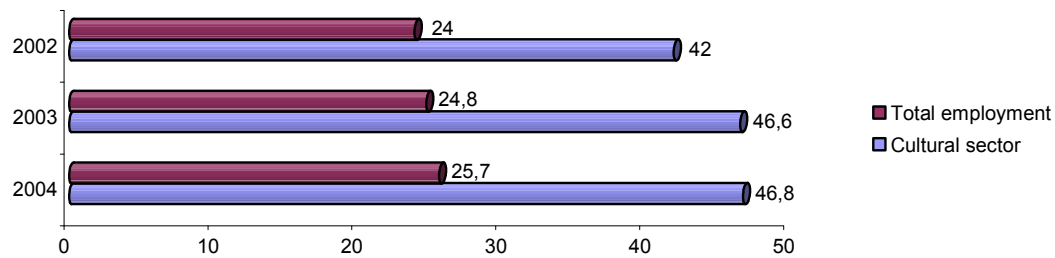
Workers over 50 years-old represent 23% of the cultural sector, compared to the 22.8% in total employment. Estonia (34.9%), Czech Republic (30.6%) and Finland (29%) record the highest figures in this regard.

### III.2.3. Cultural employment in the EU 25 by education level





**Figure 14. Share of tertiary education employed in the EU25 (%)**



**➤ 46.8% of the workers in the cultural sector have at least a university degree in comparison to 25.7% in total employment.**

The proportion of educated employees in the cultural & creative sector is significant. Indeed, 46.8% of the people working in this sector have at least a university degree in comparison with 25.7% in total employment.

This trend is even more impressive in some sub-sectors. For instance, within the art market, 62% of persons working as art dealers in Europe in 2002 had a university degree<sup>17</sup>;

This trend can be observed in every European country with no exception. Highest levels are recorded in a heterogeneous group of countries including Cyprus (65.3%), Spain (60.4%), France, Denmark, Estonia, Hungary, Lithuania, Luxembourg, Poland and Belgium (over 50% each). The lowest figures are found in Malta (24.7%), Portugal (31.9%) and Slovakia (33.2%).

The difference between the education level in the cultural sector and the education level in other sectors of the economy is particularly striking in Portugal (31.9% compared to 15.1%) and some of the new Member States: Czech Republic (33.6% compared to 14.1%), Slovakia (33.2% compared to 15.3%), Hungary (55.2% compared to 21.1%) and Slovenia (47.4% compared to 21%).

In terms of trends, the share of employees having at least a university degree has grown in the cultural sector from 44.8% in 2002 to 46.6% in 2003 and 46.8% in 2004.

The high level of education and skills of cultural workers is an asset within the Lisbon strategy. In particular, it is commonly admitted that economies endowed with a skilled labour force are better able to create and make an effective use of new technologies, as well as to work in an open and globalised environment.

The affluence of a highly-skilled workforce into the market of cultural employment shows the formidable enthusiasm of people to work in these sectors. They are often driven by passion and are ready to take the risks attached to these occupations as well as the precariousness often related to them. This should be interpreted as a positive sign: the European workforce is looking for challenging positions where creativity is a central driving force. Trade unions on the other hand highlight the ever increasing demand for young and highly-skilled people that are ready to accept low salaries and less-qualified positions.

<sup>17</sup> TEFAF Report, op.cit.

However high education level is not necessarily equivalent to “appropriate” education. Whereas Art institutes in the EU train around 200,000 students each year, either in University Art Departments, “conservatoires”, or other single-subject institutions and whereas approximately 50,000 students graduate each year in some arts discipline<sup>18</sup>, it is estimated that less than 10% of graduates will make a living from their art as successful artists.

The reported shortcomings include:

- A lack of enterprise awareness, for instance an ability to make realistic judgements about the economic sustainability of artistic activities. This is often attributable to a lack of interactions of students with the industry.
- A lack of effectiveness in understanding market requirements, audience targets, the importance of promotion and marketing.
- Shortcomings in the ability to understand and mobilise financing opportunities (banks and financial institutions, sponsorship and donations, foundation, etc).
- Lack of understanding of new technology and the ICT industry.

The two following cases present two interesting initiatives aimed at meeting these challenges:

### **The Popakademie<sup>19</sup>, Mannheim, Germany – Establishing partnership with the music industry**

The Popakademie is the first art school in Germany which offers academic education in pop music. It proposes two programs:

- Music Business: Relevant for event & label managers, artist developers and creative managers
- Pop Music Design: A creative study course which considers all modern styles of popular music.

The Popakademie is also famous for its teachers, which are a team of experienced musicians, songwriters, technicians, stylists, choreographers and music scientists. Former and current lecturers include: Xavier Naidoo, Smudo, Wir sind Helden

#### ***The Popakademie & Universal : building bridges between culture and industry:***

Universal, the largest music company in Germany has moved its whole trainee education programme from Berlin to the Popakademie in Mannheim. In return Universal Music makes prominent executives available to teach finance, management, graduation and marketing. Each year the music company assigns up to 10 scholarships to the best students from the course of studies music Business.

The Popakademie has also other collaborations, for example with Sony BMG, AOL and MTV.

### **Teaching arts students to become entrepreneurs in the UK**

According to recent figures from the DCMS the UK’s cultural sectors are growing at twice the rate of the economy as a whole. Working out how to turn your fine art or music degree into a job, however remains a challenge in the UK.

Figures from the Higher Education Careers Service Unit (HESCU) suggest that while a number of art graduates unemployed six months after graduation is on a par with history or English graduates, the number actually working in an industry related to their degree is relatively small. In fact after three years spent honing their skills, just 15% of musicians, 20% of drama students and 31% of design students say they have found jobs in their chosen sector.

At Manchester Metropolitan University, the faculty of arts is taking action. It is working to improve the job prospects of the next generation of Tracey Emin’s by teaching students how to run their own business, through a fourth year add-on course called the bachelor of design. Students learn how to write a business plan, work out a lifestyle costing, undertake market testing and how to price, finance and produce their product.

The idea is to empower arts students with appropriate skills to set up their own business, and to be able to identify new opportunities of activities they could develop to make a living while making use of their education and skills.

Source: *Modern Arts*, by Mira Ataman, the Guardian, Monday August 21<sup>st</sup> 2006.

<sup>18</sup> OPHUYSEN (Truus), *Making a living in the Arts*, Project report on ‘Making a living in the Arts’, employability of arts graduates.

<sup>19</sup> www.popakademie.de

### III.2.4. Cultural employment in the EU 25 by employment status

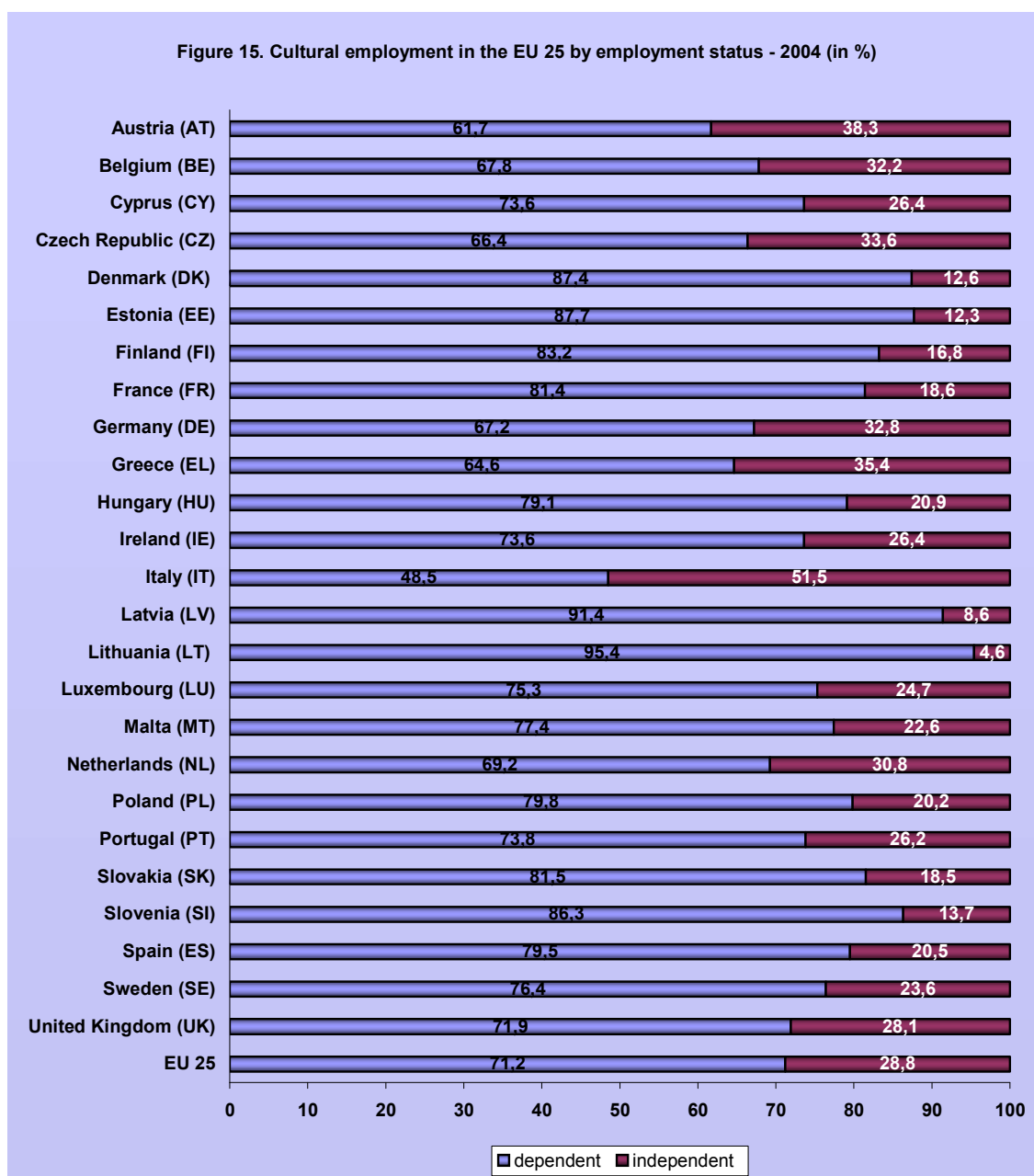
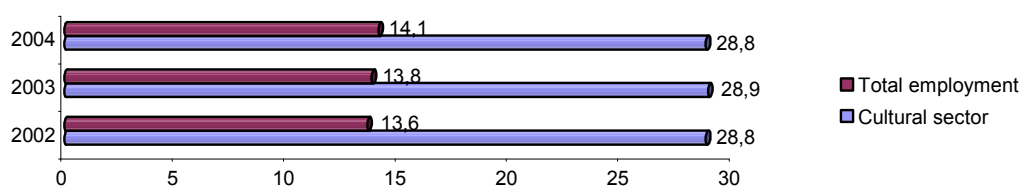


Figure 16. Share of independent workers employed in the EU25 (%)



➤ **The share of independent workers is more than twice as high in the cultural sector as in total employment.**

In 2004, 28.8% of the people working in the cultural sector were self-employed. This is more than twice as much as the EU average in regard to total employment (14.1%).

The share of independent workers is the highest in Italy (51.5%), Austria (38.3%) and Greece (35.4%). In Austria, the group of independent workers or self-employed is up to four times higher in the creative sector than in the economy as a whole. Denmark and Lithuania are the only two countries where the share of independent workers is lower in the cultural sector than in total employment. The Baltic countries record the weakest share of independent workers within the cultural sector (4.6% in Lithuania, 8.6% in Latvia and 12.3% in Estonia).

The cultural sector is overwhelmingly made up of small businesses (less than 10 staff), micro-businesses and self-employed/freelancers. These new self-employed, or freelancers, are very often described as “micro-entrepreneurs” and as “entrepreneurs of their own human capital”. In Germany, the usual share of independent workers within total employment is around 10%. In 2003, it was estimated to be 41% within the cultural sector<sup>20</sup>. This is about four times higher and shows the importance of this group which experienced a growth-rate of about 50% between 1995 and 2003.

The in-between position of the freelancer as “new worker” / “new entrepreneur”, between capital and labour, is particularly interesting for labour market researchers, cultural studies analysts and politicians because it questions new socio-political relationships beyond the “Welfare State” era. The traditional categories of the “full-time job society” (“here the worker, there the employer”) no longer apply; the cultural content worker is suddenly also a (cultural) entrepreneur (without capital). In academic literature the “new worker” is described as multi-skilled, multifunctional and flexible in working time as well as often being self-employed.

The following example illustrates the dynamism and job potential brought by these “new entrepreneurs”:

**Berlin: the dynamism of creative SMEs and micro-entrepreneurs<sup>21</sup>**

In Berlin, the creative sector has a significant impact on employment. About 90,000 people are employed in the creative sector, representing more than 8% of the total Berlin employment. They work in about 18,570 enterprises of the creative industries:

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

Between 1998 and 2002 the number of businesses in the creative sector rose by 660 and the number of workers increased by 7%. The strongest increases are registered in the fields of film and TV (+ 2,500 employees from 1998 to 2002), software & telecommunications (+ 4,000) and advertising (+ 2,500). Self-employed and freelancers are the most important “motor” for growth of employment with a growth four times higher than total employment.

The creative sector in Berlin is characterised by an above average number of small enterprises. Over 50% are single person enterprises. The culture sector in Berlin shows the highest density of independent artists in Germany: 5.8% of the inhabitants. Since 2000, the number of independent artists in Berlin rose by more than 40%.

<sup>20</sup>Following dates about Germany: Beauftragter der Bundesregierung für Kultur und Medien (BMK), „Kulturberufe“ von Michael Söndermann, Bonn 2004.

<sup>21</sup> Kulturwirtschaft in Berlin, Entwicklung und Potenziale, Berlin 2005.

### III.2.5. Cultural employment in the EU 25 by job stability

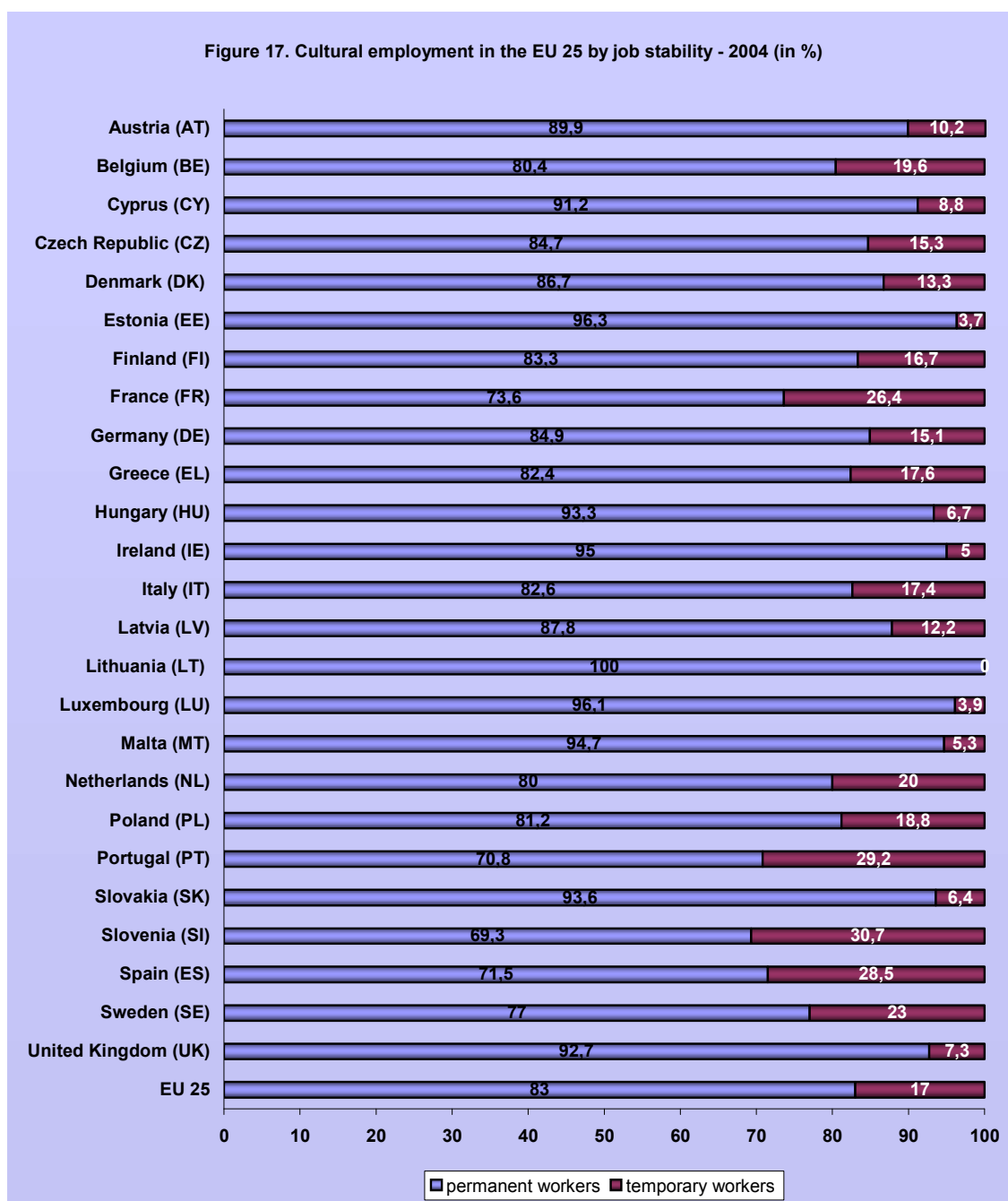
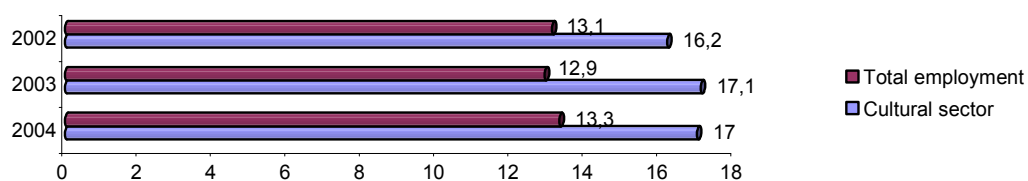


Figure 18. Share of temporary workers employed in the EU25



► 17% of workers are under temporary contracts in the cultural sector compared with 13.3% in total employment.

Temporary workers are workers with an employment contract set to a limited period of time.

The amount of temporary work is another characteristic of the cultural workforce: 17% of employees in the cultural sector are on temporary contracts compared to the 13.3% across all sectors.

The situation is disparate amongst countries. The highest rates of temporary workers are found in Slovenia (30.7%), Portugal (29.2%), Spain (28.5%) and France (26.4%). The lowest rates of temporary workers are recorded in Estonia (3.7%) and Luxembourg (3.9%). Lithuania records a 0% rate but this may be the result of the non-availability of data.

### III.2.6. Cultural employment in the EU 25 by work duration

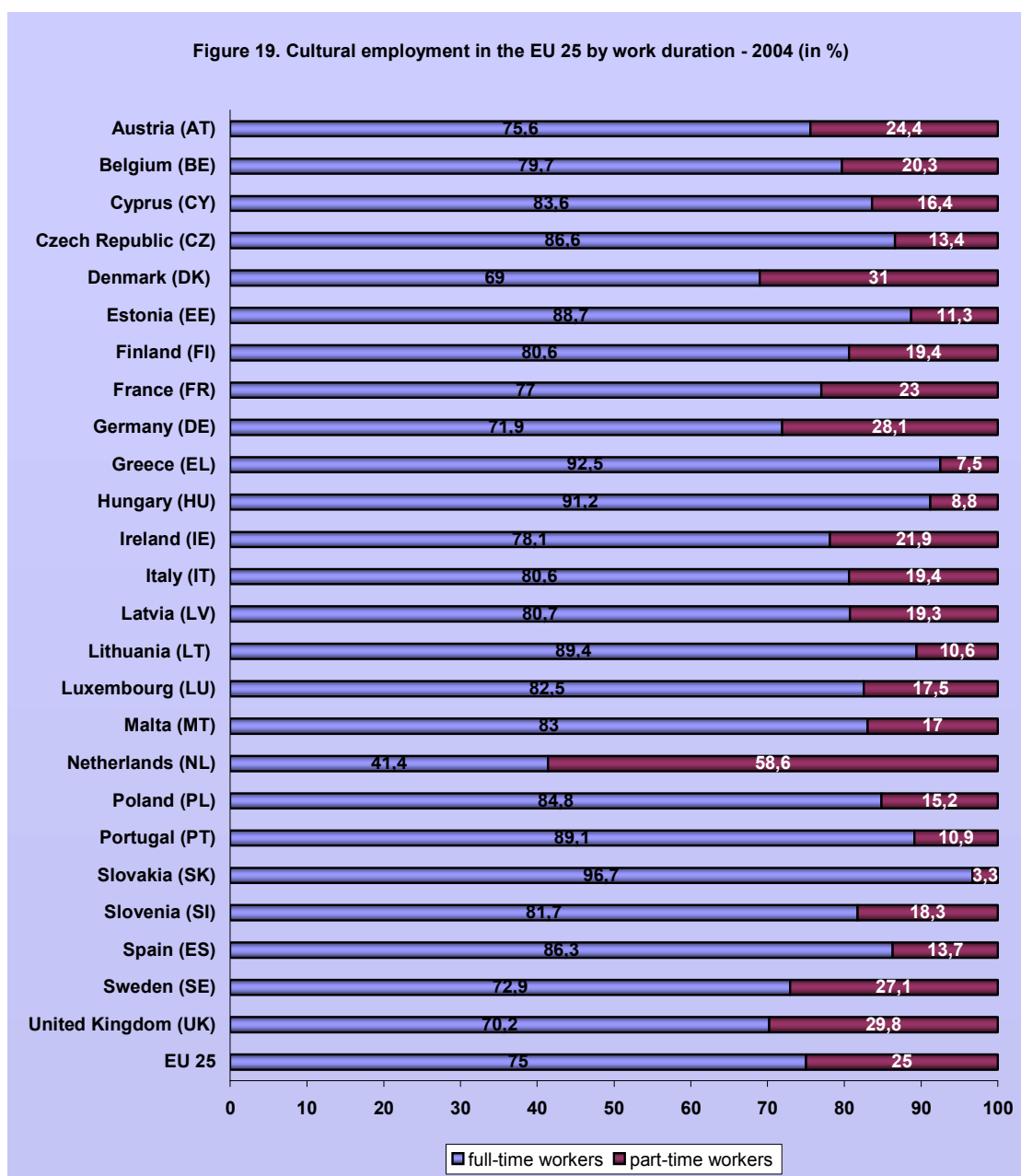
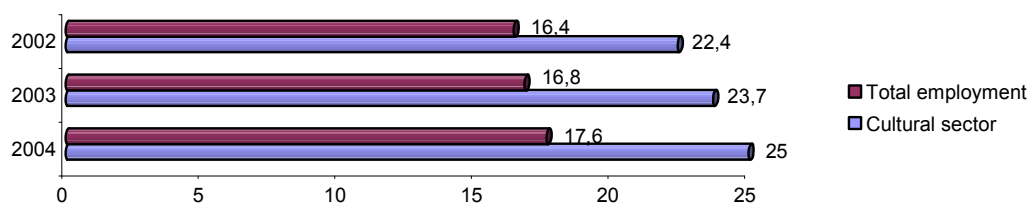


Figure 20. Share of part-time workers employed in the EU25



➤ **The share of part-time workers is higher in the cultural sector than in total employment.**

Part-time workers are workers that do not have a full time job.

Whereas in the total employment 17.6 % of the workers work on a part-time basis, this share is of one worker out of four in the cultural sector.

In the arts market for instance, 28% of the employees in the EU worked on a part-time basis in 2002<sup>22</sup>. This figure can be much higher depending on the sector: e.g. in Ireland it is estimated that ¾ of the 5,000 people working in the performing arts in 2003 worked part-time<sup>23</sup>.

For all the countries except for Belgium and Luxembourg, the share of part-time workers is higher in the cultural sector than in total employment. In five countries (Cyprus, Czech Republic, Malta, Slovenia and Latvia) the share of part-time workers is actually more than twice as high in the cultural sector as in total employment in five countries.

The Netherlands recorded by far the highest rate of part-time workers (58.6%), followed next by Denmark (31%), the United Kingdom (29.8%) and Germany (28.1%). The last in row are Slovakia (3.3%) and Greece (7.5%). In Nordic countries and the Netherlands, part time jobs are very common, both within and outside the cultural sector, equally for men and women.

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<sup>22</sup> TEFAF Report, op.cit.

<sup>23</sup> *Economic impact of Professional Performing Arts in Ireland*, September 2004, undertaken on behalf of Theatre Forum by Fitzpatrick Associates



### III.2.7. Cultural employment in the EU 25 by side-job

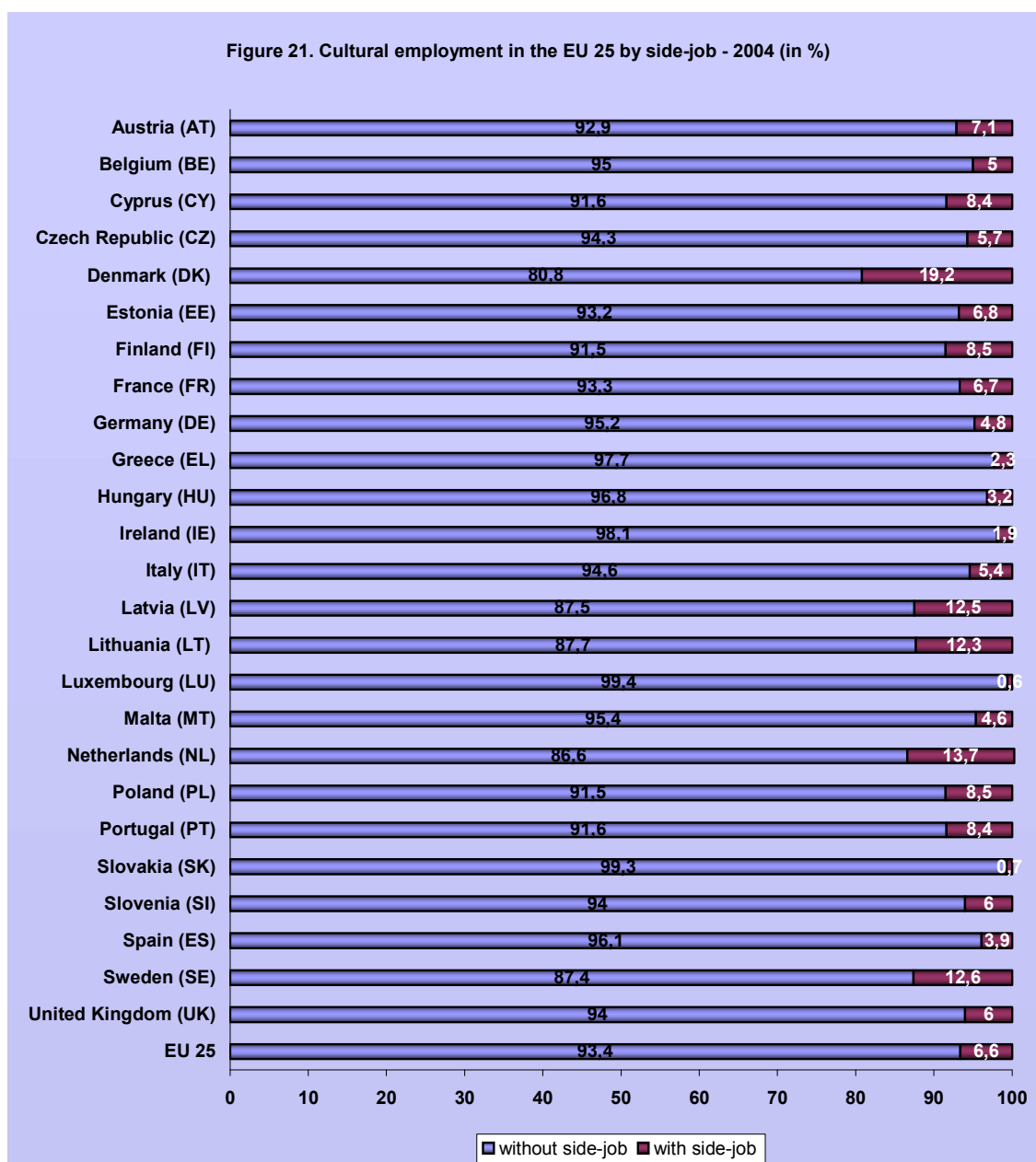
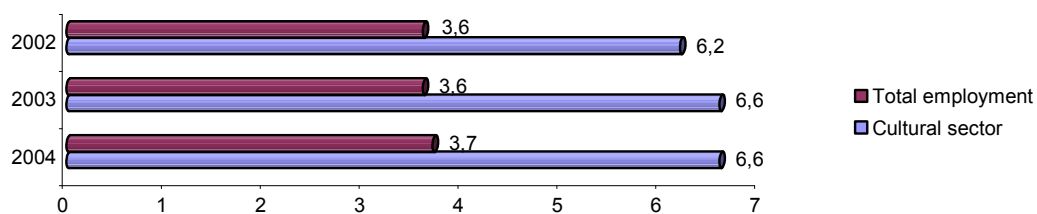


Figure 22. Share of workers with a side-job employed in the EU25 (%)



➤ **The share of workers with side-jobs is much higher in the cultural sector than in total employment.**

6.6% of the people working in the cultural sector have more than one job, compared with 3.7% in total employment.

Besides in Denmark with 19.2%, the share of workers with side-jobs is remarkably high in the Netherlands (13.7%) and Sweden (12.6%) as well as in the Baltic States (12.5% in Latvia and 12.3% in Lithuania).

It is more than twice as high in the cultural sector than in total employment in seven countries (Austria, Czech Republic, Finland, France, Italy, Lithuania and the Netherlands). Luxembourg (0.6%), Slovakia (0.7%) and Ireland (1.9%) record the lowest share of workers with side-job. Luxembourg, Poland and Slovakia are the only countries where the share of workers with part-time jobs is lower in the cultural sector than in total employment.

Statistical figures are not completely adequate here. In the cultural sector, it is typical for many workers to have more than one job – the percentage should consequently be much higher than the 6% presented above. The field of art and, in particular, the performing arts rarely provide full-time contracts and permanent occupations: workers are hired for a specific period of time or under part-time contracts. This is a reason as to why they continually occupy part-time jobs. However, not all part-time jobs are recognised by statistical surveys. In many countries it is necessary to earn a defined minimum wage to be counted in the national statistics as having a part-time job. In tax declarations and social security contributions, it is generally the case to implement a “cut-off border” (€ 14,500 per year in the case of Germany). In other terms, a person earning less than this amount does not need to go through the tax declaration process. Only when the amount earned is beyond that set limit does the person become subject to tax declarations for a part-time job and therefore, appears in national statistics.

The following example illustrates some of the characteristics developed in the last paragraphs: temporary jobs combined with the need to hold part-time jobs for a highly skilled workforce employed in the performing arts sector of France.

**Working in the performing art sector in France<sup>24</sup>: temporary jobs, side-jobs, and highly qualified workforce**

In France, almost half of the companies in the performing arts sector (“*entreprises du spectacle*”) had less than 20 employees in 2004. Bigger enterprises were found in the audiovisual sector, mainly around Paris/Ile de France. Smaller companies and theatres were more likely to be found in the provinces.

About **one third of the actors in the spectacle sector work for no longer than one season**. Many hold **part-time jobs**. In 2001, only a minority (39%) had a stable contracts (against 46% in 1995), while 38% had at least 3 different jobs (against 31% in 1995). 49% of the actors having worked at least for one hour in the spectacle sector were also working in related branches like education, tourism or the hotel business. It is very difficult for a beginner to work at least 1,000 hours a year. Half of the beginners are younger than 30 years old and only 40% have an employment the year after their first job. However, 76% of the actors who have worked for at least 1,600 hours have an employment the following year.

Workers in the performing arts sector of France are usually **highly qualified**: 41% have a high school diploma in contrast to 21% in the total economy. The share rises to 57% for the professionals of the sector like actors and other executive employees and managers. Nevertheless, high qualifications do not necessarily guarantee work stability.

<sup>24</sup> INSEE Premiere : Les entreprises du spectacle de 1995 à 2001

### III.3. Identifying the main features of cultural employment in Europe

The figures presented in the previous sub-section confirm the analyses of most studies on cultural employment:

- Cultural employment **is growing faster** than total employment.
- Cultural employment is of an **“atypical”** nature. Some will say it is somehow a foreshadowing of tomorrow's job market: more flexible, project-led, requiring mobility and high qualifications.
- **Employment data collection needs to be improved** at the EU level.

In 2001, MKW Wirtschaftsforschung GmbH completed a study for the European Commission on the *“Exploitation and development of the job potential of the cultural sector in the digital age”*<sup>25</sup>. Although this study is different from the present study in terms of its grounding definitions and objectives (the study was based on EU15 only and used the 2-digit NACE as well as 3-digit ISCO classifications), the two exercises reveal similar trends and observations:

- **Proportionally higher growth trend**

Both studies show that the **average annual growth in cultural employment is higher than in total employment**. The data collected in this study **shows a total growth of employment at 1.85% for the cultural & cultural tourism sectors for the years 2002-2004**. Coincidentally, in this period **total employment in the EU decreased by 0.04%**.

- **The “flexibility constraint”**

The sector is characterised by an inherent “flexibility” requirement. Many cultural workers in the “arts field” as well as in part of the creative industries operate on a project basis (a play, a film, a concert). This means that they will have short periods of intense work, usually under short-term contracts followed by periods of “inactivity”. For example, in the audiovisual technical and artistic fields, it is often necessary to work well over 48 hours a week on given projects. This employment characteristic was exemplified at the EU level in the debate surrounding the re-negotiation of the EC Working time directive<sup>26</sup>.

In other parts of the cultural & creative industries people are employed under more traditional conditions. The typical employee in a well established music company, or an advertising agency, will benefit from a traditional employment contract. Yet, even at corporate levels, the “project-based” way of working is gaining increased importance as it allows small companies to adapt to market demand. The large number of part-time and multiple-job holders is also a feature which characterises the inherent flexibility requirement.

- **The mobility constraint**

In the areas of the performing arts (such as dance, drama, orchestras, live music performances, etc.), visual arts (painters, sculptors, etc), or film, the mobility requirement is paramount. These workers travel from one country to another, performing on a pan-European and even global basis, or within one country, from one region to another.

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<sup>25</sup> [http://europa.eu.int/comm/culture/eac/index\\_en/html](http://europa.eu.int/comm/culture/eac/index_en/html)

<sup>26</sup> The EC “Working time Directive” of 23 November 1993 <sup>26</sup>, further amended in 2000 lays down minimum requirements with regard to the organisation of working time, with the aim of ensuring a better level of safety and health protection for workers.

Article 18 (1) (b) (i) of the Directive is commonly referred to as the “opt out” provision.

This article permits a Member State to make provision in its national legislation for the possibility for a worker to work, on average, more than 48 hours per week, provided a certain number of conditions are complied with (agreement on the worker's side + keeping records)

Current regulations often constitute a challenge in this regard as they do not cater to the problems encountered such as the issue of the cultural workers' ability to access social benefits whilst working in different countries under different social regimes, or the problem of "double-taxation".

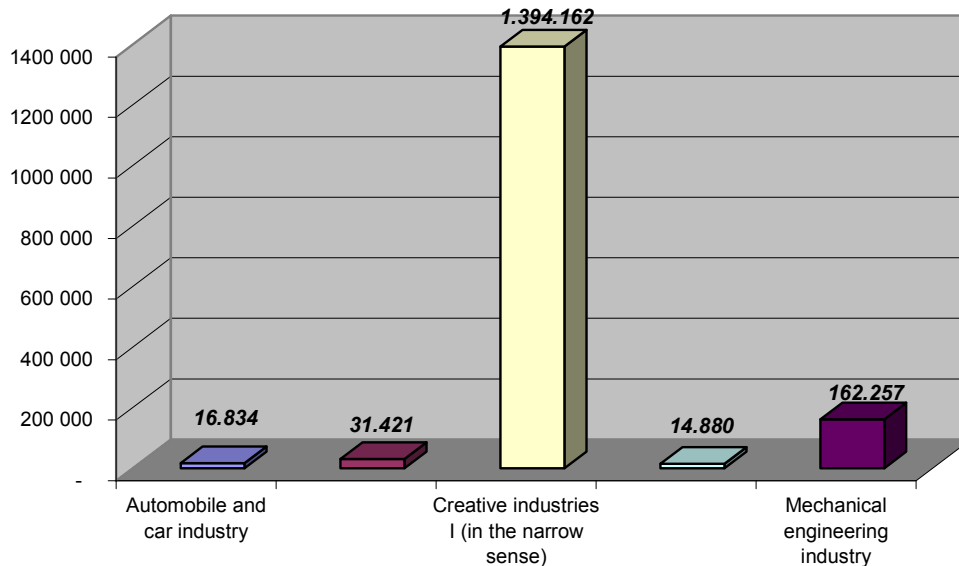
- **Micro-enterprises and the self-employed**

A key notable feature of this sector is that it is **overwhelmingly made up of small businesses** (less than 10 employees), micro-businesses and self-employed/free-lancers. Yet although many studies report about this particular feature, concrete data is not available, mainly because of the difficulty to "identify" SMEs on the basis of existing statistical frameworks or tax censuses.

In cooperation with the MKW Wirtschaftsforschung GmbH economic research, the German Professor Michael Söndermann made an industry comparison of the cultural & creative sector for the EU25 in the year 2002. The definition used is very close to the British DCMS<sup>27</sup> term.

According to his computation, with nearly 1.400.000 enterprises, the sector records many more enterprises than the "manufacturers of machinery", with 162,000 enterprises, or the often quoted automobile industry with scarcely 17,000 enterprises. At the same time according to the estimate, a higher than average number of micro enterprises (around 5 employees) can be found in the Creative Industries.

**Graph 23. Creative Industries in the EU25 sorted in accordance with the number of enterprises - 2002**



<sup>27</sup> DCMS – Department for culture, media and sport of the British Government, Creative Industries Mapping Documents

**Table 8. The cultural & creative sector in Europe: a comparison with other sectors (2002)**

Sector		Persons employed Nber in 1000	Number of enterprises
Manufacture of motor vehicles, trailers, etc	NACE 34	2 163	160 834
Chemical industry	NACE 24	1 929	31 421
<b>Creative industries</b>	<b>NACE (a)</b>	<b>6 420</b>	<b>1 394 162</b>
Manufacture of electricity, gas, steam, etc.	NACE 40	1181	14 880
Manufacture of machinery	NACE 29	3 527	162 257

(a) Creative industries classification comprises NACE-Codes: 22.1, 22.3, 72, 74.2+3, 74.4, 74.8, with estimates of Software/PC-Games (72.2), architecture/ industrial design (74.201-03) without engineering design, advertising (74.4), design activities (74.87) and branches of cultural industries (92.1-5).

Source: Eurostat, Structural Business Statistics (SBS) 2002. Own calculations and estimates by M. Söndermann/Working group on cultural statistics

A second noticeable feature is **the important share of self-employed and free-lancers**. Artists (performing artists, writers, directors, visual artists, craftspeople, composers, musicians, designers and others) are usually self-employed freelancers. This is often the case in cultural & creative industries as well, where project-based working methods favour the possibility to adjust job offers to market fluctuations. Free-lancers here appear as more adapted to the flexibility requirement. The self-employed/free-lancers are very often described as “micro-entrepreneurs” and as “entrepreneurs with their own human capital”.

In contrast, the rest of cultural workers (that is cultural workers working outside the cultural sector - such as a designer working for BMW, non cultural workers working in the cultural sector – such as an accountant working for Universal or administrative staff, etc.) often enjoy the status of being full time employees.

- **High level of qualification**

The level of qualification on average is higher in the cultural sector than in most of the other sectors of the economy. Cultural and creative occupations require a high level of qualification, not only “artistic” skills, but management and technical skills too.



## **SECTION II. CONTRIBUTION TO EUROPEAN COMPETITIVENESS**

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## **I. THE UNRECOGNISED COMPETITIVENESS OF THE SECTOR**

The cultural & creative sector suffers from stereotypes when it comes to assessing its economic performance. Culture is often perceived as a non-economic activity. Many believe that culture and the economy are two separate worlds and that they have (or that they should have) nothing in common. Those who recognise the economic value of culture tend to perceive the cultural sector as poor in relation to its economic importance. The perception is that of individual artists, heavily subsidised public organisations or of a "cottage industry" which is destined to succumb when confronted with market realities.

Against this backdrop, this study measures the productivity and profitability of the cultural & creative sector.

Two indicators have been selected:

- Productivity<sup>28</sup>, which is the ratio between value-added and employment costs. This indicator shows how much value is created for every Euro spent on employment costs (wages, salaries and social costs).
- Profitability, which is measured by the operating margin of companies active in the cultural and creative economy. This indicator shows what percentage of the turnover is left after the deduction of operating costs.

The figures presented below show that the creative & cultural sector in Europe is as competitive as other industry sectors - in some cases even more.

The following table shows results on a country by country basis for the cultural and creative economy, all sectors included, over the same timeframe from 1999 to 2003:

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<sup>28</sup> In macroeconomics productivity is calculated from all factors of production, derived from national accounts. In this study, industrial statistics are mainly derived from company annual statements. Hence the productivity referred to is "real productivity", referring directly to the labour costs to value added.



**Table 9: Assessing the competitiveness of the European cultural & creative sector**

	Evolution of the productivity (value added/ employment costs) 1999-2003					Evolution of profitability (operating margin) 1999- 2003				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Austria			1.89	1.91	1.24	8.8%	6.6%	9.2%	11.7%	6.6%
Belgium	1.52	1.5	1.51	1.41	1.93	10.7%	10.9%	9.5%	10.0%	10.4%
Cyprus	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Czech Republic	1.21	1.79	1.72	1.65	1.58	N/A	N/A	N/A	37.9%	12.4%
Denmark	1.39	1.28	1.27	1.3	1.26	8.8%	11.2%	10.3%	8.6%	7.1%
Estonia	1.4	1.68	1.62	1.51	1.52	6.4%	9.5%	8.0%	8.8%	10.2%
Finland	1.52	1.49	1.46	1.39	1.41	12.6%	11.7%	11.0%	9.8%	11.3%
France	1.63	1.62	1.56	1.59	1.59	11.3%	11.7%	10.8%	11.1%	10.8%
Germany	1.71	1.4	1.54	1.52	1.55	N/A	9.6%	9.6%	7.2%	8.7%
Greece	N/A	N/A	N/A	N/A	N/A	14.1%	12.3%	10.9%	10.2%	10.0%
Hungary	1.7	2.11	1.66	1.76	1.99	5.4%	6.4%	6.8%	7.3%	7.4%
Ireland	N/A	N/A	N/A	N/A	N/A	11.1%	13.9%	11.4%	11.5%	12.3%
Italy	1.67	1.69	1.68	1.61	1.57	9.0%	8.2%	8.1%	8.2%	8.8%
Latvia <sup>29</sup>	-0.7	-0.4	0.62	1.29	1.95	1.7%	1.8%	3.6%	3.5%	5.7%
Lithuania	1.58	1.54	1.48	1.49	1.4	11.3%	1.2%	11.0%	11.2%	11.9%
Luxembourg	N/A	N/A	N/A	N/A	N/A	3.3%	3.9%	1.4%	3.7%	3.8%
Malta	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Netherlands	1.61	1.17	1.22	1.28	1.34	9.4%	11.1%	11.7%	6.9%	9.4%
Poland	1.76	1.16	1.19	1.33	1.44	11.0%	4.8%	6.1%	6.2%	6.0%
Portugal	1.72	1.74	1.39	1.59	1.53	11.9%	11.7%	8.5%	10.4%	9.4%
Slovakia	1.23	1.34	1.2	1.18	1.32	5.0%	5.3%	5.6%	7.4%	6.9%
Slovenia	1.61	1.53	1.74	1.75	1.96	13.6%	13.6%	15.1%	12.6%	10.3%
Spain	1.51	1.5	1.44	1.43	1.43	9.2%	9.2%	8.3%	8.5%	8.0%
Sweden	1.55	1.56	1.51	1.37	1.49	10.5%	10.9%	10.1%	9.5%	9.9%
United Kingdom	1.52	1.47	1.36	1.29	1.38	10.3%	8.7%	8.9%	8.7%	8.7%
Bulgaria	1.52	1.53	1.56	1.69	1.7	7.1%	5.5%	6.4%	7.3%	7.7%
Romania	1.46	1.76	1.86	2.08	3.06	6.5%	9.1%	11.1%	14.0%	15.4%
Norway	1.33	1.3	1.25	1.27	1.28	8.3%	7.7%	7.5%	7.0%	7.3%
Iceland	1.19	1.27	1.18	1.33	1.24	9.50%	11.10%	8.70%	13.50%	11.80%
Total EU 25	1.43	1.45	1.45	1.48	1.52	9.30%	9.30%	8.90%	10%	9%
Total 30 countries	1.42	1.45	1.45	1.5	1.57	9.1%	9.1%	8.8%	10.1%	9.2%

Source: Eurostat and AMADEUS - Data elaborated by Media Group - Median value used for country comparisons instead of average<sup>30</sup>

<sup>29</sup> The productivity figures for Latvia from 1999 to 2001 are not reliable because of the considerable gaps encountered in gathering the data used to calculate value added.

<sup>30</sup> Average values are calculated by summing up the values of the sample and dividing the sum by the number of values. Median value instead is the middle value of the string of values of the sample. It is a common method to achieve a typical value in industrial statistics. It is especially helpful if there are large and small firms in the sample where the weight of larger firms will cause distortions if the average is used. For example, when comparing cultural sector companies in most European countries where most companies are very small and some considerably big the use of average would be misleading. It would hide the fact that a typical company is smaller rather than average values would suggest. Similarly, following a standard industrial data analysis method, average of median values is used when the sample size is considerable, for example in country comparisons. Whilst median values aim at describing the typical unit, the average of a country's median values gives a picture of the average of typical cases in the country analysed.

These results trigger the following observations:

### **On productivity**

The need for productivity largely depends on the investment intensity of a given industry. The higher the intensity, the more productive the industry in question must be in order to cover investments. Manufacturing industries with higher capital costs usually need higher productivity rates than the services industry. The typical productivity level of service industries, similar to those constituting most of the cultural & creative sector, is between 1.2 and 1.9.

The average productivity level for the European cultural & creative sector was 1.57 in 2003. There is seemingly little variation in productivity values amongst the different countries. In general, it is possible to observe a uniform deterioration of productivity across EU15 Member States over the period examined (with the notable exception of Belgium). However, in many EU15 countries, productivity rates remain high with values over the 1.5 threshold.

On the contrary, an increase in productivity rates was recorded in the EU10 and acceding countries (with the exception of Poland) – although, some values might be overestimated because of gaps in earlier data (see above, warning note on table 5). This is another sign of the dynamism of the cultural & creative sector in the new EU Member States.

### **On profitability**

As a general rule, a profit margin of 5% up to 10% is considered as an indication of a healthy level of profitability for service industries similar to those included in the cultural & creative sector.

The average European level of 9% is therefore a sign of a highly satisfactory profitability existing in the cultural & creative sector across Europe. As far as the single countries are concerned, similar observations may be made on profitability as for productivity levels.

In particular, a uniform deterioration of profitability across EU15 Member States over the period examined, albeit at a minor degree compared to productivity, should be acknowledged - Ireland and Luxemburg are exceptions in this context. Similarly, the EU10 and the acceding countries (except for Poland) recorded, in general, better results both in absolute terms and in the trend observed during the period examined.

## **II. A COMPARATIVE INSIGHT**

The aim of this section is to perform a cross-sector investigation of the performance of Europe's cultural & creative economy by comparing the different areas which constitute its parts.

Table 9 above presented an overview of the main indicators used to evaluate the performance of Europe's overall cultural & creative economy on a country by country basis. These aggregate figures included all the sub-sectors composing the cultural and creative economy as defined in Chapter II of this study.

The following two tables, 10 & 11, present a different view on the cultural & creative sector in Europe: all countries are included in the figures outlined below, but national differences are not apparent. The analysis is based on a sector by sector scrutiny. The same indicators as Table 4 are used.

## On productivity

**Table 10: The productivity of the European cultural & creative sector**

	1999	2000	2001	2002	2003
<b>Value added / employment costs (arithmetical averages of the median values of countries)</b>					
Design	1,70	1,77	1,70	1,99	1,92
Architecture	1,37	1,32	1,32	1,37	1,43
Visual arts	1,96	1,94	1,99	1,94	2,04
Performances	1,66	1,98	1,41	1,46	1,72
Film and Video	1,75	1,77	1,68	1,76	2,02
Radio and TV	1,54	1,46	1,35	1,49	1,65
Advertising	1,50	1,59	1,46	1,47	1,50
Press and publishing	1,45	1,41	1,37	1,36	1,35
Heritage	1,24	1,22	1,80	1,78	1,21
Video Games	1,32	1,35	1,37	1,32	1,66
Music	1,97	1,74	1,62	1,77	1,43
Tourism	1,50	1,52	1,44	1,42	1,44

Source: AMADEUS

Data elaborated by Media Group

Table 10 shows that there are typical differences in the productivity levels of the various sectors included in the cultural & creative economy. All these sectors are rather labour intensive and therefore value creation has to be done largely within the industry by those who are employed in a given sector. In other words, value cannot be obtained through investments in technology or other means of production. In these industries, the key for competitiveness is therefore the development of skills and it depends on the workforce's creativity.

In general, the sectors examined have experienced an increase in productivity value over the period 1999-2003, with the exception of press & publishing, music, tourism and heritage. It should be noted that these findings may show some distortions due to the gaps in data availability for the sector by sector analysis. The significant decline in the music sector is to a large extent attributable to the falling sales of recorded music over the period examined.

The best performing sectors in terms of productivity are design, visual arts and film & video. The biggest increase in productivity is, however, recorded in the video games sector, one of the fastest developing cultural industries in Europe in the last few years. Heritage recorded lower than average productivity values.

## **On profitability**

**Table 11: The profitability of the European cultural & creative sector**

	1999	2000	2001	2002	2003
<b>Operating margin (arithmetical averages of the median values of countries)</b>					
Design	10,3 %	11,1 %	10,5 %	10,6 %	10,5 %
Architecture	8,8 %	7,5 %	8,1 %	8,4 %	8,8 %
Visual arts	12,1 %	11,8 %	11,4 %	11,5 %	11,3 %
Performances	7,9 %	8,2 %	8,1 %	7,9 %	8,5 %
Film and Video	11,9 %	11,4 %	10,9 %	11,1 %	11,7 %
Radio and TV	11,5 %	10,5 %	7,8 %	9,5 %	9,9 %
Advertising	7,3 %	7,8 %	5,5 %	6,1 %	5,4 %
Press and publishing	9,1 %	8,5 %	7,7 %	7,2 %	7,9 %
Heritage	9,1 %	10,2 %	12,7 %	11,8 %	8,6 %
Video Games	8,5 %	9,2 %	7,4 %	7,4 %	7,7 %
Music	12,9 %	10,4 %	9,6 %	12,0 %	8,9 %
Tourism	9,5 %	10,3 %	10,4 %	9,0 %	7,8 %

Source: AMADEUS

Data elaborated by Media Group

Table 11 reflects the differences in productivity levels amongst the various sectors.

The highest operating profitability levels are found in design, visual arts as well as in film & video, whereas advertising typically creates lower operating profit.

There is a downward trend in advertising and press & publishing which results in both cases from the decline in total advertising spending in 2001 and 2002. Additionally in the music sector, profitability levels have fallen due to falling music sales. There is also a slight decline in the video games industry, which is due to the increasing number of players in the video games industry and thus to increasing competition.

### **III. INVESTING IN INTELLECTUAL CAPITAL: THE SECTOR'S IMPORTANCE IN THE CONTEXT OF INNOVATION IN THE KNOWLEDGE SOCIETY**

#### **III.1. The importance of intellectual capital: Turning ideas into business**

Intellectual capital is of great importance for the competitiveness of individual firms as well as of national economies. In addition to being at the origin of increased value for a company, intellectual capital can be seen as a catalyst for change in company cultures and management structures. It is a major competitive advantage for a company, as well as a country. Intellectual capital in business enterprises may take a variety of forms. It can be associated with the products of the company, with production & service processes, with organisational skills or with capital goods. Many of these aspects of intellectual capital are difficult to measure.

The value of intellectual capital is paramount for every type of company - this is particularly true for companies operating in today's knowledge economy. It is essential for enterprises and people operating in the field of culture and entertainment. The main asset for these companies, large multinational firms or micro-enterprises active at local levels, is the creativity of their

workforce. Without creative ideas, cultural enterprises perish. This is why intellectual capital is the most valuable asset for the cultural & creative sector.

### **III.2. Assessing intangible assets in the cultural & creative sector**

An indirect tool for assessing the investment in intellectual capital is to measure the investments in intangible assets.

Intangible assets in a company's balance sheet include copyrights, industrial property rights and goodwill. All these elements are part of the fixed assets of a company that include the costs of acquiring an asset and an expectation of future income. All intangible assets are a form of financially measurable intellectual capital, although they may be developed within the company or purchased from outside. The value of intangible assets does not provide a comprehensive representation of the intellectual capital of the companies, but it does provide, on an industry level, an indication of the contribution of the outcome of intellectual capital in the companies' expectations of economic development and success.

To assess the level of investment in knowledge and creativity in the cultural and creative economy, the best way to proceed is to take into consideration the ratio between the intangible and the turnover of a given company.

The following table examines the evolution of this ratio amongst Europe's cultural and creative enterprises over the years 1999-2003. Results are presented on a country-by-country basis.

**Table 12: Level of knowledge and creativity investments within the cultural & creative sector**

Evolution of intangibles to turnover ratio 1999-2003					
	1999	2000	2001	2002	2003
Austria	0,2 %	0,1 %	5,1 %	5,0 %	2,5 %
Belgium	1,4 %	3,5 %	3,0 %	2,6 %	2,3 %
Cyprus	N/A	N/A	N/A	N/A	N/A
Czech Republic	N/A	N/A	N/A	0,0 %	12,4 %
Denmark	3,0 %	8,9 %	9,7 %	10,7 %	7,9 %
Estonia	1,5 %	3,2 %	2,5 %	1,4 %	1,4 %
Finland	2,7 %	2,4 %	2,3 %	2,6 %	4,7 %
France	4,1 %	4,2 %	4,7 %	4,5 %	4,2 %
Germany	N/A	2,5 %	2,5 %	1,2 %	1,1 %
Greece	1,7 %	3,0 %	2,8 %	2,2 %	2,5 %
Hungary	0,6 %	1,9 %	1,8 %	1,3 %	1,9 %
Ireland	11,1 %	13,9 %	11,4 %	11,5 %	12,3 %
Italy	3,2 %	3,6 %	4,0 %	3,4 %	3,6 %
Latvia	0,8 %	0,7 %	0,7 %	0,7 %	0,8 %
Lithuania	11,3 %	11,2 %	11,0 %	11,2 %	11,9 %
Luxembourg	0,0 %	0,5 %	0,0 %	1,1 %	0,8 %
Malta	N/A	N/A	N/A	N/A	N/A
Netherlands	15,2 %	7,6 %	12,7 %	11,4 %	6,0 %
Poland	0,7 %	N/A	N/A	0,8 %	1,2 %
Portugal	1,0 %	1,1 %	1,6 %	1,8 %	1,5 %
Slovakia	0,5 %	0,5 %	0,3 %	0,3 %	0,3 %
Slovenia	1,7 %	1,5 %	4,6 %	2,3 %	0,7 %
Spain	3,2 %	4,0 %	3,5 %	3,2 %	2,9 %
Sweden	5,6 %	5,3 %	6,0 %	4,9 %	4,4 %
United Kingdom	6,3 %	11,1 %	11,8 %	9,0 %	8,4 %
Bulgaria	1,3 %	3,9 %	1,6 %	1,5 %	1,3 %
Romania	0,6 %	0,6 %	0,7 %	0,9 %	1,2 %
Norway	5,6 %	4,4 %	5,1 %	5,0 %	4,9 %
Iceland	4,2 %	4,3 %	2,4 %	4,2 %	4,2 %
Total EU 25	3,6 %	4,3 %	4,9 %	4,0 %	4,2 %
Total 30 countries	3,5 %	4,2 %	4,5 %	3,9 %	4,0 %

Source: Eurostat and AMADEUS

Data elaborated by Media Group

Averages of national median values are used for country comparisons (see footnote added to table 4)

Table 12 offers valuable insight into the level of investment in creativity (measured through intangible assets) amongst European companies active in the cultural & creative sector.

As far as the level of intangible assets is concerned, the discrepancy between the EU15 and the EU10 countries, which is quite remarkable for productivity and profitability levels, is less pronounced. A general stability or very modest oscillation of the value examined per country over the years may be observed. Two remarkable exceptions are Denmark (positive

evolution) and the Netherlands (negative evolution - however the figure for the Netherlands remains well above the average for Europe).

On average, the level of investment in creativity at the European level is satisfactory - in some countries, this is particularly impressive. The highest ratios intangible/turnover were found in Lithuania, the Czech Republic and Ireland, where the investments in intangible assets exceeded 10% of the turnover of the sector. Denmark and the UK also have very high rates for investment in intangibles.

By way of comparison, a recent study of the Finnish non-quoted ICT companies showed a strong correlation between intangibles/turnover ratio and company growth. The average intangibles/turnover ratio for all European countries in 2003 was 4%, which corresponds to the Finnish ICT sector average of 4.8 % in the same year.





### **SECTION III. THE SECTOR'S OUTLOOK**

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It is difficult to make forecasts and assess future trends in the development of the cultural and creative sector. The economy of culture is, like other cyclical sectors, subject to the general economy of Europe - therefore, it is subject to unpredictable elements such as international crisis, monetary fluctuations and economic slumps.

## **I. ICT: THE POTENTIAL FOR THE CULTURAL & CREATIVE SECTOR**

Various consultancies and research centres provide estimates and forecasts on future trends in the economy. In the field of culture and entertainment, US consultant PriceWaterhouseCoopers (PWC) has published a report on "*Global Entertainment and Media Outlook*" every year since 2000<sup>31</sup>. The last report was published in June 2005 and includes figures referring to 2004 data. The PWC report is used in this part of the study for the purpose of showing likely trends in the development of the European cultural sector<sup>32</sup>.

The PWC report forecasts that in the years up to 2009, a favourable economic development will support entertainment and media spending. The impact of technology will be significant. Internet and wireless connections are notably behind significant growth estimates in the following sectors:

- Online and wireless video games
- Online film rental subscriptions
- VOD
- Licensed distribution of digital music; online and mobile
- Electronic books

These sectors represent new spending streams which will be instrumental in driving growth in the culture and media markets. It is important to notice that growth is expected from the combination of new delivery channels, enabled by technological developments, with traditional content - films, music, written content, games. New spending streams should first accompany and then gradually offset traditional consumption channels.

According to PWC estimates, spending streams on ICT-related media will account for 12% of the total increase in global entertainment and media spending until 2009. Without their contribution, growth rate would average 6.6% instead of the expected 7.3%. The PWC report also predicts an inevitable decline in traditional spending streams such as physical music (CDs, Vinyl, Cassette Tapes, etc.), in-store home video rentals and PC-based video games, three markets which have already fallen significantly since 2000.

### ***Changes in driving sectors***

It is interesting to observe what, according to PWC, the driving sectors of the culture and media market were at a global level in 2004:

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<sup>31</sup> <http://www.pwcglobal.com/extweb/pwcpublishings.nsf/docid/5AC172F2C9DED8F5852570210044EEA7?opendocument&vendor=none>

<sup>32</sup> Some methodological notes are needed in order to understand the nature and scope of the analysis undertaken by PWC. The PWC report covers major world regions divided as follows: US, Europe, Middle East, Africa (EMEA), Asia Pacific, Latin America and Canada. It should be noted that the region defined as Europe does not include some of the countries covered by this study and takes into account of countries which are not covered by the study. The report is not focused on culture - in fact, it does not include key traditional cultural activities such as visual arts, performing arts or heritage. The target of the report is the broader "media and entertainment" sector, which comprises various sub-sectors including film, TV, music, radio, Internet access, video games, business information, press and publishing, theme parks, gambling and sport. The last three sectors are usually excluded from even the broadest definitions of cultural and creative economy.

- Advertising (TV, Internet and press): in 2004, global advertising rose by 8.1% thanks to improvements in TV, Internet and print advertising - the Internet was the fastest growing medium with a 36.4% increase;
- Growth of the Internet (broadband penetration): in 2004 Internet access spending grew by 21.2%;
- Growth in video games spending: in 2004 video games rose by 11.1% compared to the previous year. Reasons for this growth appear to be related to the expansion of the online games market;
- Other mixed factors (box office, TV subscription, sport rights).

Forecasts on future trends show that some important drivers of growth in the past years, such as TV subscription, DVD sales and Internet access spending will also remain important contributors to the market but their relative weight will diminish in comparison with the emergence of ICT-related media spending.

## **II. FOCUS ON THE EUROPEAN OUTLOOK**

### **II.1. Trends in countries**

According to the PWC report, spending on cultural, media & entertainment goods and services in Europe (Europe – Middle East and Africa – EMEA) totalled USD 417 billion in 2004; Europe was the second largest region after the US on a global scale. Spending in 2004 was up 7.4% in 2003, the largest increase since 2000. For the years leading up to 2009, PWC's forecasts estimate that growth will be propelled by the considerable increases of people's spending on video games and the Internet.

On a country by country basis, the UK was the largest European market in 2004 with USD 74 billion, followed by Germany at USD 62 billion, France at USD 46 billion, Italy at USD 32 billion and Spain at USD 27 billion. Countries in Central and Eastern Europe have been growing at above average rates during the last few years - PWC estimates that their growth will slow down in the near future and that they should follow growth rates of Western Europe.

Total compound annual growth for Europe (EMEA) is forecast at 6.5%, on the way to creating a market valued at USD 572 billion by 2009. The highest growth rates in European countries have been recorded in Hungary (10.6%), Denmark (7.3%) and Czech Republic (6.9%).

### **II.2. Trends in sectors**

#### **Film and video**

The category defined as "filmed entertainment" is estimated to have generated spendings of around USD 27 billion throughout Europe in 2004. PWC forecasts a 7.7% compound annual growth rate (CAGR) in the European filmed entertainment market up to 2009 - the market should reach a total spending value of USD 39 billion (the estimates are for a USD 48 billion market for the US in the same year). Growth will be driven by the following factors:

- *Rising DVD household penetration.* PWC projects average DVD penetration (households with a DVD player) to rise in Western Europe from 50.4% in 2004 to 79.2% in 2009. The main reasons for this growth are the declining prices of DVD's and DVD players.

- *Emergence of online rental subscription services.* Whilst the in-store rental market has been weak in the years up to 2004 and is projected to fall in following years, the online rental subscription market (which includes delivery of films via overnight mail) began to take off in 2004 and is expected to grow by 82% (CAGR) by 2009.
- *Rapid uptake of VOD<sup>33</sup> and pay-per-view (PPV).* The VOD market was just started in 2004 yet is expected to grow more than tenfold from USD 165 million in 2004 to USD 1.7 billion in 2009. The PPV market was highly concentrated in Europe in 2004 (UK, France and Spain accounted for three quarters of the total market valued at USD 969 million). It is estimated to double by 2009 reaching almost USD 2 billion in value.

## Broadcasting

Spending in broadcasting totalled USD 87 billion throughout Europe in 2004. PWC projects the broadcasting market to expand to USD 121 billion in 2009. The main features of future trends for the European TV market are as follows:

- Europe will experience *growth in multi-channel television*, spurred by digital terrestrial TV (DTT) rollout. DTT has already been launched in several EU countries and migration to digital is expected to be complete across all of Europe by 2010-2012. Multi-channel penetration, now laying mostly on subscription services, will be fuelled by free-to-air DTT and its penetration is estimated to reach more than 70% of European households by 2009.
- As a consequence, *multi-channel advertising* is expected to increase by 11.2% in Western Europe until 2009.
- Growth in free DTT will be accompanied by the *expansion of TV subscriptions*. Satellite subscriptions have been growing fast in recent years but in the future their growth rate will slow down, challenged by the emergence of DTT (see above) and new digital platforms such as TV over DSL (IP-TV)<sup>34</sup>.
- As a consequence of the growth in both TV networks and TV subscription services, the European TV market will be characterised by *increasing audience fragmentation*.

## Music

The European (EMEA) recorded music market was valued at USD 14 billion in 2004. PWC forecasts that the distribution of music in traditional physical formats will continue to decline in Europe over the next few years; albeit at slower rates than in recent years (spending is estimated to decrease at a rate of 1.9% until 2009). However, falling sales of CDs should be offset by the uptake of digital music - therefore, total spending in recorded music is expected to grow by 7.2% (CAGR) by 2009 to reach USD 20 billion in value. Growth will be fuelled by two major factors:

- *Licensed online download services.* The online distribution of music exploded in 2004 and is projected to be the fastest-growing sector during the next years (91.3% compound annual rate increase from 2004 to 2009). Spending in 2009 should total USD 2.2 billion constituting 11% of total recorded music spending.
- *Mobile music<sup>35</sup>.* Mobile music accounted for 10% of the market in 2004 and will constitute nearly a third of total spending on recorded music in 2009, growing from USD 1.5 billion to \$ 6.4 billion (a 34% CAGR increase on 2004 figures). Uptake of

<sup>33</sup> For a definition please refer to the ICT Glossary in Annex 8.

<sup>34</sup> For a definition please refer to the ICT Glossary in Annex 8.

<sup>35</sup> For a definition please refer to the ICT Glossary in Annex 8.

mobile music download services will be bolstered by the diffusion of 3G wireless technology. Approximately 9% of wireless subscribers downloaded mobile music in 2004 – by 2009 it is expected to increase to 22%.

## **Video games**

In 2004, the video games market of Europe's spending (EMEA) totalled USD 6 billion. According to PWC, CAGR up to 2009 is estimated at 19.1%, reaching a spending total of USD 14.3 billion. However, important differences exist in the estimations for the different segments of the video games market:

- *Console games*: they are heavily dependent on the next generation of consoles being launched on the market. The average price of games will increase following the launch of new hardware and the next generation of games (expected by the end of 2006 and 2007) and then follow in subsequent years. Overall, compound annual growth should increase at a moderate rate of 6.4%.
- *Online games*: they will boom as a consequence of the increasing speed of broadband connections. Broadband subscribers are expected to reach 98 million in 2009 in EMEA (there are currently 31 million), with online video games subscribers reaching 29 million (currently 3 million). The average spending on online games will increase from USD 505 million in 2004 to USD 4.2 billion in 2009 (53% CAGR). Online games will represent 30% of total video games spending in 2009 (up from 7.6% in 2004).
- *Wireless games*: they will also expand following the upgrade of mobile handsets and growing 3G mobile penetration. Wireless games subscribers are expected to increase from 8.3 million in 2004 to 96 million in 2009 (63.2% CAGR). The spending on wireless games will increase from USD 458 million in 2004 to USD 3.7 billion in 2009 (52% CAGR).
- *PC games*: they will continue declining as migration to other platforms will consolidate. Decrease is estimated at a compound annual rate of 3.2% in the years leading up to 2009.

## **Publishing (magazines, newspapers and books)**

The publishing market in Europe (Western and Central and Eastern Europe) was valued at USD 142 billion in 2004. PWC's forecasts for total spending figures in 2009 are USD 163 billion. Growth rates projected for the publishing sector are significantly lower than for other cultural industries - this is mainly due to the fact that publishing is considered, by PWC, as a mature market (especially book publishing) and a market where the impact of ICT developments will be less significant than for other industry sectors.

As far as the individual segments of the publishing industry are concerned, the situation may be summarised as follows:

### **Magazines:**

- Growth in both advertising and circulation spending will be higher in new member states than in Western Europe. In particular, France, the UK and Germany, the three largest European markets (contributing to 57% of the region's spending), will post average growth rates of 3%. New genres should emerge and help sustain circulation spending.

### **Newspapers:**

- The expansion of free daily tabloids, especially amongst young readers and non-habitual readers, will help expand the advertising market, which is expected to grow at a compound annual rate of 4% until 2009 (with peaks of 10.7% in Belgium and 10.8% in Hungary).

- Possible additional revenue streams opportunities will be offered to newspapers by the exploitation of new technologies such as online services (e-mail alerts) and mobile devices (SMS, updates on mobile phones and PDAs).

Books:

- The professional book market, although being the smallest segment of the sector, should be the fastest growing, rising by 4.4% CAGR. Consumer books and educational books will grow at lower rates (2.9% CAGR and 2.2% CAGR respectively). The educational book market in particular will be negatively hit by declining enrolment, as the school age population is shrinking across Europe.
- Spending on electronic books is expected to grow exponentially from USD 42 million in 2004 to USD 1.7 billion in 2009 (110% CAGR), when e-books will represent 3.2% of total book spending in Europe. E-books will not play a significant role in the consumer market. On the contrary, they should have a positive impact on educational books and an even greater impact on professional books, which lend themselves conveniently to electronic formats. E-books should account for 59% of the overall growth in professional book spending.

**SECTION IV. THE ROLE OF PUBLIC SUPPORT AND SPONSORSHIP**

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## **I. THE ROLE PLAYED BY THE “PUBLIC ECONOMY OF CULTURE”**

A specific feature of the cultural & creative sectors is that they benefit from public support or are partly run by public authorities. It is a European tradition in that public authorities (at local, national and supra-national level) intervene in the cultural sector, as employers and as financiers.

This is particularly the case for:

### **• The heritage sector**

The share represented by public support to heritage in total public support to culture records impressive results:

- 50% in Greece (2005),
- 52% in Italy (2000),
- 47% in Finland (2001),
- 47% in France and Hungary (2003),
- 43.5% in Ireland (2002),
- 50% in Lithuania (2003)<sup>36</sup>.

### **• Performing arts**

The sector traditionally receives public support. As an example in the French Community of Belgium during 2005, 17.69% of the total cultural budget was dedicated to the performing arts, with theatre and music receiving over 80% of the funding. Countries like France, Estonia, Ireland, Finland, Poland, the Flemish Community of Belgium and Greece recorded similar levels of intervention (around 15- 20%).

### **• The film and audiovisual sector**

According to the European Audiovisual Observatory, there were approximately 195 public funding bodies in Europe in 2004, running somewhere around 680 programmes that aimed to financially support the film and audiovisual sector<sup>37</sup>. These funds and bodies exist either at national, sub-national or supra-national levels.<sup>38</sup>

The total public support budget for the film and audiovisual sector in Europe increased from € 1.1 billion in 2000 to around € 1.4 billion in 2004 (considering national, sub-national and supra-national levels) in the European Union (including Romania and Bulgaria):<sup>39</sup>

- 70% of this amount is distributed through national film institutions;
- 21% is allocated through sub-national funds (regions);
- 9% is granted at a supra-national level (European Union, Council of Europe).

The sector also benefits from regulatory support in the form of investment obligations imposed on broadcasters or market access requirements (quotas) in a number of European countries, or advantageous tax rules (tax credits, lower VAT on cinema tickets).

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<sup>36</sup> Most of the above and below figures do not include local expenditure on local heritage, including libraries and museums. Source: Compendium of Cultural Policies, Council of Europe, Strasbourg, 2006.

<sup>37</sup> European Audiovisual Observatory, *2005 Yearbook: Film and Home Video*, Strasbourg, 2005. The figure includes bodies from EU+25, Romania, Bulgaria, Switzerland, Croatia, Republic of Macedonia, Norway, Turkey.

<sup>38</sup> Sub-national funds are funds implemented by regions, territorial communities and local entities.

<sup>39</sup> European Audiovisual Observatory, *2005 Yearbook: Film and Home Video*, Strasbourg, 2005.

<sup>39</sup> European Audiovisual Observatory, *2005 Yearbook: Economy of the*



- **Book and press/ publishing**

The publishing sector relies mainly on indirect public assistance through regulatory support (for example, exemption from competition rules on fixed price to protect smaller bookshops and publishers) or advantageous fiscal rules such as lower VAT rates for books.

- **Music**

In the music sector, public support to the industry is more limited but is increasingly focusing on support for export. The UK Department of Trade and Industry (DTI), for instance, is financing missions in China for the promotion of UK artists in South East Asia. France is supporting an export bureau in the USA. Export bureaux also exist in Finland, The Netherlands, Spain, Hungary, etc. A European Music Office was established in New York with the support of the European Union. France has recently started implementing a tax credit scheme to support investment in new talents. Furthermore, there is extensive public support to classical orchestras and opera troupes at national and city levels.

- **Public broadcasters**

Public radio & television companies in the European Union are mainly funded through state budget or licence fees.

At the EU level, the role of public authorities in the public audiovisual sector was notably recognised under the Amsterdam Treaty's Protocol. According to this protocol, the existence of public service broadcasting is directly linked to the promotion of democratic, social and cultural values as well as to the preservation of media pluralism. Member States recognise the ability to finance their public service broadcasting in so far as this financing is limited to the accomplishment of its public service mission without altering competition conditions within the EU.

The total operating revenues of the public broadcasting systems (including public support and own resources) in the EU rose from € 22.8 billion in 1997 to € 28.6 billion in 2003.<sup>40</sup> In 2003, Finland was the country where public income was proportionally the largest (some 95.3% of YLE's income), followed by Sweden (93.1%), Greece (around 90% in 2000), Denmark (Denmark Radio: 91.3%) and Romania (88.1%).

Licence fees still remain the most prevalent form of financing public service companies. Its value was estimated at € 16 billion in 2000 and approximately € 15.3 billion in 2003.<sup>41</sup> Interestingly, in recent years, several countries – Portugal, the Netherlands, and the Flemish Community of Belgium – have decided to finance public broadcasters through national budgets rather than through licensing fees in order to save on collection and management costs. Licensing fees do not exist in Greece (where a tax on electricity is implemented instead), Luxembourg or Spain.

In the last ten years, the trend is an increase in public broadcasters' commercial revenues (through advertising, sale of programmes, books, discs and pay-TV income). These revenues have gone from 28.4% to 32.3% between 1995 and 2000.

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<sup>40</sup> European Audiovisual Observatory, *2005 Yearbook: Economy of the radio and television industry in Europe*, Strasbourg, 2005. The figures include operating revenues for public radio companies in Europe.

<sup>41</sup> European Audiovisual Observatory, *2005 Yearbook: Economy of the radio and television industry in Europe*, Strasbourg, 2005. The figures do not include state budget revenues. Countries covered are: Austria, French Community of Belgium, Czech Republic, Germany, Denmark, France, Finland, UK, Ireland, Italy, Poland, Portugal, Romania, Sweden, Slovenia, Slovak Republic.

## **I.1. The need for public support to realise public value**

Seeking to justify public intervention in the cultural sector is often regarded as a betrayal. Traditionally it has been believed that the value of investment in culture could not be questioned – it should not be an economic issue because culture is deemed to be a non profitable sector that should be isolated from market mechanisms. On the basis of “art for art’s sake” arguments as well as because culture enlightens people, reflects our past and is constitutive of our identities there is an obligation to support it.

And yet, at a time when the public purse is shrinking, it is wise to look at the reasons for supporting culture – on top of the “art for art’s sake” arguments.

The reflection proposed by Professor Mark Moore of the Kennedy School of Government (Harvard) on “public value” influences publicly run organisations in particular in the UK (the BBC has for instance published reports on its “public value”). Prof. Moore’s approach is the subject of criticism as it forces cultural organisations to justify their public funding. However, it serves as an interesting exercise to identify the multiple social, economic and political benefits brought by culture to both individuals and the community.

Pr. Moore supports the view that whereas the management of the private sector is aiming at creating value for its shareholders and employees, the management goals of a public sector organisation are less evident. Prof. Moore suggests that the job of a public sector executive is to find and create opportunities for “public value” – i.e. a success irrespective of any financial value or individual material achievement. This “public value” is not ascribed by consumers or shareholders as in the case of the private sector but by citizens reflecting in terms of public interest, what they would like the public sector to deliver and the way they would like it to be delivered.

Consequently, an important part of being an effective public manager involves orchestrating coherent dialogue within the community concerning what should be produced and how.

In the case of the cultural sector, this “dialogue” leads to isolated elements of public value such as the value to citizens, the political and social value to the community (whether at local, national or European level) as well as the value to the creative economy (developing skills and contributing to economic growth):

The following table presents the different “values” that can be attached to culture, and that are expected to benefit the community of citizens.

**Access to culture = democratic empowerment**

Of primary importance is the idea that cultural development is one of the conditions enabling an effective practice of democracy<sup>42</sup>. For Jean Rigaud, the first and most important objective of any cultural policy is to ensure that every single person gets, through ensuring a concrete equal access to culture, the opportunity to shape his/her "conscience of citizen".

In the sector of the performing arts, Baumol and Bowen<sup>43</sup> have shown that low productivity gains in artistic production (the "productivity lag"), combined with the inescapable rise in artists' salaries (as salaries need to keep up with the pace of salaries in the other sectors of the economy that do enjoy productivity gains) result in the inevitable rise in costs and ticket prices (the so-called "cost disease"). In order to ensure the existence of performing arts, mainly because they contribute to the "enlightenment" of citizens, they must be supported, in the form of patronage or public support.

In other sectors that are not marked by such productivity lag, public intervention may be needed to ensure variety of offer. Indeed, one of the characteristics of cultural products is the high uncertainty attached to them. Hence a bias towards producing products whose success is almost guaranteed, to the detriment of the variety and richness of the offer.

**Access to culture = education**

Culture has a complex educational value. The issue is not only to bring people to understand "high culture", but to access and to participate in culture because culture acts as a mind-opener. The diversity of cultures acts as an incentive to discover other realities and perspectives and encourage tolerance.

In addition, education in the arts provides skills that are "transferable" to other sectors such as openness, the ability to listen to the others, team spirit and cooperation, concentration, imagination, etc.

**A strong cultural sector = a banner-bearer for national and European values**

Culture acts as a cultural ambassador. For the EU and its Member States it is a way of promoting the values of tolerance, democracy, free-speech and peace. From a more interactive perspective, culture is a precious tool in supporting inter-cultural dialogue within Europe as well as between Europe and the rest of the world.

**Participation in and access to a diverse cultural sector = reinforcement of identity/building and of a sense of "belonging"**

Culture helps promote identity-building at local, national and European levels. In this case, identity building does not refer to the values promoted towards the others, but to a sense of belonging fostered within individuals, in relation to their surroundings, their nation, or supra-national references.

**Participation and access for all = social cohesion**

Through supporting a diversity of languages and local communities, culture also helps to integrate the different segments of the population. It has a role to play in reinforcing social cohesion and inclusion.

<sup>42</sup> *Pour une refondation de la politique culturelle*, Rapport au Ministre de la Culture, par Jacques Rigaud, président de la Commission d'étude de la politique culturelle de l'Etat, La Documentation Française, Paris 1996

<sup>43</sup> Baumol and Bowen carried out a seminal work in the sixties in relation to the situation of performing arts in New York. They demonstrated the "productivity lag" that marks the sector of performing arts to further justify the need for public intervention.

<p><b>Generation of positive externalities = public intervention legitimised in the name of public interest</b></p>	<p>Cultural activities generate “positive externalities” when the consumption of a cultural good benefits the entire community. This is the case when the cultural activity generates social and economic benefits in the immediate surroundings (for example the construction of the Guggenheim Bilbao museum has resulted in positive externalities for the hotel and catering sector, transport, cultural associations in the area, other museums already established in Bilbao that were refurbished and recorded an increased number of visitors, etc.) or when the “image” and identity of a city are thereby reinforced.</p>
<p><b>Expected high return on investments = public intervention legitimised on the basis of expected economic progress</b></p>	<p>In other parts of the cultural sector, cultural activities record fairly good “productivity rates”. In other words, culture has become a <i>factor of economic progress</i>, in line with labour, capital and technological factors.</p> <p>In this context, public support to culture (in the same way as public support to education) is justified as a way to participate in improving economic growth. This reasoning has, for instance, been used by UK authorities when they started their task force on creative industries. In this case, public support to culture is seen as a strategic investment expected to entail high returns.</p>

## **1.2. The economic value of public funding for culture**

Currently, governments’ expenditures can be examined through the COFOG (UN Classification of the functions of governments). Unfortunately, in the area of culture, the standards provide little detail and in some cases consolidated expenditures on recreation, culture and religion into a single class.

Hence the necessity to rely on other sources, that are heterogeneous and often only comparable to a limited extent.

The European Cultural Foundation recently estimated European public budgets devoted to culture at **€ 55 billion<sup>44</sup> (consolidated net expenditure) in 2000**. This estimate does not include revenues from national lotteries, taxes on gambling, alcohol & tobacco or licensing fees to public broadcasting systems (TV and radio). It is a minimum estimate calculated for 30 countries (EU25, EEA, Romania and Bulgaria) by Michael Söndermann, president of the corresponding Eurostat Task Force on Cultural Statistics, on the basis of data provided by Eurostat, the Council of Europe’s Compendium for Cultural Policies as well as the EU25 national statistical offices and cultural ministries.

According to Michael Söndermann “*it can only be considered as conservative estimates which may provide fuel for further debates*”. A new estimate to be completed by the Eurostat Task Force is expected in spring 2007.

It is difficult to get a more precise picture of the situation for the following reasons:

- Differences of competencies amongst responsible public bodies. The scope of cultural competencies varies from one country to another and from one ministry to another (ministries of culture, heritage, audiovisual, sport, education and youth, etc). It also depends on the administrative organisation (it varies from centralised to federal States). The budgets provided by national ministries are not comparable (for example some include local levels, others do not; some include licensing fees, others do not, some include sports others do not, etc.);

<sup>44</sup> This estimate is a gross amount, excluding licence fees for public broadcasting systems as well as revenues from national lotteries and taxes on gambling, alcohol and tobacco. It is a minimum estimated for 31 countries (EU + Eastern countries) which was calculated on the basis of data provided by Eurostat, the Compendium for Cultural Policies and national statistical offices and cultural ministries. It is a conservative estimate only.

- Even when the same categories of activities can be identified across the different national budgets, the amount given by the various sources is often based on different definitions: for example, “total public cultural expenditure” (including central and local authorities), “cultural spending of the Ministry of Culture” (excluding other ministries and/or local authorities), etc;
- More generally, there is a lack of available figures for all countries as well as a lack of information on methodology for collecting statistical data within the different countries;
- Conversion rates vary from one source to another, making it impossible to assess the exact value;
- Finally, figures provided must be considered with caution in light of the evolution of the general price index.

Having these restrictions in mind, the following table provides an overview of *direct public interventions for culture* by country (the European Cultural Foundation’s figures, calculated on the basis of multipliers, do not provide for such an assessment on a country-basis). These are considered conservative estimates for the reasons explained above. The table reflects the level of direct public interventions. These include:

- The running of public institutions (such as theatres, operas, museums, etc.), which includes public investments in building, maintaining and restoring facilities, as well as the public workforce operating in these institutions;
- Financial support for arts and cultural projects, support for artists and artistic creations. These programmes touch upon all the cultural sectors and take many different forms – from subsidies to loans, from project support to support to enterprises or artists.

As a result, the figures in most cases do not include the value corresponding to *indirect support to culture*, i.e. the support provided through regulatory means such as:

- Fiscal rules aimed at attracting private funds to the benefit of cultural activities or to reduce the taxation imposed on certain categories of creative people i.e. tax shelters and tax credits (as they are implemented in the film sector in Belgium, France, Germany, Ireland, Hungary for example), tax exemption schemes for artists (as in the case of Ireland) or tax rules aimed at facilitating donations and/or sponsorship;
- Reduced VAT rates to cultural products and services;
- Regulatory support in the form of protection from market forces.

**Table 13: Direct public expenditures on culture**

	Direct Public Expenditure on Culture (in € million) <sup>45</sup>	Year
Austria	1 890	2002
Belgium	3 000	2002 (** and ***)
Czech Republic	654	2004
Denmark	1 480	2002
Estonia	86	2005 (* and <sup>1</sup> )
Finland	745	2001 <sup>2</sup>
France	8 444	2002
Germany	8 000	2004
Greece	300	2005*
Hungary	445	2003
Iceland	199	2001
Ireland	124	2006*
Italy	1 860	2006*
Latvia	135	2004**
Liechtenstein	13	1999*
Lithuania	96	2003
Malta	9	2004*
Norway	2 000	2004 (** and <sup>3</sup> )
Poland	1 000	2004
Portugal	632	2003
Slovakia	121	2006*
Slovenia	194	2003
Spain	5 100	1999***
Sweden	1 880	2002 (** and ***)
The Netherlands	3 000	2003
United Kingdom	5 100	2004/2005 <sup>3</sup>
Bulgaria	66	2004
Romania	302	2003
<b>Total public expenditure:</b>	<b>46.6 billion €</b>	

\* Excluding local authorities' cultural expenditure.

\*\* Including license fees for public broadcasting systems (radio and TV).

\*\*\* Including sports.

<sup>1</sup>. Excluding Cultural Endowment.

<sup>2</sup>. Including financing from the state monopoly on lotto, lottery and sports betting: € 204.5 million in 2001.

<sup>3</sup>. Excluding national Lottery grants.

On average, public support to culture as a share of national GDPs is between 0.5 and 1% of national GDPs. There are great disparities in terms of public direct expenditures on culture per inhabitant: from €15 in Bulgaria to € 234.2 in Austria in 2002 for example.

<sup>45</sup> The figures cover the following sectors: Performing arts including Theatre, Dance, Music performances, festivals; Heritage including Museums, Libraries, Archaeological sites, Archives; Audiovisual including Film and Video; Books and press; Music; Visual arts, including Architecture, Design, Crafts, Paintings, Sculpture, Photography.

## **II. THE ROLE OF SPONSORSHIP AND PATRONAGE**

This section on the economic value of the cultural and creative sector in Europe would not be complete without covering sponsorship and donation (“mécénat”).

Indeed, both enterprises and individuals support culture through individual donations, corporate donations, sponsorship or “mécénat”, as well as individual and corporate investments through intermediaries such as foundations and trusts.

Whereas sponsorship (or “patronage”) is part of a commercial strategy explicitly calculated, including quantifiable returns, in proportion of the initial investment, donations (“mécénat”) refers to expenditures that are engaged without any direct counterpart, except in terms of corporate “image”.

Historically, the concept of cultural sponsorship emerged in Europe in the 1970s. It started in the cultural sector but then extended to other sectors that became the object of increased attention such as environment, sport, social and local development. As a result, the cultural sector finds itself “competing” with other sectors of the economy.

### **II.1. An assessment of the value of sponsorship to the cultural sector**

Unfortunately there is currently no comprehensive assessment in this regard at an EU level. Existing assessments are the following:

In 1996, an investigation into a panel of 11 European countries assessed the level of private support (sponsorship and donations/mécénat) for culture and the arts in Europe at € 1 billion<sup>46</sup>. Unfortunately, there has been no update of this assessment, although the examination of national situations show that private support has been increasing since then.

In 2001, it was estimated that *private* sponsorship to culture in Europe roughly added between 2 to 12% more to the total *public* funding of cultural activities, although, the real amount was deemed to be much higher<sup>47</sup>.

A later review estimated that private sponsoring and contributions from foundations to cultural activities and institutions in Europe reached between € 3 and 6 billion in 2000<sup>48</sup>.

### **II.2. Recipient sectors**

Private support in the form of sponsoring and “mecenat” initially focused on building up art collections. Donators and sponsors then extended their activities to the “traditional cultural sectors”: visual arts (collections and exhibitions), heritage (restoration), classical music and theatres.

According to CEREC (Comité Européen pour le Rapprochement de l'Economie et de la Culture / European Committee for Business, Arts and culture, a network set up with the support of the European Commission in 1991), the performing arts are the most private-supported cultural sector, followed by visual & fine arts, theatre and heritage.<sup>49</sup>

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<sup>46</sup> SAUVANET (N.), *Cultural Sponsorship in Europe*, European Committee for Arts & Culture, Paris, 1999. This amount was calculated on the basis of a panel including Germany, Austria, Belgium (Flemish Community), Spain, France, Greece, Ireland, Italy, The Netherlands, United Kingdom, Sweden.

<sup>47</sup> INKEI (P.), *Tax relief for business sponsorship and donations to culture: Incentives or Reward?*, speech given at the conference “Creative Europe – Culture and Business in the 21<sup>st</sup> Century”, Innsbruck, 2001.

<sup>48</sup> Estimate based on a five-country comparison (A, CH, D, NL, UK) of Norbert Sievers/Bernd Wagner/Andreas Joh. Wiesand: *Objektive und transparente Förderkriterien staatlicher Kulturfinanzierung – Vergleiche mit dem Ausland*. Expert Opinion for the Commission of Enquiry “Kultur in Deutschland of the German Federal Parliament, 2004.

<sup>49</sup> SAUVANET (N), *Cultural sponsorship in Europe*, op.cit.

This ranking is supported by a survey conducted in 2003 amongst foundations active at a European level by the *Fondazione Fitzcarraldo* which ranked the recipient sectors in the cultural field as follows<sup>50</sup>: plastic & visual arts; performing arts; cultural heritage; books & readings; interdisciplinary projects; audiovisual; intangible heritage; new media; community arts.

### **II.3. National overview**

Sponsorship and donations to culture are the most developed in the UK. Private sponsorship for culture is an integral part of the funding system for the arts in the UK. Most of the museums, for instance, are constituted as charities - the most appropriate legal form to encourage donations.

*Arts & Business*<sup>51</sup> is an intermediary structure that was set up by the UK Government. Its aim is to develop the training of fundraisers, redistribute funds from the lottery, as well as foster sponsorship.<sup>52</sup> It is mainly financed by the Arts Council of England. One of its main activities is the *New Partners* programme, an investment programme to promote the development of new, sustainable, mutually beneficial partnerships between business and the arts. Investment by business in the arts (including in-kind support) encouraged by the New Partners programme reached € 12.7 million in 2004/2005.

There is also a strong tradition of sponsorship in the Nordic countries, with governmental initiatives to foster its adoption by the business and cultural communities. In Denmark for instance, Nyx Forum<sup>53</sup> is an association set up by the national authorities with the aim of developing sponsorship.

Banks can also play an important role in financing cultural activities. For instance, in 2002 Spanish savings banks dedicated, through their own foundations, a sum equivalent to over 53% of the Spanish Ministry of Culture's budget and around 44% of regional cultural spending (i.e. the budget of the "Autonomous Communities").<sup>54</sup> In Italy the Fitzcarraldo Foundation found out that, in 1999, 85% of cultural sponsorship came from the banking sector.

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<sup>50</sup> Fondazione Fitzcarraldo, *Cultural Cooperation in Europe, what role for Foundations?*, Network of European Foundations for Innovative Cooperation, Fondazione Fitzcarraldo, Turin, 2003.

<sup>51</sup> Arts & Business, *A&B's Annual Report 2004/05*, London, 2006.

<sup>52</sup> The Arts & Business group ("Arts & Business") consists of two registered charities (Arts & Business Limited and The Prince of Wales Arts & Kids Foundation) together with a wholly-owned subsidiary trading company (Arts & Business Services Limited).

<sup>53</sup> <http://www.nyxforum.dk/>

<sup>54</sup> Spanish Ministry of Culture, Madrid, 2006.



Together, the two Spanish saving banks, Caja Madrid and La Caixa, brought € 71.6 million to cultural activities in Spain in 2004, representing 10% of the Spanish Ministry of Culture's total budget for 2006.

#### ● CAJA MADRID

The Spanish savings bank, Caja Madrid, donated around € 32.8 million in 2006 for national cultural activities.<sup>[2]</sup>

The allocation of the resources to cultural activities is carried out by a foundation. The Foundation is ranked first amongst Spanish private actors supporting culture and national heritage. In 2006, 31.54% of its budget (€ 14.7 million) will support the protection of Spanish heritage, representing 31% of the Spanish Ministry of Culture's 2006 budget for the protection and conservation of heritage and cultural goods. Since 1991, over € 121 million have been allocated to activities interested in the conservation of heritage.

In 2006, € 6.1 million will be further allocated to the Foundation's music programme, which is divided into two "cycles": the "Symphonic cycle", focusing on great classical composers and the "Great voices in the real theatre" cycle. The programme "Sponsoring, Cultural Promotion and Exhibitions" is due to allocate € 12 million for projects and activities such as arts exhibitions in the Foundation's headquarters.

#### ● LA CAIXA

Through its Foundation, the Spanish savings bank La Caixa, donated € 70,9 million to culture.<sup>[3]</sup> Activities funded include: the organisation of cultural events and art exhibitions; exhibitions in classic art, foreign art, contemporary art, heritage, exhibiting documentaries; music programmes covering in particular: music festivals, "family" concerts and educative music projects.

Through its online center, the *Mediateca*, the Foundation offers the opportunity to have access to archives in the fields of contemporary art and music: over 15 000 recordings, videos, books, magazines and electronic documents.

[1] Caja Madrid, Annual Report 2004, Caja Madrid, Madrid, 2005.

[2] Caja Madrid, *Dividendo social 2006*, press release, Caja Madrid, Madrid, 2006.

[3] La Caixa, Annual Report 2004, La Caixa, Barcelona, 2005.

In France, the situation has improved in recent years, partly because of the implementation of legal modifications that doubled fiscal incentives for corporate sponsoring. The law also changed the rules relating to museums and simplified the process of creating foundations. These legal incentives have had positive effects on the foundation sector and 60 new foundations have subsequently been created since 2004.<sup>55</sup>

In Central and Eastern Europe, most governments reshaped their overall cultural policies after 1989 with the collapse of the communist regimes, with a view of decreasing the state's direct involvement in arts and culture and promoting cultural sponsorship through fiscal incentives. Public/private partnerships have thus been encouraged to develop at a faster rate than in "Western" countries. In the last few years, countries such as Latvia, Hungary, Bulgaria, Lithuania, Romania and Slovenia have adopted regulations on sponsorship as well as tax incentives to promote private support for culture.

An inquiry conducted in 2003 by the Budapest Observatory on the state of cultural sponsorship in Central and Eastern Europe, shows that cultural sponsorship adds a rough average of 4% to the support provided by public funds.<sup>56</sup>

## II.4. Conclusions

- Cultural sponsorship **has increased** over the last ten years.
- At national level, **most EU Member States encourage sponsorship and donations** to the arts<sup>57</sup>

<sup>55</sup> ADMICAL, CSA, *Les chiffres clés du mécénat d'entreprise 2005*, Paris, 2006

<sup>56</sup> Covering Bulgaria, Croatia, Estonia, Hungary, Latvia, Poland, Serbia, Slovakia and Ukraine

<sup>57</sup> IVACHEFF (A.), *European Taxation – CEREC Study*, CEREC Network, Brussels, 2006, 27 p.

In relation to sponsorship, in many European countries, company expenses linked to sponsorship activities are tax deductible<sup>58</sup>, most notably in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Sweden and United Kingdom.

In relation to donations/*mécénat*, with a few exceptions, national tax authorities in Europe encourage donations through tax deductions for companies and individuals, including in Austria, Belgium, Denmark, France, Germany, Hungary, Ireland, Italy, the Netherlands, Poland, United Kingdom. Companies and individuals that donate to support culture or the arts benefit from a fiscal deduction varying between 0%, as in Sweden, to 100%, as in Ireland.

The development of fiscal incentives in favour of donations to culture at national levels should increase support from individuals in the next few years. This is illustrated for instance in the UK where individual investment has increased by 10% between 2003 and 2005 from € 320 million to € 352 million.<sup>59</sup>

- **Sponsorship benefits essentially large and established organisations as well as cultural events. It rarely supports new talent or ventures.** According to an Arts & Business survey carried out in the UK<sup>60</sup> amongst beneficiaries of sponsoring, 77% of total private investment is shared amongst only 53 organisations, whereas 85% of respondents obtain less than 9% of the share. Therefore, any policy aimed at encouraging the development of sponsorship and donations should work on improving the scope of recipients, both in terms of their size and in terms of the sub-sectors concerned.
- At EU level, encouraging sponsorship has been on the political agenda for years but the issue has only been tackled to a limited extent. Several resolutions and communications have been adopted without yet leading to concrete measures to encourage the development of a legal framework for cultural sponsorship and “mécénat” at a European level:

1975	The European Commission starts studying the fiscal regime applicable to cultural foundations and to sponsorship amongst Member States.
1986	The EU Council of Ministers for Cultural Affairs adopted the only Resolution clearly addressing cultural sponsorship: <i>the Resolution on business sponsorship of cultural activities</i> . <sup>61</sup> The document recognises the importance of private support for the development of culture and encourages the adoption of various measures to promote business sponsorship.
1991	The European Commission supports the creation of the CEREC network: the <i>European Committee for Business, Arts and Culture</i> . CEREC gathers national sponsorship associations.
1992	In response to a Commission’s Communication <sup>62</sup> , the EU Council of Ministers highlights that the European Community should “develop existing activities and encourage the commercial sponsorship of arts” <sup>63</sup> .  The Lisbon conference of cultural sponsorship analyses the relationships between the cultural and corporate worlds, and identifies the different possibilities for reinforcing and enriching these two fields.
1997	The European Parliament adopts a Resolution addressing sponsorship and calling upon the European Commission to “carry out a more detailed study of sponsorship and patronage” as it considered that sponsorship had become a major source of financing for arts and culture. <sup>64</sup>
1998	The European Commission publishes a report on “Culture, cultural industries and employment” suggesting that large corporations support the development of cultural industries as part of their sponsorship activities. <sup>65</sup>

<sup>58</sup> Under certain conditions.

<sup>59</sup> A&B Arts & Business working together, *Private Investment Benchmarking Survey 2005/05*, London, 2006.

<sup>60</sup> A&B Arts & Business working together, *Private Investment Benchmarking Survey 2005/05*, London, 2006.

<sup>61</sup> 86/C 320/02

<sup>62</sup> New prospects for Community Cultural Action, COM(92) 149 final, 29 April 1992.

<sup>63</sup> Conclusions of the Ministers of Culture meeting within the Council of 12 November 1992 on Guidelines for community cultural action, OJ C 336, 19.12.1992.

<sup>64</sup> Larive Jessica (Rapporteur), Report on the Commission Green Paper on Commercial Communications in the Internal Market, Committee on Economic and Monetary Affairs and Industrial Policy, doc. A4-0219/97, OJ C 286/97.

2001	<p>The Commission's Green Paper "<i>Promoting a European Framework for Corporate Social Responsibility</i>" recognises that many private sector stakeholders are involved in community causes, notably through the sponsoring of cultural events.<sup>66</sup> But the two subsequent communications (2002 and 2006) intended to boost CSR in the EU did not make any reference to the sponsorship of culture or the arts<sup>67</sup>.</p> <p>The EP adopts the Ruffolo Report which includes a resolution highlighting the importance of sponsorship to the creation of artistic events and which invites the European Commission to encourage partnerships amongst foundations, institutions, cultural associations as well as private enterprises<sup>68</sup>. In this Report, the EP further asks Member States to grant further fiscal advantages to sponsorship.</p>
2002	<p>The EP also adopts a Report on the importance and dynamics of the theatre and the performing arts in an enlarged Europe.<sup>69</sup> The document recognised the important role played by patronage and sponsorship for new works and artistic events. It reiterated its request to the Member States to grant tax relief to patrons.</p>

<sup>65</sup> SEC (98)837).

<sup>66</sup> *Green Paper "Promoting a European Framework for Corporate Social Responsibility"*, Directorate General for Employment and Social Affairs, European Commission, Brussels, 2001.

<sup>67</sup> *Communication from the Commission concerning corporate social responsibility: A business contribution to sustainable development*, European Commission, Brussels, COM (2002) 347 final.

Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: *Implementing the Partnership for growth and jobs: Making Europe a Pole of Excellence on Corporate Social Responsibility*, European Commission, Brussels, COM (2006) 136 final.

<sup>68</sup> Ruffolo Giorgio (Rapporteur), *Report on Cultural Cooperation in the European Union*, Committee on Culture, Youth, Education, the Media and Sport, European Parliament, Brussels, 2001, OJ C 72/02.

<sup>69</sup> Fraisse Geneviève, *Report on the importance and dynamics of the theatre and the performing arts in an enlarged Europe*, Committee on Culture, Youth, Education, the Media and Sport, European Parliament, (2001/2199(INI)), July 2002.



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

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## INTRODUCTION

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

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

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

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

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

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The content and ICT sectors are interdependent, generating huge opportunities for both sectors.

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

### **I. INCREASED GROWTH PROSPECTS FOR ICTs**

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

Over the last few years, broadband<sup>1</sup> penetration has grown exponentially and the trend continues to do so.

The diffusion of wireless Internet connections and the mass adoption of 3G mobile phones have turned the promise of being connected "anytime, anywhere" into a reality.

The switch-over from analogue to digital broadcasting has already happened (for radio) or is foreseen in the years to come (for TV).

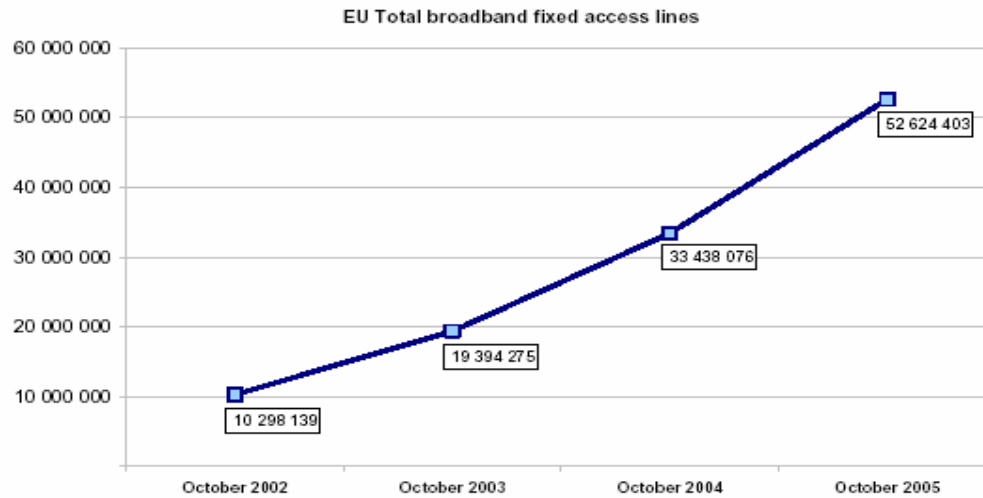
The following figures 24 and 25 show the boom in broadband connections in Europe, and figure 26 presents the penetration of mobile telephones in Europe.

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<sup>1</sup> For a definition please refer to the ICT Glossary in Annex



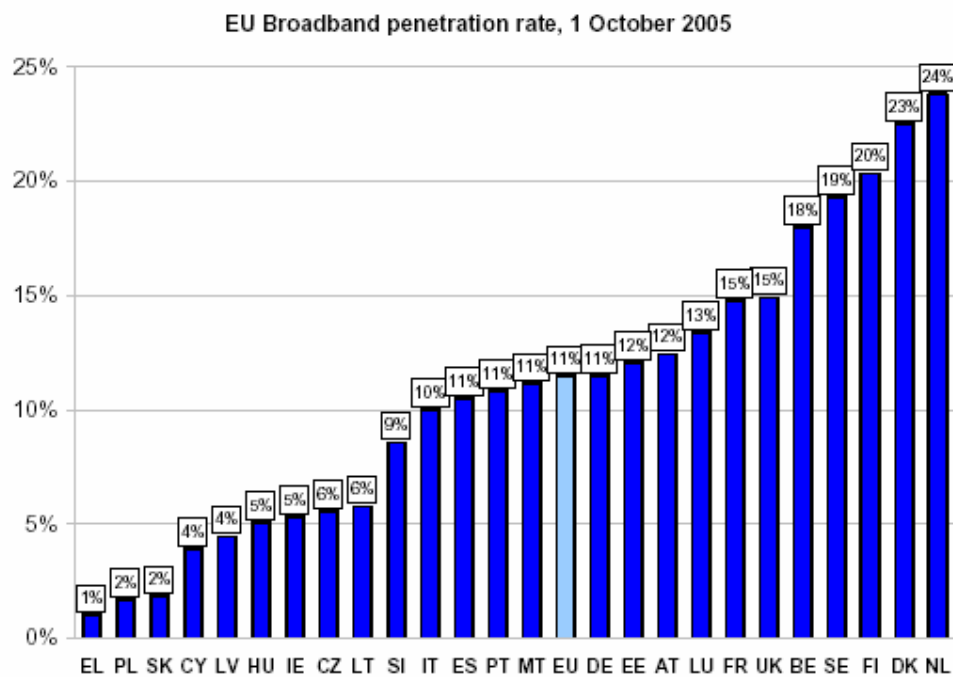
**Figure 24. EU broadband fixed access-lines 2002-2005**



Source: Commission services based on COCOM data

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

**Figure 25. EU broadband penetration rate**

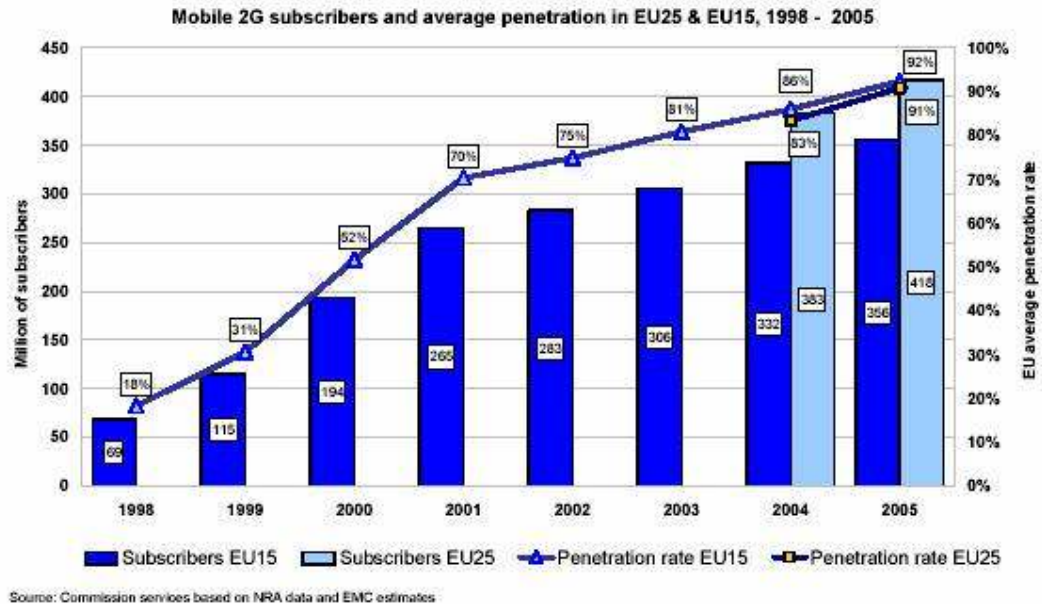


Source: Commission services based on COCOM data

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

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

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



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

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

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

### IFPI estimations on indirect value of recorded music

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

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

- Music is at the heart of the phenomenal growth in **portable digital music players**. IFPI estimates the value of this sector to be USD 9 billion in 2005 - over four times the estimated value of digital music retail sales. In addition, the market for peripheral equipment such as speaker systems and docking stations is estimated to be worth USD 1 billion by industry analysts.
- Music is also one of the main drivers of the **rapidly-growing digital economy**. IFPI estimates that consumers spent over USD 75 billion on broadband subscriptions and USD 60 billion on mobile data services in 2005.
- Music has been a key driver of **3G mobile services** - research from mobile operators confirms music is the top entertainment product on mobile phones, attracting the 18-35 age group in particular.

### Focus on the Apple's experience

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

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

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

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

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

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

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

<sup>2</sup> JP Morgan 15 November 2004 – *North America Equity Research*

<sup>3</sup> Apple Reports Preliminary Fourth Quarter Results: <http://www.apple.com/pr/library/2006/oct/18results.html>

## **II. GROWTH PROSPECTS FOR THE CULTURAL & CREATIVE SECTOR**

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

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

New support and distribution channels include DVDs, home cinema systems, set-top boxes and flat screens TVs that are all dependent on available attractive content (film, video-games, music, TV programmes, etc.); the development of mobile telephony networks which is dependent on value added services incorporating attractive content; new opportunities for broadcast content through the proliferation of TV channels and networks (cable, satellite, TV on ADSL, etc).

New service offerings include downloading and streaming (of music), video-on-demand (there are now more than 335 legal online music services of which 200 are based in Europe<sup>4</sup>), straight to video-on demand, video games, etc.

All of these new developments represent new market opportunities for producers of content, and generate important growth prospects for the cultural & creative sector. The major advantage brought by ICT consists in multiplying and diversifying channels through which cultural works reach the public. At first there is an incremental effect, followed by episodes of “cannibalisation” between old and new channels. Yet at the end, there is a greater choice for the consumer amongst the different ways of accessing culture, which results in increased cultural consumption.

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

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

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

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<sup>4</sup> IFPI Digital Music Report 2006- up from 50 two years ago

### Change of business models in music - EMI

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

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

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

EMI is convinced that digital music will make up some 25% of its sales by 2007 or 2009<sup>5</sup>.

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

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

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

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

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

<sup>5</sup> According to Alain Levy CEO of EMI Music in *Financial Times*, 6 July 2004

<sup>6</sup> NPA Conseil, The development of video on demand in Europe, 2006

## The long tail

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

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

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

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

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

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

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

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

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

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

<sup>7</sup> For a definition please refer to the ICT Glossary in Annex

<sup>8</sup> For a definition please refer to the ICT Glossary in Annex

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

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

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

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

- **Licensing of rights** including:

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

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

- The possibility to licence repertoire for international distribution.

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

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

- **DRMs**

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

• **Specific audiovisual issues:**

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

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

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

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

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

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

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

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

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



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

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### I. INTRODUCTION

#### 1. Culture and local sustainable development

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

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

Culture has three distinct roles in local development:

- i) Cultural activities are encouraged at a local level because of their ability to attract tourists. The economic impacts of cultural activities are both direct and indirect. Direct impacts include the revenues and employment generated. The organisation of a festival or an art fair, the running of a museum or an opera, entail expenditure in a local area (administrative and creative staff, technicians, media services, insurance services, etc.) that are directly linked to these activities. Indirect impacts include revenues generated through cultural tourism (such as tourists’ spending on hotels, restaurants, transports, etc.). More intangible impacts are the reinforcement of the image of a city and the improvement of its quality of life that trigger further interest from tourists and investors (soft location factor).
- ii) Culture goods and services are produced at a local level even when exported and consumed outside their territory of production. Cultural industries constitute a sector which is performing particularly well at a local level. The economic function of culture is even more relevant at this level since the nature of cultural goods’ and works of art’s production (which is a constantly shifting activity, marked by high volatility) benefits from operating through “cultural clusters” on a limited territory.
- iii) Cultural activities at local level also have significant social impacts. This is exemplified in projects of social regeneration aimed at including marginalised or “resource-weak” communities, as well as at ensuring a better cohesion with the least wealthy areas. They contribute to improving communication and dialogue between different ethnic and social communities. Culture is an important tool in urban and regional policies.

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

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<sup>10</sup> Cohesion Policy and Culture, A contribution to Employment , (COM (96)512)

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

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

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

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

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

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

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

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

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

## **II. CULTURE AS AN ENGINE FOR TOURISM**

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

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

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

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

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

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

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

- The tourism sector generates 5.5% of the EU's GDP (3 to 8% in the individual EU member states), and up to 11.5% of GDP when integrating indirect impacts<sup>16</sup>.
- The tourism sector comprises more than 2 million enterprises, employing more than 9 million people.

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<sup>14</sup> United Nations World Tourism Organization (UNWTO)

<sup>15</sup> European Economic and Social Committee, *Tourism and culture: two forces for growth*, 2006

<sup>16</sup> World Travel and Tourism Council

- Not all European countries benefit equally from tourism.

The latest report of World Tourism Organisation presents the following information<sup>17</sup>:

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

#### Reorientation towards cultural and “quality” tourism in Spain

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

- In the late ‘90s, the construction of the Bilbao Guggenheim Museum by American architect Frank O. Gehry was part of the success story experienced by the city in revitalising the whole Basque country.
- In 2004, Madrid’s top three museums were refurbished as well as extended and two new museums of international importance opened: the Picasso Museum in Málaga and the Es Baluard Contemporary Arts Museum in Palma de Mallorca.
- In February-May 2006, the New-York Museum of Modern Art held an exhibition entitled “*On-Site: New Architecture in Spain*”. This exhibition documented the most recent architectural developments in a country that has become known in recent years as an international centre for design innovation and excellence. It featured over thirty-five significant architectural projects. All of these (museums, market halls, rail stations, etc.) represent heavy public investments that are deemed to be able to consolidate and further expand the attraction of Spain as a tourism destination, thereby generating significant secondary impact and revenues.
- Barcelona constitutes a best practice in this regard: the city has become one of the trendiest tourism destinations. However, the city is not resting on its laurels. Here again, major architectural achievements constitute a strategy to keep the world’s attention on the city. One of the latest is last year’s finalisation of the Agbar Tower by French architect Jean Nouvel.
- The following figures demonstrate the increase in cultural tourism and its economic impact:

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

<sup>17</sup> United Nations World Tourism Organization (UNWTO), World Tourism Barometer, Madrid, 2006

<sup>18</sup> United Nations World Tourism Organization (UNWTO), *Tourism Market Trends – Europe 2004*, Edition, Madrid, 2005

<sup>19</sup> United Nations World Tourism Organization (UNWTO), *World Tourism Barometer*, Madrid, 2006

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

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

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

The following paragraphs present the economic impact in terms of cultural tourism generated by:

- Built heritage
- Arts fairs
- Museums & exhibitions
- The Performing arts
- Festivals
- Film tourism

### **II.2.1. Heritage**

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

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

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

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<sup>20</sup> Greg Richards, *Cultural tourism trends in Europe 1997 – 2004*, Research carried out for ATLAS (Association for Tourism and Leisure Education), Cardiff, 2005

<sup>21</sup> European Economic and Social Committee: *Tourism and Culture: two forces for growth*, op.cit.

<sup>22</sup> T. Nypan, *Cultural Heritage Monuments and historic buildings as value generators in a postindustrial economy. With emphasis on exploring the role of the sector as economic driver*, Norway's Directorate for Cultural Heritage, 2004.

<sup>23</sup> Jean Launay and Henriette Martinez, *L'Action culturelle diffuse, instrument de développement des territoires*, French National Assembly, June 2006, Paris, 149 p.

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

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

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

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

## II.2.2. Arts Fairs

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

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

Specialised art fairs represent a key resource as they:

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

### **Documenta 11, Kassel (Germany)**

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

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

In 2002:

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

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

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

### The burgeoning Asian art market in the press<sup>24</sup>

- European auction houses are increasingly operating in Asia. Auction houses' turnover is growing in the region. For the first time in 2005, Hong Kong was ranked 4th in relation to the sales made by auction houses in the world after New York, London and Paris. Sotheby's turns over a USD 1 billion a year in Asia. Asians bought 11 per cent of the contemporary works sold at the Sotheby's London auction in March 2006.
- In 2005 Japan had the most most visited exhibitions in the world.
- Until a few years ago the Dashanzi Art District of East Beijing was notable only for its hulking, semi-defunct electronic-components and military-equipment factories. Designed by architects from East Germany in the 1950s, the factories' Bauhaus architecture proved to be the perfect environment for a new art centre. In the past three years Dashanzi has emerged as the centre of Beijing's art scene as well as the organiser of the Dashanzi International Art Festival, an important international event. Today the complex is home to more than 30 galleries; among which New York's Long March Foundation and the Tokyo Gallery of Art. The Guggenheim and Pompidou Centers are also reported to currently be looking to establish a presence at the complex.
- Supporting this renaissance in Chinese art are museums, hundreds of which are being renovated and built across the country. The nationwide goal is to add 1,000 new museums by 2015. In the capital, plans are afoot to start up a privately run Beijing Museum of Contemporary Art.

### II.2.3. Museums and exhibitions

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

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

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<sup>24</sup> Sources :

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



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

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

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

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

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

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

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

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

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

Jean-Michel Tobelem<sup>25</sup> proposes an interesting analysis of the changes undergone by museums in the last 50 years. It is reproduced in the table below, which shows the new “market constraints” according to his analysis.

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

**Table 16: The three ages of museums**

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

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

<sup>25</sup> Jean-Marie Tobelem, *Le nouvel âge des musées*, Paris, Armand Colin 2005

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

- *Revenues generated*

- Having opened in 1997, by 2005 the museum covered 18 times the investment made for the construction of the building.
- Direct revenues (tickets sold, revenues from the museum's shops, restaurants, and cafeteria, revenues from sponsorship and direct revenues derived from the organisation of special events) amounted to € 26 million in 2005.
- Indirect revenues deriving from restaurants, bars & coffee shops in the town, shops, hotels and other accommodation, as well as leisure represented € 139 million in 2005.

- *Employment generated*

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

- *An end to the city's isolation*

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

- *Impact on citizens and local social life*

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

## Case Study THE GUGGENHEIM MUSEUM IN BILBAO

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

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

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

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

### **A successful "self-financing" strategy**<sup>27</sup>

The Basque authorities provided the financing that enabled the Museum to be built and to operate (€ 132

million - € 84 million for the construction, € 36 million for buying previous collections and € 12 million for the loan of collections for the opening from the Guggenheim Foundation).

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

In 2005 for instance:

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

### **Socio-economic impact**

Impacts are direct & indirect, economic & social.

#### ■ **Direct and indirect economic impacts**<sup>29</sup>:

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

<sup>26</sup> Anuario Bilbao 2004.

<sup>27</sup> Sources for figures presented: Balance 2005 Guggenheim Bilbao and <http://www.guggenheim-bilbao.es/caste/historia/historia.htm>

<sup>28</sup> *Diario Expansión*, 11 January 2006

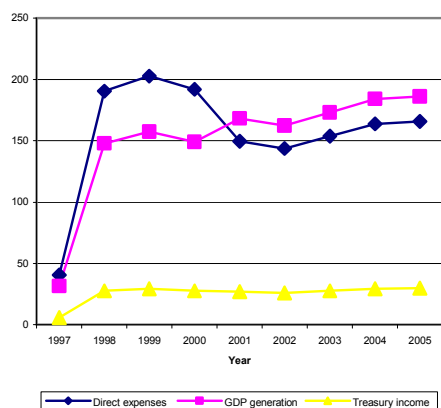
<sup>29</sup> City Hall of Bilbao, *Impacto de las actividades económicas del Museo Guggenheim Bilbao en la economía del País Vasco en el año 2005*

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

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

(1) Source: Eustat Cuentas Económicas, 11.11.2005

Economic Impact Guggenheim in the Basque Country (million €) - 1997-2005



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

**Direct revenues: € 26 million:**

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

<sup>30</sup> Balance 2005 Guggenheim Bilbao.

<sup>31</sup> City hall of Bilbao, *Impacto de las actividades del Museo Guggenheim Bilbao en la economía del País Vasco en el año 2005*.

**Indirect revenues: € 139 million:**

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

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

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

The average unemployment rate in the City of Bilbao went from 14.5% in 1995 to 9.5% in 2005.

**■ Effect on the local cultural sector**

The 'Guggenheim effect'<sup>32</sup> describes the impact for cultural industry and activities in the Basque country, namely:

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

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

<sup>32</sup> Asun Balzola, *The Guggenheim effect*, SM Ediciones, Madrid, 2003, p. 119.

<sup>33</sup> TOBELEM, Jean-Michel, *Le nouvel âge des musées*, Paris, 2005.

<sup>34</sup> *Estudio sobre la situación de las empresas constituidas con el apoyo de Lan Ekintza*, Bilbao, June 2005.

## II.2.4. Festivals and trade fairs

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

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

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

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

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

- Fostering artistic expression

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

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<sup>35</sup> *Economic impact of professional performing arts in Ireland*, a study undertaken on behalf of Theatre Forum by Fitzpatrick Associates, September 2004.

<sup>36</sup> *Festival-world, State of affairs and suggestions on how to improve subsidisation*, Peter Inkei, Zsuzsa Hunyadi, Zoltán János Szabó, The Budapest Observatory, April 2005.

<sup>37</sup> *Festival des Vieilles Charrues, les impacts du festival*, a report completed by Ouest Consulting, for the Association les Vieilles Charrues, 2003

<sup>38</sup> <http://www.vieillescharrues.asso.fr/festival/index.php>.

<sup>39</sup> *Festival-world, State of affairs and suggestions on how to improve subsidisation*, op.cit.

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

- Acting as cultural ambassador

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

- Contributing to public interest's objectives:

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

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

- Economic benefits

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

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

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

<sup>41</sup> *Festival-world, State of affairs and suggestions on how to improve subsidisation*, op.cit.

Assistance to arts and festivals, working paper prepared by Peter Inkei, Budapest Cultural Observatory, for the International Federation of Arts Councils and Culture Agencies, October 2005.

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

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

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

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

### Sziget Festival (music), Hungary

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

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

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

<sup>42</sup> Budapest Hotel Reservation Article, [http://www.budapesthotelreservation.hu/articles/sziget\\_festival\\_2005\\_large\\_interest\\_from\\_abroad\\_DE.php](http://www.budapesthotelreservation.hu/articles/sziget_festival_2005_large_interest_from_abroad_DE.php) and [http://www.budapesthotelreservation.hu/articles/sziget\\_fesztival\\_DE.php](http://www.budapesthotelreservation.hu/articles/sziget_fesztival_DE.php), 2006.

### Avignon Festival (theatre) France

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

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

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

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

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

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

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



- Indirect spin-offs representing tourist spending (accommodation, restaurants, etc). The calculation methods used were able to dissociate festival-specific spending from what tourists spent on visits to the nearby city of Avignon with its architectural heritage. The spending amounted to € 1.66 million.

- Induced spin-offs could not be accurately measured: they consist of the drawing power of the city Avignon at the national and international level thanks to the indirect publicity carried out by various media presentations of Avignon during the festivals such as news reports, television coverage, newspaper & magazine articles, etc.

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

The Avignon Festival Management Association conducted a second study in 1995.

- The study focused on spin-offs in terms of employment: the festival induced more than 1000 jobs in July, 100 of which were in the hotel and restaurant business, 400 in the services-to business sector, 116 in the associative sector, 295 in recreational & cultural activities, 13 in personal services, 5 in printing & publishing, 21 in posts & telecommunications and 51 in health & social services.

- Tourist spending on accommodation, restaurants and miscellaneous services amounted to more than € 7.27 million. The direct spin-offs from mounting and running the festival off were estimated at nearly € 8.63 million, of which € 5.3 million remained in the city. An assessment of induced effects confirms the results of the 1986 study: these include a major media impact, the role of the convention centre, which gives the city an international cultural and economic profile, creation in 1987 of the performing arts institute which bring around 30 young people into the labour market each year.

↳ The benefits for the region are manifold. In addition to the important economic impacts, the Avignon festival

has triggered a particular dynamic. Many other cultural festivals were set up in the region along the years. The PACA region today concentrates one third of all French festivals. In addition, the region specialises in arts education. Many specialised training structures exist in the field of music, dance, theatre, and street arts, as reported in a report on the "State of play of performing arts in PACA"<sup>43</sup>

#### The city of festivals and trade fairs: Cannes (France)<sup>44</sup>

In its 2005 report on "Tourism in Cannes", the city of Cannes gives information on the economic impact of its festivals and trade fairs linked to cultural industries. Cannes is the second city for the festivals in France after Paris. The major culture-related festivals and congresses hosted by the "Palais des Festivals et des Congrès" are:

- Film Festival: 120,000 people
- MIDEM (the world's music market): 9,000 people
- MipTV (television and film trade market): 12,000 people
- IAFF (media award for editorial): 8,000 people
- Mipcom (the largest international audiovisual content trade show): 11,700 people

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

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

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

<sup>43</sup> *Etat des lieux du spectacle en Provence Alpes Côte d'Azur, Indicateurs généraux et éléments d'études*, Arcade, 2005.

<sup>44</sup> *Tourisme à Cannes 2005*, Sirius-CCI.

**The social impact includes the creation of 16,217**

**jobs:**

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

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

## II.2.5. The Performing arts

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

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

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

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

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

## II.2.6. Film tourism

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

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

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

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<sup>45</sup> *Economic impact Study of UK theatre*, Arts Council Of England, April 2004.

## Cinema and tourism

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

- In the UK, a Report by Oxford Economic Forecasting "*The economic contribution of the UK film industry*"<sup>46</sup> refers to surveys suggesting that one in five visitors to the UK come as a result of seeing the country depicted in film and television.

- In France, the ADEF (French association of film exporters) commissioned a study about the impact of the French film industry abroad.

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

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

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

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

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

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

- Elements for a better exploitation of these trends

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

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

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

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

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

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

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

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

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

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

### **III. CREATIVE CITIES**

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

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

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

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

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

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

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

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

The nature of cultural activity implies:

- Constantly shifting production

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

- Increased uncertainty

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

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

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

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

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

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

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

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

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

In general this entails the offering of:

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

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

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

### **III.2.1. Fostering creative hubs**

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

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<sup>47</sup> FLORIDA (Richard) *The Rise of the Creative Class*, 2002; *The Flight of the Creative Class*, 2005

- A strong political will

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

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

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

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

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

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

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



## Case Study: CREATIVE CITIES

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

London was one of the first cities that understood “creative industries”<sup>48</sup> could potentially create wealth and jobs<sup>49</sup>. Since 1994, programmes provide funding in order to support projects targeting cultural & creative industries.

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

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

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

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

<sup>49</sup> DCMS 2001, Creative Industries Mapping Document.

with 650,000 people working either directly in the creative industries or in creative occupations.

#### • *The Commission on the Creative Industries - “Creative London”*

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

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

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

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

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

<sup>50</sup> Creative London’s website- [www.creativelondon.org.uk](http://www.creativelondon.org.uk)

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

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

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

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

#### **• Number of creative businesses, structures and revenues of the sector**

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

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

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

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

<sup>51</sup> Kulturwirtschaft in Berlin, Entwicklung und Potenziale, Berlin 2005.

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

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

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

#### **• Employment**

The number of employees over the period 1998-2002 rose by 7 %.

In 2002, the creative sector employed 90,000 persons, representing more than 8 % of the total Berlin employment.

Over 50 % are occupied by women.

The self-employed and freelancers are the most important engine for growth and employment – having grown four times more than total employment.

The best performance to date has been recorded by the following sectors:

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

#### **• Dynamic effect on the creative economy**

The cultural sector offers above average occupation chances for the service sector including software and ICT.

The demand for artistic and creative content is on the rise. The frequently project-dependent form of the work in culture increasingly spread over other economic sectors and is an indication for a modern economy.

#### **• Impact on tourism**

Berlin is the most important destination for city tourism in Germany. In 2004 it was valued at € 13 million in

overnight stays, providing employment to 145,000 people in the tourism, hotel and restaurant sectors.

Cultural tourism and culture are totally interdependent:

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

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

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

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

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

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

#### **• Quebec's strategy to attract multimedia companies**

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

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<sup>52</sup> Ubisoft Annual Report 2005, [http://ftp.ubi.com/corporate/Finance/UBISOFT\\_2005\\_Annual\\_Report.pdf](http://ftp.ubi.com/corporate/Finance/UBISOFT_2005_Annual_Report.pdf)

<sup>53</sup> Investissement Québec, <http://www.investquebec.com/en/index.aspx?page=1754>

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

#### **• Government support**

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

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

#### **• Top educational infrastructure to foster talent**

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

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

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<sup>54</sup> Investissement Québec, <http://www.investquebec.com/en/index.aspx?page=1754>

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

• A **"technology community"**

In 2005, Quebec was home to 275 businesses of various sizes specialising in the multimedia industry:

- Leading developers such as Ubisoft and Electronic Arts
- Emerging developers such as Jamdat Mobile
- Innovative micro-businesses such as Sarbakan.

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

### **New York: looking at the London example**

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

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

The creative core has been one of the more dependable growth areas for the city's economy. Between 1998 and

2002, employment in New York's creative core grew by 13.1 % (adding 32,000 jobs) while the city's overall job totals increased by 6.5 % during this period. In 2002, New York City's creative workforce comprised of 309,142 people, ranking second internationally right after London.

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

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

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

### III.2.2. European capitals of culture

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

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

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

These events trigger important economic and social consequences.

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

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

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<sup>56</sup> [www.ec.europa.eu](http://www.ec.europa.eu)

<sup>57</sup> European cities and capitals of culture, study prepared for the European Commission by Palmer/RAE associates, August 2004

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

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

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

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

### Example 1- GRAZ (AUSTRIA) 2003

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

#### ■ Main events within the project year

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

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

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

#### ■ Impact

##### Operating income in € Million:

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

##### Operating expenditure in € Million:

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

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

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

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

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

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

<sup>58</sup> [www.graz03.at](http://www.graz03.at).

## Example 2- LILLE (FRANCE) 2004

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

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

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

### ■ Main events within the project year

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

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

### ■ Socio-economic impact

#### Operating income in € Million:

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

#### Operating expenditure in € Million:

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

- In 2004 Lille attracted more than 9 million visitors. From December 2003 to November 2004, the Lille Tourist Office was visited by 823,000 tourists, compared to 308,000 tourists in the previous year<sup>60</sup>. The number of overnight stays increased by 27%. If we only count the tourists (and not the business travellers), the number of overnight stays grew by 39.7%.<sup>61</sup> Moreover, during the year of the event, the employment rate in Lille's hotel industry rose to 70.3% with a peak at 79.3% during the summer of 2004<sup>62</sup>.
- In 2003 and 2004, there were 1,341 new jobs created, directly linked to the organisation of the ECoC year and an estimated personnel growth of 20% in the local economy<sup>63</sup>.

<sup>60</sup> Questionnaire answered by Association Lille 2006-2008, Lille, 5/2006.

<sup>61</sup> INSEE – Assoc.Lille Horizon 2004 – Impact de Lille 2004 sur l'économie du tourisme, Lille, 2005.

<sup>62</sup> INSEE – Assoc.Lille Horizon 2004 – Impact de Lille 2004 sur l'économie du tourisme, Lille, 2005.

<sup>63</sup> Questionnaire answered by Association Lille 2006-2008, Lille, 5/2006.



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

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

<sup>64</sup> Insee - Association Lille Horizon 2004 – *Impact de Lille 2004 sur l'économie du tourisme*

<sup>65</sup> Questionnaire answered by Association Lille 2006-2008, Lille, 5/2006

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

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

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

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

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

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

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

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

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

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<sup>66</sup> Eurocult 21 Integrated report, a 2005 report by Eurocities, European Commission, City of Helsinki Cultural Office, Jill Robinson editor

This is well understood by the European Commission. In its Communication “A cohesion policy to support growth and employment”<sup>67</sup>, the European Commission notes under chapter 5.1 “*the contribution of cities to growth and jobs*”:  
*“(...) Account must be taken of specific problems of the urban areas such as social exclusion, high and rising crime rates, and the general worsening of the quality of life in deprived urban areas. (...) also important are measures to rehabilitate the physical environment, redevelop brownfield sites, and preserve and develop the historical and cultural heritage. The regeneration of public space and industrial sites can play an important role in helping to create the infrastructures necessary for sustainable economic development. In the light of the often deep-seated social cohesion, it is important that actions should strengthen security, promote economic, social and cultural integration of the least favoured, combat discrimination, and promote the availability, and access to, key services”.*

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

## **IV.1. Fostering territorial cohesion**

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

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

The following two examples are illustrative.

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

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<sup>67</sup> SEC (2005) 904, 5 July 2005.

### **Socio-economic impact of the establishment of Marin Karmitz's movie theatres in Paris 19<sup>th</sup> district**

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

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

The district took advantage of this success. One of Karmitz's goals in fact was to "*re-conquer a poor area looking like a culture desert.*" According to the head of culture at the 19<sup>th</sup> district city hall, Joel Houzet<sup>68</sup>, the district changed into a welcoming place. Crime plummeted at the same time as public utilities reconstructed Stalingrad square and the surroundings of the pond where the cinemas are implanted. These changes certainly stimulated the district's regeneration, culturally and economically.

- *Social and cultural impacts*

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

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

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

- *Economic impact*

The establishment of the two movie theatres seems to have also had an influence on the economic revival of the district:

- *The energy company Total has set up its head office near the theatres*
- *Around the area a three star hotel, youth hostel and many restaurants and bars have been established in buildings that were once abandoned*

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

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

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

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<sup>68</sup> Interview with KEA.

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

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

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

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

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

## **IV.1.2. Social cohesion within regional policy**

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

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

### **The tools**

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

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

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

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

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

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

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

### **Assessment of the budget allocated to cultural projects:**

#### *Period 1989-1993*

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

#### *Period 1994-1999*

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

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

#### *Period 2000-2006*

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

#### *After 2006?*

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

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

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

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<sup>69</sup> (COM(96)512)

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

A concrete example of a successful regional policy aimed at fostering new activities and generating employment in the framework of a sustainable development strategy is the Aberystwyth Arts Centre in Wales, UK.

The Centre benefited from ERDF funds at its beginning. It is part of an overall regional strategy fostering cultural developments to revitalise the area.

### **Aberystwyth Arts Centre, Wales, UK**

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

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

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

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

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

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

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

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

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<sup>70</sup> *The economic impact of Aberystwyth Arts Centre*, Report completed by Econactive, Dr. Jane Bryan, Calvin Jones, Dr. Max Munday, August 2004

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

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

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

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

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

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

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

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

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

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

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

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



**Chapter V.**  
**A strategy for a creative Europe**

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

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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 <sup>[2]</sup>
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><b>Plenty of individual talent ...</b></p>	<p><b>... but with limited business skills and attracted to the USA</b></p>
<p><b>Some of the largest competitive players at global level ...</b></p> <p>In the publishing, video-games, fashion and music sectors for instance.</p>	<p><b>... but they lack the same power and leverage compared to US-based creative industries or governments</b></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><b>Strong creative industries, and a myriad of creative SMEs with strong local presence ...</b></p>	<p><b>... but these are often unable to benefit from the internal market with market access and undercapitalisation problems</b></p> <ul style="list-style-type: none"> <li>• Linguistic and cultural fragmentation</li> <li>• Under-capitalisation</li> <li>• Concentration on the cultural market and consolidation of the media sector</li> <li>• Lagging behind in implementing new business models</li> <li>• Problems in valuing copyright in relation to rights management and accounting</li> <li>• Increase in marketing and promotion costs</li> <li>• Heterogeneous tax and social systems</li> </ul>
<p><b>Importance of the public sector ...</b></p> <p>The public sector is essential to nurture the supply of cultural diversity – a European comparative advantage.</p>	<p><b>... but a resistance in taking stock of international challenges</b></p> <p>Public policies are:</p> <ul style="list-style-type: none"> <li>• Often disconnected from market realities (cinema)</li> <li>• Not based on satisfactory economic intelligence</li> <li>• Marked by excessive national focus</li> <li>• Operating in isolation when they should be implemented in parallel with other policies (environment, tourism, social, local development, etc)</li> <li>• Not addressing the digital challenge to the level it deserves.</li> </ul>
<p><b>Sustained consumer demand (growth in demand for content) ...</b></p> <p>Almost a billion new customers will enter the global market place in the next decade with growth in emerging markets.</p>	<p><b>... but poor understanding of consumers' demand in relation to the digital economy</b></p>
<p><b>Strong IP laws in the EU ...</b></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><b>... but poor enforcement in some countries (piracy levels) and subsidising broadband roll out.</b></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.<sup>1</sup>
- 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.

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<sup>1</sup> 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 7<sup>th</sup> 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 2<sup>nd</sup> 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**

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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 sector<sup>2</sup>.

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?

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<sup>2</sup> 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)<sup>3</sup>, 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 art<sup>4</sup>. 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.

<sup>3</sup> <http://www.aep-arts.org/>

<sup>4</sup> 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)<sup>5</sup>. 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 report<sup>6</sup> 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”<sup>7</sup>.

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?

<sup>5</sup> Anuario Bilbao 2004.

<sup>6</sup> *Culture and local development*, OECD, 2005

<sup>7</sup> *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

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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*<sup>8</sup>. 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 Report<sup>9</sup> 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

<sup>8</sup> <http://ww3.artsusa.org/>

<sup>9</sup> *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 performances<sup>10</sup>.

**Table 18: EU innovation scoreboard**

	INDEX	DESCRIPTION
<b>INNOVATION INPUT</b>	<b>Innovation drivers</b>  (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)
	<b>Knowledge education</b>  (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
	<b>Innovation and entrepreneurship</b>  (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)		
<b>INNOVATION OUTPUT</b>	<b>Application</b>  (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)
	<b>Intellectual property</b>  (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;

<sup>10</sup> For an example of EU "innovation policy scoreboards", please go to : [http://trendchart.cordis.lu/scoreboards/scoreboard2005/scoreboard\\_papers.cfm](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*<sup>11</sup>. 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 7<sup>th</sup> 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.

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<sup>11</sup> (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 7<sup>th</sup> 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 7<sup>th</sup> 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 direction<sup>12</sup>. 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”).

<sup>12</sup> 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 7<sup>th</sup> 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.

## **Annexes**

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## **Annex 1. Sector profiles**

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The importance of the film sector in Europe is undisputable. Cinema was born in Europe more than a century ago and enjoys a high degree of consideration amongst policy makers and the general public for both its symbolic and economic value. Many European countries have a long established tradition in film making, many European films and directors (Truffaut, Fellini, Fassbinder, Greenaway, Almodovar, Von Trier, Andrzej Wajda, to name but a few) are famous throughout the world. The importance of cinema in contemporary culture is directly linked to the growing influence of images and the audiovisual in the information society.

However, from an economic point of view, film represents a relatively minor sector in Europe. Cinema is outweighed by other cultural industries (publishing, music) in terms of generated turnover and, within the audiovisual sector, TV and radio have a far greater economic significance. The late comer in the field of creative industries, the video games sector, claims higher revenues than box office receipts. Yet, the most worrying figures come from the market share of European productions: less than a quarter of all money spent in European cinemas in 2005 went to European films. The overwhelming majority of admissions are captured by US productions. The same pattern applies to video rental and retail and to a lesser extent TV films and productions. A trade deficit with the US in the audiovisual field has grown exponentially over the years.

The European film industry suffers from a number of structural deficiencies: fragmentation along national borders, under-capitalisation and difficult access to finance, enterprises in the sector are relatively small, difficulty in marketing and promoting films internationally. For the average European viewer, it is easier to watch stories coming from Hollywood than from neighbouring countries.

Yet, beyond all the difficulties the European film sector is experiencing, cinema still represents a value dear to Europeans. The amount of public money spent on supporting films is important and all EU Member States support their film industry. The protection of indigenous productions from international competition and trade is a cornerstone of the EU commercial policy since the Uruguay Round. Cinema is the battlefield for the promotion of cultural diversity. At the same time it is in the spotlight, as new opportunities regarding digital delivery platforms in the European film industry grow increasingly important - harnessing the digital revolution is the biggest challenge faced by European cinema today.

## THE ECONOMY OF FILM IN EUROPE<sup>1</sup>

### ONE SECTOR, MANY DIFFERENT BRANCHES

The film industry comprises several business branches, characterised by marked differences. For the purposes of this study, the film and video sector is defined as the grouping of enterprises active in the following areas: film and TV production, exhibition and distribution. Within the area of distribution, the following channels are considered: theatrical distribution, home video, TV (free-to-air, pay-TV), and VOD.

In order to evaluate the economic weight of the film sector in Europe, two different indicators have been chosen: retail revenues and turnover of the different areas comprised in the sector (production/distribution/exhibition).

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<sup>1</sup> All the figures presented in this section and in the following sections of this chapter are derived from the Yearbook published by the European Audiovisual Observatory - 2005 edition. Any different source is indicated.

- **Assessment of retail revenues:**

According to the European Audiovisual Observatory (EAO), the size of the film sector in Europe at retail level is as follows (these figures do not include revenues generated by sales of film rights to broadcasters or by VOD):

**Table 19: European film sector at retail level**

Retail revenues (including taxes)	€ million					
	1999	2000	2001	2002	2003	2003/1999
Film theatre gross box office	4,393	4,694	5,356	5,624	5,326	+21.2%
VHS software (rental + retail)	5,835	5,953	5,404	4,629	2,810	-51.8%
DVD software (rental + retail)	400	1,406	3,125	6,285	9,014	+2,153.5%
<b>TOTAL</b>	<b>10,628</b>	<b>12,053</b>	<b>13,885</b>	<b>16,538</b>	<b>17,150</b>	<b>+61.4%</b>

For the film and video sector, figures at retail level correspond to the money spent by European viewers watching films in cinemas or at home (by purchasing or renting videos). The size of this market represents only a minor part (about 16%) of the overall audiovisual market in Europe (€ 105 billion in 2003), which is clearly dominated by TV and radio companies.

Four major considerations may be drawn from the above table:

- The sector has experienced considerable growth over the last years - over 60% increase in revenues from 1999 to 2003;
- Box office revenues have grown over these years by more than one fifth;
- DVD rental and retail has rapidly replaced VHS as the main form of home video consumption in Europe;
- Revenues from home video have increased at a faster rate than box office revenues. They amounted to almost double the value of box office revenues in 2002-2003.

These observations confirm the ongoing trend in the film industry worldwide, at least in mature markets such as Europe and the US: the film industry is increasingly relying on revenues derived from home video to sustain its turnover and profitability but cinema going continues to be considered an essential part of the film exploitation chain, especially in terms of marketing and promotion. The emergence of VOD and online distribution services may once again provoke a disruption in the revenue model of the film industry.

However, despite the slowing growth of DVD sales, home video is expected to remain the primary source of revenues for the film industry, especially for Hollywood studios. Research carried out by US consultancy Adams Media<sup>2</sup> reveals that studios earn USD 17.26 for each DVD they sell, but only USD 3.5 for each cinema ticket, USD 2.37 for films downloaded through VOD and USD 2.25 per DVD rented. These figures, collected on the US market, may be transposed with the necessary adaptations to the European market. They show that video represents the most profitable activity for the film industry.

<sup>2</sup> Article included in the *Money & Business* section of the *New York Times*, June 24, 2006

- **Assessment of operating revenues**

Another way of examining the size of the film sector in Europe is to consider economic data provided by the three categories of enterprise active in the sector: producers, distributors and exhibitors. Data for the years 2000 to 2003 for the EU25 are as follows:

**Table 20 – Operating revenues – European producers, distributors and exhibitors 2000-2003**

Operating revenue	€ million			
	2000	2001	2002	2003
Producers (EU15)	5,327	5,485	NA	NA
Distributors	4,983	5,983	5,857	6,050
Exhibitors	6,382	7,702	7,767	7,758
TOTAL	16,692	19,170	13,624	13,808

This table shows the respective size of the three main branches of the film industry. 2001 represents the last year for which the European Audiovisual Observatory collected data for producers. The available figures show that up to then there was a sort of equilibrium amongst the three branches and that little variation occurs in distributors' and exhibitors' operating revenues in 2002 and 2003 - overall figures, however, conceal deep differences existing amongst companies active in different branches. This topic is dealt with in the following section.

## THE IMPACT OF ICT AND INTERNET

It is difficult to estimate the impact of ICT and the Internet on the film & video sector. New technologies are disrupting traditional consumption channels. The film industry is developing new schemes and business models to cope with the significant changes brought by digital platforms, although at a slower pace than its sister industry (music).

- **Video on demand (VOD)**

ICT is changing the home video business dramatically. The common denominator unifying new channels of film delivery is usually called VOD - Video On Demand. VOD may take different formats according to the devices used to access content and to the technical platforms exploited by service providers. Although VOD services are available on existing digital platforms such as satellite TV and the emerging digital terrestrial TV (DTT), **the main push to VOD comes from the uptake of broadband technology across Europe.**

Figures on broadband uptake in Europe are presented in Chapter IV in this study. It is important to note that while broadband penetration is the pre-condition for the development of VOD services based on IP-TV<sup>3</sup>, the availability of films is one of the major drivers for the uptake of broadband. All across Europe, dominant telecom operators and new entrants are pushing through subscriptions to broadband networks by emphasising the vast range of content that can be accessed by consumers - premium offers always include films through VOD services.

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<sup>3</sup> For a definition, please refer to the Glossary in Annex 8



- **The situation of the European market**

Due to recent developments in the VOD market, it is difficult to have comprehensive figures to assess its size. Data for 2005 and future estimations available are presented hereafter:

**Table 21: Revenues on the VOD market: 2005 and estimates for 2010**

Revenues (USD million)	2005	Estimates 2010
North America	1,532	4,735
Europe	1,275	4,497
Asia Pacific	262	1,123
Latin America	128	387
Total	3,197	10,743

Source: Informa Telecoms & Media

Europe was well positioned in 2005 and estimates for 2010 place Europe as the second market for VOD services in the world. The size of the market is also significant: total volume of VOD revenues in 2005 was more than double the revenues derived from digital music sales, online and mobile (estimated at USD 1.5 billion) in the same year - if music is at the fore front of the digital revolution, film has already overcome it in terms of revenue generated from new platforms.

- **Diversity of services and offer**

The range of VOD services available across Europe varies between Member States and continues to change. A survey made by NPA Conseil<sup>4</sup> in ten EU countries (Austria, Finland, France, Germany, Hungary, Italy, Poland, Portugal, Spain and UK) and published in May 2006 reveals that the number of VOD service providers has grown tenfold from 2002 (5) to 2004 (>40). The analysis of the main platforms shows that more than 2,000 feature films are already available through VOD in Europe.

## TRADE

Obtaining complete and reliable figures on the international trade of films and audiovisual works is a very difficult task. The economic value of a film consists in the revenue generated by licensing its rights through a multitude of channels or "exploitation windows": theatrical, home video, VOD and TV. **These operations are not captured by statistics measuring international flows of goods and services.**

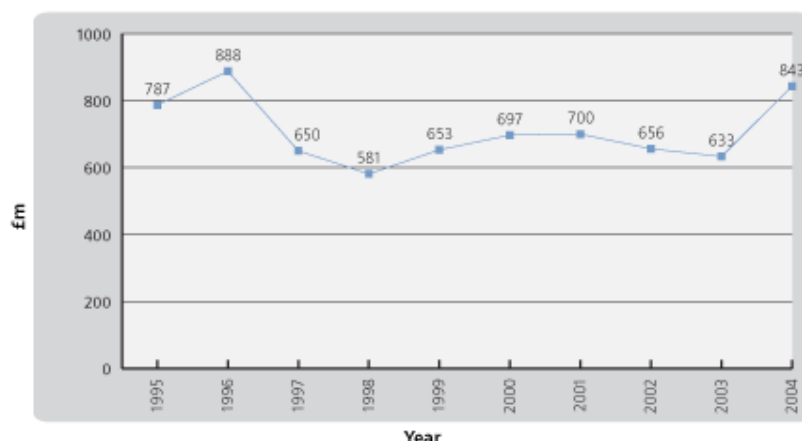
However, it is possible to give an idea of the trade value of films produced by the two largest national industries within the EU. According to statistics elaborated by the UK Film Council<sup>5</sup>, the UK film industry exported £ 843 million worth of services in 2004, £ 399 million of which came from royalties and £ 444 million from film production services. Film exports have fluctuated between £ 581 million and £888 million between the period 1995 to 2004, as shown in the figure below:

<sup>4</sup> NPA Conseil, *The development of video on demand in Europe*. NPA Conseil, May 2006.

<http://www.npaconseil.com/data/ENG060619final.pdf>

<sup>5</sup> <http://www.ukfilmcouncil.org.uk/information/statistics/yearbook/?pf=&low=&y=2005&c=12&s=>

**Figure 27 – Film export in the UK 1995-2004**



The balance of payments for the UK film industry has been constantly positive over the period examined, with a trade surplus of £ 91 million in 2004. It should be noted that most of the exports were generated by subsidiaries of US majors. The share of UK film exports accounted for by the UK subsidiaries of major US film companies was above 50% for the whole period that was examined (it was 58% in 2004). The USA was the largest market for UK film exports, taking 47.2% of total exports in 2004. Europe was the second largest market, taking 31.2%.

As for France, data provided by CNC<sup>6</sup> show that film exports generated € 223 million in revenues in 2004, split between exports of French films (€ 141 million or 63% of the total) and exports of foreign films (€ 82 million or 37% of the total). The first largest market for French film exports was Western Europe with 56% of the total, followed by Asia with 15% and North America with 12%.

## **THE ISSUE OF FILM PIRACY**

According to a study published by the MPAA<sup>7</sup>, the US film industry (MPAA-affiliated studios, i.e. the Hollywood majors) lost USD 6.1 billion to piracy in 2005, out of which USD 1.3 billion came from domestic piracy and USD 4.8 billion from international piracy, with around half of it occurring in Europe.

As a result, the MPAA's statistics on piracy have begun to take into account losses due to online piracy:

- The MPAA estimates that in 2005 US 2.4 billion were lost by studios due to the purchase of illegal copies of VHS/DVD;
- USD 1.4 billion were lost because of the illegal copying of legitimate VHS/DVD;
- USD 2.3 billion were lost through Internet piracy (illegal downloads of films).

In regard to the European market, estimates on the losses suffered by the film industry (MPAA and non-MPAA companies) because of piracy on a country-by-country basis are as follows:

<sup>6</sup> <http://www.cnc.fr/Site/Template/T12.aspx?SELECTID=1306&ID=766>

<sup>7</sup> [http://www.fact-uk.org.uk/site/media\\_centre/documents/2006\\_05\\_03leksumm.pdf](http://www.fact-uk.org.uk/site/media_centre/documents/2006_05_03leksumm.pdf)

**Table 22: Estimated losses in the film sector due to piracy**

Country	Losses (USD million)
France	1,547
UK	1,007
Spain	670
Germany	490
Italy	442
Poland	272
Hungary	199
Netherlands	129
Sweden	108

The table above presents a list of countries affected by film piracy in Europe according to the degree of losses the industry suffered. The largest audiovisual markets (France, UK) are the ones that record the highest losses. MPAA affiliated companies suffer from the greatest revenue losses in the UK, whereas in France it is the local industry which is most affected by piracy. However, in comparative terms, the MPAA study reveals that piracy is most prevalent in markets of Central/Eastern and Southern Europe: the potential market shares lost to piracy are deemed to be as high as 73% in Hungary, 66% in Poland and 32% in Spain.

## **STRUCTURE OF THE SECTOR**

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The structure of the film industry varies greatly according to the different branches of activities and according to the individual countries. A sector-by-sector analysis is necessary in order to comprehend the differences that exist in the European film industry. Our analysis will focus on the production and distribution sectors.

### **PRODUCTION**

The production sector is the most fragmented and unstable. The structural difficulties of the European film industry (fragmentation, under-sized companies, limited access to finance) are peculiar to the production branch. Most production companies are SMEs.

Many of the European production companies have **a limited output of 1-2 productions a year**. In some cases, companies are created for the production of a single film and are subsequently dismantled. This explains why turnover tends to significantly vary from one year to another.

In **France** 212 films were produced by 156 different production companies in 2005. Gaumont was the most prolific company with seven films produced; Europacorp, Gémini Films and Les Films d'Ici produced six films each; Agat Films et Fie and Maia Films each produced four films. Arp, Fidélité Films, Orsans Productions and Pathé Renn production produced three films; 21 companies produced two films each and the remaining 125 companies only produced a single film.

In the **UK**, the film council international recorded 217 production companies associated with films shot in the UK or co-productions involving the UK in 2005. Of these, 186 companies were associated with a single feature. The two most prolific production companies were associated with seven features each, followed by one company with five features, one with four features, seven with three features and twenty with two features.

In regards to production trends in other European countries, the following table shows that the overwhelming majority of European production companies only produce one film a year:

Country	Number of film production companies	Number of companies producing not more than 1 film	Percentage
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%

- **Number of films produced and average budget**

Europe has thousands of enterprises active in audiovisual production. No other country matches the number of feature films produced in Europe - the EU25 produced 761 films in 2004, 150 more than the US and more than double the films produced in Japan.

However, the large number of films produced is not itself a sign of a healthy industry. Creativity is often separate from finance - a number of small budget films have difficulty in reaching distribution channels and recouping the investment costs. The average size of a film's budget is an indicator of the economic viability of the film industry in a given territory: whilst the average cost of producing a film was USD 62 million for a US major in 2004 (USD 29 million for the majors' subsidiaries and affiliates), the figure in the same year was USD 9.3 million for a UK production<sup>8</sup>, USD 6.6 million for France and USD 3 million for Italy.

## DISTRIBUTION

- **Box office market share**

The European film distribution market is **dominated by US-affiliated companies** - they obtained 64.5% of total box office revenue in the five major EU markets in 2004 (accounting for almost 80% of the European box office). European distributors obtained the remaining 35.5% - still, it must be noted that although some European distributors perform well in their national market (no pan-European distributor exists at present), most of them are also specialised in the distribution of US films.

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<sup>8</sup> UK Film Council statistics, 2005 data

In 2003 and 2004, the three largest US distributors (Buena Vista, Warner, UIP) controlled almost half of the European box office. It can thus be deduced that Hollywood subsidiaries are the ones benefiting from the internal market, whereas for European companies, it is virtually nonexistent. As a consequence, US productions have been enjoying a market share of about 70% of the European box office for many years now (2003: 71%, 2004: 70.5%, 2005: 73.2%).

- **International box office**

The table below clearly shows Hollywood's domination of box offices worldwide - **the top-20 films by box office revenues in 2005 were all US productions**, including a certain number of US co-productions with other countries (mainly English-speaking territories):

**Table 23: World box office top 20 - 2005 (USD million)**

Rank	Original title	Country of origin	North American box office	International box office	Total
1	Star Wars III: Revenge of the Sith	US	380	468	848
2	Harry Potter and the Goblet of Fire*	UK/US	277	531	808
3	War of the Worlds	US	234	357	591
4	Madagascar	US	193	340	533
5	Charlie and the Chocolate Factory	UK/US	206	266	472
6	Mr & Mrs Smith*	US	186	282	468
7	The Chronicles of Narnia	US/NZ	226	202	428
8	King Kong	US/NZ	175	213	388
9	Batman Begins	US/UK	205	166	371
10	Hitch	US	178	189	367
11	Meet the Fockers**	US	117	230	347
12	Fantastic Four	US/DE	155	175	330
13	Wedding Crashers	US	209	76	285
14	Robots	US	128	133	261
15	Constantine	US	76	154	230
16	Million Dollar Baby**	US	99	121	220
17	Chicken Little*	US	132	84	216
18	Kingdom of Heaven	UK/DE/ES/US	47	163	210
19	The Pacifier	US/CA	113	85	198
20	Flightplan*	US	89	105	194

Source: European Audiovisual Observatory

\*: still on release in 2006

\*\* : 2004 release, box office 2005 only

Most of the films on the list (15 out of 20) generated the majority of their revenues outside the US home market. Although figures by region are not available, European box offices represented a significant share of foreign earnings made by Hollywood films.

- **Market share of European films**

The situation varies from one country to another: France is the only EU country where national films enjoy a relatively high market share (over one third of the market over the last decade); in Italy, Denmark and Sweden national productions usually account for one quarter of the box office; in the Czech Republic, Finland, Spain, Germany and the UK for between one fifth and one sixth; in all other European countries, US productions are often close to 80-90% market share.

By comparison, the average market share of US films in their home territory is close to 94%, and the market share of European productions in the US market is less than 5 %.

- **The problem of trans-national circulation**

**On average, the market share of non-national European films is 7%.** The real bottleneck for European films is distribution. Most EU productions are made, distributed and consumed in one single country. They do not go beyond national frontiers, let alone across the Atlantic - they do not benefit from economies of scale and are unable to recoup investment costs through multi-territorial distribution. This is surely due in great parts to the particularity of national tastes and to language barriers, but most of the issue come from the structure of the distribution sector.

- **The home video market**

Besides the poor figures at box office level, European films perform even worse when it comes to home video - although comprehensive figures are not available, existing data show that the home video market is also dominated by Hollywood products.

The distinctiveness of the European home video market is that it is heavily dependent on the three main national markets - UK, France and Germany- which together account for two thirds of the total EU video retail and rental sector. Video is also the branch of the industry which is suffering most from piracy.

## **THE COMPETITIVENESS OF THE EUROPEAN FILM INDUSTRY**

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### **THE TOP-20 EUROPEAN FILM COMPANIES**

The European film industry comprises both indigenous national companies and subsidiaries of US majors. Many of the top-20 companies are active in different branches of the sector, including: production, distribution, exhibition and home video. The following table presents the ranking of the top 20 leading film companies in Europe according to operating revenues - figures include data from 2003 and 2004:

**Table 24: The top 20 leading film companies in Europe according to operating revenues (€ thousand)**

Rank	Company	Activities	Country	2003	2004
1	Walt Disney International Ltd	Distribution (film), Distribution (television), Trade in television rights, Video	UK	1,162,078	-
2	Groupe Pathé (1)	Exhibition, Distribution (film), Video, Trade in television rights, Production (film), Television	FR	631,000	763,000
3	United International Pictures B.V.	Distribution (film)	NL	538,880	634,938
4	Warner Bros. Entertainment UK	Distribution (film)	UK	625,851	-
5	Embassy Eagle Holdings	Production (film), Distribution (film)	NL	501,377	-
6	Europalaces (1)	Exhibition	FR	380,019	407,728
7	Terra Firma Investments (2)	Exhibition	UK	-	402,454
p.m.	United Cinemas International (UK) Ltd	Exhibition	UK	162,855	164,354
p.m.	Odeon Cinemas Ltd	Exhibition	UK	233,313	238,100
8	Warner Bros France	Distribution (film)	FR	401,351	396,149
9	Groupe Canal+ (Turnover Film activities)	Production (film), Distribution (film), Trade in television rights, Video	FR	351,000	394,000
10	UGC (3)	Exhibition, Distribution (film), Trade in television rights, Video, Production ( film)	FR	523752	351058
11	Cineworld Cinemas Ltd (3)	Exhibition	UK	190553	340000
12	Warner Home Video (UK) Ltd	Video	UK	338,385	-
13	RAI Cinema	Production (film), Trade in television rights	IT	311,252	298,546
14	Egmont Nordisk Film	Distribution (film), Video	SE	345,285	289,000
15	Colombia Tristar Film GmbH	Distribution (film)	DE	264,460 (4)	-
16	Bavaria Film Gruppe	Production (film), Production (television)	DE	255,500	-
17	The Entertainment Group of Companies Ltd	Distribution (film), Video	UK	251,289	-
18	Constantin Film AG	Production (film), Distribution (film), Trade in television rights	DE	117,381	249,258
19	Twentieth Century-Fox Home Entertainment	Video	UK	246,979	-
20	Medusa Film	Production (film), Distribution (film), Exhibition, Video	IT	154,148	227,909

Source: European Audiovisual Observatory

(1) In 2001 Pathé and Gaumont transferred their exhibition activities to the company Europalaces. Europalaces' turnover is consolidated in Pathé group accounts, but not in those of Gaumont.

(2) On 2 September 2004, the investment group Terra Firma acquired Odeon Equity Co. Limited (Odeon). On 28 October 2004, Terra Firma acquired sole control of United Cinema International (UK) Ltd. and Cinema International Corporation (UK) Limited.

(3) In October 2004, Blackstone Group acquired Cine-UK Ltd. On 1 December 2004, Blackstone Group (through its subsidiary Cineworld) acquired sole control of UGC.Cinema Holding Ltd.

(4) 2003 figures

Amongst the 20 largest film companies in Europe, seven are subsidiaries of Hollywood majors, established to cater for theatrical and home video distribution at both national and trans-national levels (the UIP subsidiary in the Netherlands covers multiple European territories). The presence of several exhibitor groups is also remarkable - the exhibition sector in Europe has undergone a process of concentration over the last few years and in addition to that a number of US and Australian funds have taken control over several cinema circuits in Europe (Terra Firma Investments, Cineworld Cinemas). Some of the companies are the film production and sales arm of national or local

broadcasters (Canal +, RAI Cinema, Bavaria Film). None of the companies are solely active in production - the first independent film producer (Europa Corp) ranks 45<sup>th</sup>.

## THE TOP-20 PRODUCERS

Film producers are generally of a smaller size - for most of them, operating revenues are less than € 100 million a year. Below is the list of the top 20 independent film producers in Europe:

**Table 25: The 20 leading independent film production companies in the European Union- Operating revenues (€ thousand)**

Rank	Company	Country	2003	2004
1	Pathé Renn Production	FR	120,069	186,038
2	Europa Corp	FR	96,940	-
3	AB Svensk Filmindustri (1)	SE	99,081	-
4	Gaumont (2)	FR	70,247	88,600
5	UGC Images	FR	65,057	73,925
6	80 Days Productions Ltd	UK	65,449	-
7	Cold Mountain Ltd	UK	57,043	-
8	Tiger Aspects Production	UK	52,526	55,287
9	Filmauro (1)	IT	51,492	53,659
10	Telema	FR	25,688	50,593
11	Fidélité	FR	35,979	43,672
12	Cattleya	IT	38,476	-
13	MK2 S.A. (1)	FR	38,176	-
14	Enchanted productions Ltd	UK	37,354	-
15	Crystalcreek Ltd	UK	-	36,110
16	Hirsch	FR	15,323	32,191
17	Fandango	IT	30,636	-
18	Studiologende	FR	30,469	-
19	Galatée Films	FR	15,726	27,829
20	La Petite Reine	FR	52,850	24,133

Source: European Audiovisual Observatory

(1) includes distribution activities

(2) film activities, not including exhibition

## CONCLUSION

The European film industry is characterised by the richness and variety of its productions which is reflected in the great number of companies active in the sector. However, the very high level of productions is not always matched by an effective distribution structure. In terms of market share, the US majors benefit the most from the European film market, the second largest in the world.

European companies rarely benefit from economies of scale induced by the Internal Market. The Single European Market is virtually non-existent in the field of cinema where production and distribution usually take place at national levels. This situation has its roots in the linguistic and cultural differences that typify Europe. The Hollywood industry often recoups its initial costs in the US market and then gains additional profits in the European market thanks to its capillary distribution structure.



The rapid uptake of digital technology and the diffusion of various VOD services across Europe are deeply transforming the film distribution and consumption value chain. Whether this change will be beneficial to the European industry is an open question. The issues at stake are significant - digital distribution implies reviewing business models, developing new licensing schemes and adapting financial strategies.

Securing effective distribution channels is another challenge for the film industry - the impact of piracy in delaying the emergence of a viable digital music business has been considerable and film professionals want to avoid a similar fate.

At a European level, several factors may help the film industry grasp the opportunities presented by ICT - these involve targeted EU and national support policies, the involvement of financing institutions and of traditional and new audiovisual players (broadcasters and telecom groups) in devising appropriate measures to ensure a significant presence of European works on digital platforms.

## MUSIC

Music is a key component of Europe's cultural identity. Ever since the invention of the seven notes, the pentatonic and the well-tempered system, Europe has been the cradle of modern music as we know it. Many musical forms were born in Europe (the oratorio, the opera, the concert, the symphony) and immortal European composers wrote masterpieces which constitute the repertoire played today by orchestras all over the world.

Nowadays, music is for Europe much more than its classical past. Music represents one of the most vibrant cultural industries in the EU. National audiences are fond of listening to local artists, buying their CDs and going to their concerts. As opposed to what has happened in the film sector, European consumers do not seem to have succumbed to transatlantic productions. Even though the Anglo-American repertoire represents the largest share of music sales in Europe, national catalogues withstand and are even thriving in some local markets.

Of all the so-called "content industries", music is the one which has been the most affected by the digital revolution - the one which has suffered the most from shifting business models and consumption practices but also the one which is starting to benefit from new distribution channels. European companies are well positioned to take advantage from digital services. Europe has high broadband penetration rates and one of the highest mobile penetration rates in the world. European music companies are dynamic and willing to embrace new technologies - however, their efforts may be hampered by insufficient resources to master technological tools such as DRM (this is especially true for small companies which have to adapt to formats and technology developed by ICT companies) as well as the increase and growing acceptance of music piracy.

Europe is home to two and a half of the four music majors (Universal, EMI and BMG, part of the Sony-BMG joint venture). However, the majority of European record companies are SMEs, often focused on the local market. Common issues faced by large and small companies are the development of new business models to adapt to changing market. The independents are confronted with the issue of increasing concentration in the sector, with two companies (Universal Music Group and SonyBMG<sup>9</sup>) controlling 60% of the market for recorded music sales.

Europe is also the region where the practice of collective rights management in the music field is most established. Authors, composers, publishers, performers and record producers derive a significant part of their income from licensing their works to a variety of users - these rights are usually administered collectively by a range of collecting societies, some of which have well rooted traditions in the past. Although the practice of collective management faces new challenges in the digital era, it remains a characteristic feature of the European music model.

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<sup>9</sup> See Case No COMP/M. 3333 - Sony/BMG, cleared on 19 July 2004 by the European Commission, the appeal launched by independent labels' representative body IMPALA on 3 December 2004 (Case T-464/04) and the subsequent judgement of the Court of First Instance of 13 July 2006. The judgement is available at <http://curia.europa.eu/jurisp/cgi-bin/form.pl?lang=EN&Submit=Rechercher&docrequire=alldocs&numaff=T-464/04&datefs=&datefe=&nomusuel=&domaine=&mots=&resmax=100>

## THE ECONOMY OF MUSIC IN EUROPE

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To measure the size of the music sector, three main areas have to be taken into account:

- The sales of recorded music (mainly CDs but also music DVDs, vinyl and cassettes as well as sales of digital music through online and mobile channels)
- Revenues from live music events (concerts, performances)
- Revenues collected on behalf of rights holders for the licensing of music rights

The first area is dealt with by using available industry data. The second one is examined through the example of two significant surveys. The third one is the subject of a case study.

### SALES OF RECORDED MUSIC<sup>10</sup>

- **A continuing decline**

Sales of recorded music have been declining all over the world since 2000, in both units and value. The highest decreases were recorded in 2003 (-7.4% on the previous year) and 2002 (-6.7%). Recorded music sales at retail value amounted to USD 33,632.9 million in 2004 on a global level; in fixed exchange terms, global retail value was USD 39,716.4 million in 2000 (a 15% decrease). For Europe, figures are as follows:

**Table 26: Recorded music sales in Europe 2000-2004**

Year	Retail value (USD fixed)	Annual change
2004	12,375.2	-5.3%
2003	13,112.6	-8.2%
2002	14,281.8	-3.7%
2001	14,752.8	0.6%
2000	14,605.3	1.3%

The overall decrease since 2000 is in line with worldwide trends (-15%). In absolute terms, the European market in 2004 amounted to 36.8% of the world's market for recorded music sales - by comparison, the North American market value (Canada & US) was slightly higher at USD 12,847.2 or 38.2% of the world's market.

Reasons for the constant fall of the recorded music market are manifold - the industry blames piracy as the main reason for decreasing sales of CDs but other factors may also have a negative influence on sales such as competition from other entertainment sectors (notably videogames), higher spending of young consumers (usually seen as big music buyers) in ICT products (mobile phones, games consoles) and the lack of creativity. The emergence of digital delivery channels may on one side affect CD sales but on the other hand it may reverse the trends nowadays seen in the music industry - this issue is dealt with in details below.

- **Digital music sales<sup>11</sup>**

The emergence of widespread digital services for music downloads based on the remuneration for right holders is quite recent - the first signs of the legitimate online music market appeared in 2004 and it was in 2005 that this business really took off, propelled by wide-spread diffusion of digital music players and in particular Apple's iPod.

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<sup>10</sup> The source for figures presented in this section is the IFPI Report, *The recording industry in numbers*, 2005

<sup>11</sup> The main source for figures presented in this section is IFPI's *Digital Music Report 2006*. Other sources are specified when necessary

Apple's online music shop, iTunes, is estimated to account for 80% of digital music downloads in 2005 - this is on par with the 80% market share of the iPod on the digital music players market<sup>12</sup>.

Worldwide revenues from digital music sales have grown exponentially in the last two years:

**Table 27: Worldwide revenues from digital music sales**

	2003	2004	2005
USD billion	...	0.380	1.1 (300% increase on 2004)
% of music revenues	0%	1 or 2 %	6%

According to estimates by Jupiter Research, digital music sales will represent 16% of the music industry revenues by 2010<sup>13</sup>. The share of digital sales on overall revenues is higher in the US than in other major markets - hereafter the percentages of digital sales over total sales (and the respective size of the market) in the five largest world music markets in 2005<sup>14</sup>:

- US 9% (USD 7 billion)
- Japan 7% (USD 3.7 billion)
- UK 3% (USD 2.1 billion)
- Germany 3% (USD 1.4 billion)
- France 2% (USD 1.2 billion)

According to these figures, Europe seems to be lagging behind the US in the uptake of digital music. However, significant differences exist between Europe and the US, as well as within Europe, as far as to the format on which digital downloads take place. Whereas in the US digital tracks are mainly downloaded from the Internet through online-based services, Europe has a higher share of music downloads to mobile phones - this also reflects the higher penetration of mobile phones in Europe than in the US.

- **Online vs mobile music consumption**

Although at a global level the split between online and mobile music is roughly 60:40, these shares vary across different countries - in France online and mobile music are on the same level (50:50) whereas in Italy the ratio is 20:80 and in Japan 10:90. The US is clearly leading in terms of online music. Asia (especially Japan) on the other side is very strong on mobile downloads. Europe is in the middle, with higher ratio of mobile downloads in some countries.

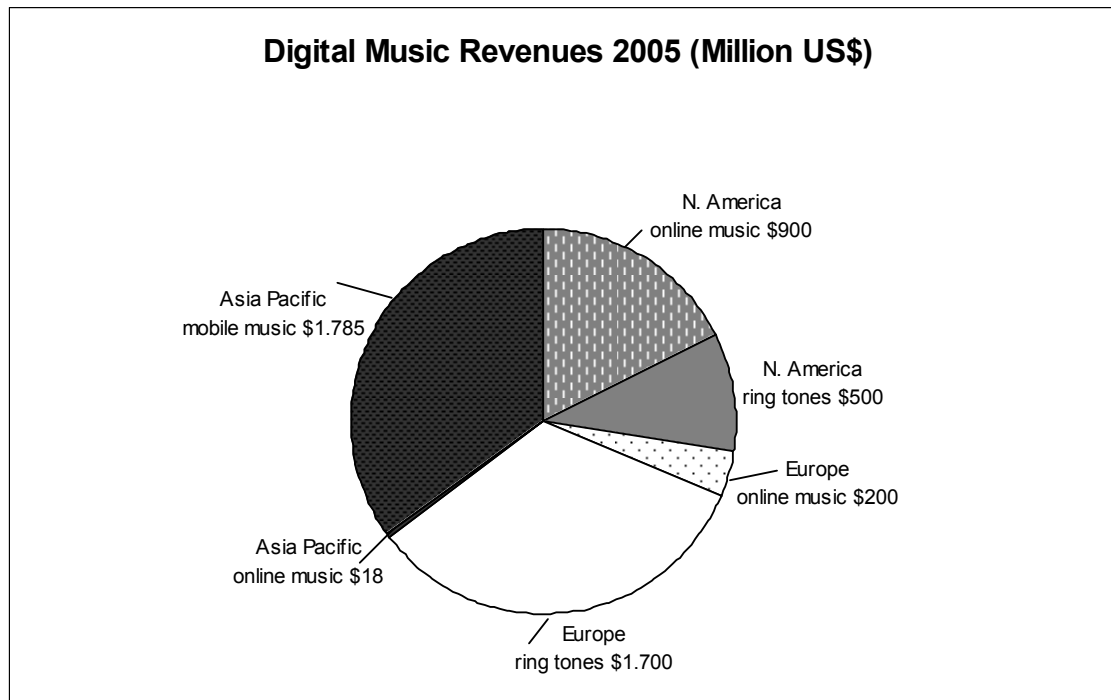
The following figure shows that Europe is a world leader in terms of revenues generated by digital music sales, especially thanks to ringtone sales:

<sup>12</sup> Music and Copyright, Nr 313 (1 February 2006)

<sup>13</sup> <http://www.jupiterresearch.com/bin/item.pl/research:concept/105/id=97141>

<sup>14</sup> *Billboard*, 15 April 2006

**Figure 28. Digital Music Revenues 2005 / by region**



Sources: Strategy Analytics/E-Marketer, inc., January 2006 (Figures for Europe and North America) and PricewaterhouseCoopers "Global Entertainment and Media Outlook 2005-2009 (Estimates for Asia Pacific).

The split between the two main digital music channels is not an issue of secondary importance as it will determine the way consumers access content in the future. The two platforms will probably coexist and develop differently in each country depending on the national situation. The iPod was fundamental in kick-starting the digital music market<sup>15</sup>: 42 million iPods were sold all over the world between 2004 and 2005; on another note, 45 million music enabled handsets alone were sold by Nokia in 2005 (out of a total of 70 million music enabled phones sold in 2005 - Nokia forecasts sales of 80 million music enabled handsets for 2006<sup>16</sup>).

- **Digital music downloads**

The rapid uptake of digital technologies has prompted various analysts to provide data on the consumption of digital music. The following table shows the steep increase in the number of music downloads in the last two years:

**Table 28: Singles and Albums downloads in the US and in Europe 2004-2005**

US	2004 (million)	2005(million)	% change
Singles downloads	143	353	147
Albums downloads	6	16	193

Europe			
Singles downloads	14	62	355
UK	n.a.	26	-
Germany	n.a.	21	-
France	n.a.	8	-

<sup>15</sup> For a detailed overview of the importance of the iPod for the online music market see the example given in chapter V.

<sup>16</sup> *Financial Times* "Nokia to take on Apple in iPod war", 8 August 2006.

The number of legal music files available worldwide increased from around 500,000 in 2003 to 2 million in 2005. According to the IFPI, 6% of Internet users downloaded a legitimate track in 2005 (the same percentage is valid for Europe and worldwide) - amongst them, 4% did it regularly, i.e. once a month.

- **Music piracy**

However, the success of digital sales should not hinder the fact that piracy also threatens the digital music business. Some figures provided by the IFPI can be used to draw useful comparisons between the legitimate and the illegitimate online music market:

The number of copyright infringing music files available in 2003 was 1.1 billion - it decreased to 885 million in 2005, including 775 million from P2P networks. This contrasts sharply with the 2 million legal files available. The average number of P2P users in 2004 was around 10 million, 50% of which were based in the US, 10% in Germany and 8% in France. In regards to physical piracy, the IFPI estimates that some 37% of all CDs purchased around the world in 2005 were pirate - 1.2 billion pirate CDs in total.

Music piracy is particularly detrimental to the development of new digital services. Music 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. However, young generations are getting used to consider music as a free product - this is due to the vast availability of copyright infringing music files and the mass uptake of P2P file sharing technology. Creators and those who invest in culture are the ones suffering most from the loss of value associated to copyright and from the degradation of music to free content.

Whilst consumers have to subscribe to one of the available services for access to digital platforms and while they are buying millions of portable music players, the record companies and artists that produce and distribute that popular music are struggling to find a business model that rewards their efforts because illegitimate activities continue to take place throughout networks (essentially through P2P file sharing).

The industry argues that a business that is composed of essentially SMEs is in effect subsidising large telecom operators, Internet service providers or consumer electronics manufacturers.

- **Sales at national levels**

At European level, sales of recorded music on a country-by-country level in 2004 are as follows:

**Table 29: Sales at national level in Europe**

Rank	Country	USD million
1	UK	3,508.7
2	Germany	2,149
3	France	1,979.3
4	Italy	652.5
5	Spain	572.8
6	The Netherlands	507.7
7	Austria	288.6
8	Belgium	275.1
9	Norway	273.8
10	Sweden	267.9
11	Denmark	187.4
12	Ireland	145.8
13	Finland	133.6
14	Portugal	121.8
15	Poland	92
16	Greece	89.3
17	Hungary	59.1
18	Czech Republic	39.6
19	Romania	34.6
20	Estonia	11.5
21	Bulgaria	5.2
22	Latvia	4.4

The top six largest markets account for 75% of the total volume of sales across Europe. In terms of formats, decrease in sales of singles and CDs is compensated by an increase in sales of DVDs in almost all EU countries. Pop and rock genres usually represent more than half (sometimes more than three quarters) of all CD sales in EU countries.

- **Best selling artists**

The following table presents the top-20 albums of 2005 by worldwide sales:

**Table 30: Top-20 albums of 2005 by worldwide sales**

Rank	Artist	Title	Company
1	Coldplay	X&Y	EMI
2	Mariah Carey	The Emancipation of Mimi	Universal
3	50 Cent	The Massacre	Universal
4	The Black Eyed Peas	Monkey Business	Universal
5	Green Day	American Idiot	Warner
6	Madonna	Confessions On A Dancefloor	Warner
7	Kelly Clarkson	Breakaway	Sony BMG
8	Eminem	Curtain Call – The Hits	Universal
9	James Blunt	Back to Bedlam	Warner
10	Robbie Williams	Intensive Care	EMI
11	Gorillaz	Demon Days	EMI
12	Gwen Stefani	Love.Angel.Music.Baby	Universal
13	Michael Bublé	It's Time	Warner
14	Kanye West	Late Registration	Universal
15	Enya	Amarantine	Warner
16	Il Divo	Il Divo	Sony BMG
17	Jack Johnson	In Between Dreams	Universal
18	The Game	The Documentary	Universal
19	System Of A Down	Mezmerize	Sony BMG
20	Destiny's Child	# 1's	Sony BMG

Source: International Federation of the Phonographic Industry: 2006 Global Recording Industry in Numbers.



## **MUSIC PUBLISHING**

The global music publishing market was valued at € 3.4 billion in 2005<sup>17</sup>

Music publishers derive their revenues from four major sources:

- Performances
- Reproduction
- Synchronisation
- Distribution

**Performance-base revenues** are collected by music publishers for the public performance and broadcast of copyrighted music works included in their catalogue.

**Reproduction-based income** derives from royalties paid by record companies to music publishers for the reproduction and distribution to the public of copyrighted compositions.

**Synchronisation royalties** are derived from the use of a musical composition in an audiovisual work and distribution-based revenues are generated through the sale of printed music.

Performance-based and reproduction-base revenues represent the bulk of revenues generated by the music publishing business - they were estimated respectively at € 1.3 billion (or 38.2% of the total) and € 1.2 billion (or 35.3% of the total) in 2005<sup>18</sup>.

Reproduction-based income follows the cycle of recorded music sales and has therefore been declining in recent years. Performance-based income has been growing, albeit at a slow pace, being dependent on live performances of music at concerts and on broadcasts of music by radio and TV stations. Both are expected to grow at significant annual rates (5.5% for performance-based income and 3% for reproduction-based income) from 2006 following the rapid growth of digital revenues derived to music publishers from both online and mobile downloads - revenues from digital downloads are expected to grow by an annual compound rate of 55%, from USD 70 million in 2005 to USD 500 million by 2013<sup>19</sup>.

- **The structure of the market**

At the end of 2005, five major global publishing houses controlled nearly two thirds of the music publishing market. The five major music publishers are strictly linked to the five major record labels sharing the same name. Although, recent market changes have marked a separation between some of the record labels and the corresponding music publishers (it is the case of the two publishers Sony/ATV and BMG MP which are now detached from the new SonyBMG entity).

The market shares of the major record labels and of the affiliated music publishers, however, are not the same. The largest music publisher is EMI MP, with a worldwide market share of 16.7%, Warner Chappell in second place with 15.8% followed by the other majors (in the order: BMG MP, UMG MP and Sony/ATV). Independent music publisher, in particular SMEs, control more than one third of the market as shown in the following graph:

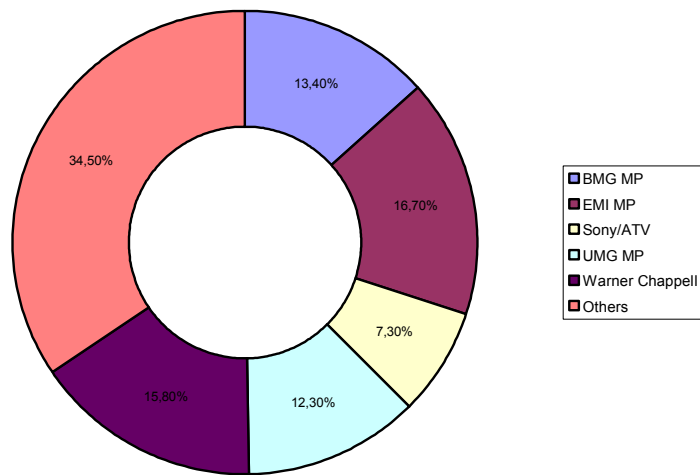
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<sup>17</sup> *Music and copyright*, nr 326, 30 August 2006

<sup>18</sup> *Music and copyright*, nr 326, 30 August 2006

<sup>19</sup> NMPA International Survey of Music Publishing Revenues, 12<sup>th</sup> edition  
<http://www.nmpa.org/pressroom/survey.asp>

**Figure 29. Market share of music publishers - 2006**



Source: Enders Analysis, Music Publishing 2006<sup>20</sup>

Figures on the revenues generated by the music publishing market in Europe, with regard to performance-based and reproduction-base revenues, are presented below in the section on collective rights licensing.

<sup>20</sup> [http://www.endersanalysis.com/enders/documents/Music%20Publishing%202006%20ES%20\[2006-02\].pdf](http://www.endersanalysis.com/enders/documents/Music%20Publishing%202006%20ES%20[2006-02].pdf)

## THE REVENUES FROM LIVE MUSIC EVENTS

There is no comprehensive data at the EU level on the revenues derived from the music sector based on live performances and concerts. The sector is too fragmented and very rarely surveyed in a systematic way that would produce a definitive figure. However, the importance of live music in the general economy of the music sector is considerable. Attendance at music festivals and concerts across Europe is high, especially amongst young people.

The best way to get an idea of the importance of live music events, in the music value chain, in the absence of any comprehensive European-wide economic assessment, is to examine two surveys carried out in two European countries with differing market and population sizes - both examples show the significant amount of money generated by the live music sector for people working in the music business, let alone the secondary economic effects of music events on related services (tourism, restaurants, transports etc). Even though the results can not be generalised for the whole of Europe, they portray an idea of what the size of the live music economy may be.

### CASE 1: GERMANY

The German case shows that live music, in all its different formats, represents a considerable source of revenues for artists in the music field. It also benefits record producers, although indirectly, and has significant spill over effects on other economic sectors.

- In a study carried out by German consultancy GFK for the German Federal Board of the Performing Arts Sector in 2004, the live music market is presented as **larger in volume than the market for recorded music**. The evolution across the years is shown as follows:

#### Base: spending in € billion

	1995	1999	2003
Recorded music market	2.65 (52%)	2.47 (48%)	1.78 (40%)
Live music performances	2.45 (48%)	2.66 (52%)	2.70 (60%)
TOTAL	5.10	5.13	4.48

These figures show that sales of recorded music have constantly decreased over the years whereas money spent on live music events has constantly grown - as a result, it amounted to three fifths of all money spent on music by German consumers in 2003.

- In terms of **consumer spending** on different media items over the same years, GFK recorded an increase in spending on film and video games, whilst books and live music remained constant and recorded music significantly decreased. Also in this case, the relative weight of the live music sector, on overall music spending, is considerable - below a table depicting the shares of different media spending over the years:

#### Base: spending (%)

	1995	1999	2003
Recorded music	24	20	15
<b>Live music performances</b>	<b>21</b>	<b>22</b>	<b>23</b>
Film	12	14	19
Book	34	32	31
Leisure software	5	9	9
Blank media	5	4	4

- It appears **that in terms of age groups**, the highest spending on live music performances is recorded amongst older people: the 60+ age group spends more than one third of its media spending budget on live music events (34.8%) whereas the younger group (10-19) only spends 19.3% of its media budget on such events. A lower percentage is recorded in the age group 30-39 (17%), they are also the demographic with the highest percentage spending on recorded music (18.6% against only 8.3% for the 60+ group).

On a global spending of € 2.7 billion in live music performances in 2003:

- Musicals represented the most popular attraction with spending amounting to € 502 million (18.8% of the total);

- Opera comes second (€ 390 million, 14.6%);
- In third place is international rock/pop (€ 379 million, 14.2%);
- Classical music (12.8%) and cabaret (10.9%) are also major players.

In terms of age groups, operas and classical music are more popular with older age groups, musicals with adults and international rock/pop with younger audiences. By comparing the live music and the recorded music market, it can be seen that recorded music is more popular amongst younger consumers and that international pop accounts for more than half of the repertoire. Live music on the contrary is more popular amongst older age groups, with such genres as musical and classic representing 46% of the repertoire (as opposed to merely 9% for the recorded music).

• The GFK study also shows **the importance of live music performances for the music DVD market** - more than half (52%) of music DVDs sold in Germany throughout 2003 included extracts or were produced from music concerts. This is significant as music videos are growing in sales all across Europe and represent a growing source of revenue for the music industry.

In absolute terms, in 2003 43.3 million people in Germany either bought a live music CD, concert DVD or attended an actual concert. However, whilst 9.7 million people only bought recorded music, 16.3 million have done both and 17.5 million have only attended a live music performance, without buying a single CD.

## CASE 2: IRELAND

A study commissioned by the Music Board of Ireland aimed at measuring the economic importance of the Irish music industry in 2001 came to the following conclusions:

The size of the Irish music industry, in terms of value added in 2001, was some € 478.4 million.

**This includes € 268 million (56%) of earned income for recording artists who collect earnings from record sales as well as live performances and € 144.6 million (30.3%) due to the performing artists' activities.** The balance of € 65.8 million (13.7%) represents the added value of the support sector (record companies and music publishers, record studios, managers/agents, live performance support, collecting societies).

These figures underline the importance of live performances for the income of artists as well as their weight within the economy of the music sector. More impressive are the figures about employment.

Employment in the Irish music industry was estimated at 8,101 full-time equivalent workers (FTEs) for the year 2001. **Performance artists comprise the bulk of total employment in the Irish music industry: 76% (6,157 FTEs).** The support sector provides 1,444 FTEs of employment (17.8%) while recording artists are estimated to account for only 501 FTEs or 6.2%. It is evident that the performing sector represents the great majority of jobs in the Irish music industry.

By analysing the sources of income for all artists, more than half of the total comes from live performance income (52.4%), while recording royalties only represent 29.7% of the total and other sources of income 17.9% (mechanical royalties, synchronisation fees, performance rights, merchandising and sponsorship). Live performance is the major source of income for artists - the only one even, for those who do not have a recording contract.

The Irish example shows the key role played by living performances in sustaining music artists' income as well as their importance in creating jobs in the music sector.

The German and Irish cases can not be extended automatically to the other European countries due to specificities in their respective national structures of the music business and music markets. However, they underline the essential role played by live music within the sector.

## THE REVENUES DERIVED FROM COLLECTIVE LICENSING OF RIGHTS

Record companies, music publishers and music artists (authors, composers and performing artists) derive a significant part of their revenues from the licensing of their rights to a multitude of users. These rights are usually managed collectively and several collecting societies have been established at national levels to administer music rights on behalf of their members. The principle of collective management is a European invention dating back to the XIXth century. Nowadays, Europe still has the most developed system of collective rights administration in the world - European authors' societies collected more than € 4.35 billion in 2004, almost three times the amount collected in the same year by US societies and more than five times the amount collected in Japan<sup>21</sup>.

The features of collective rights licensing in the music sector and detailed figures on the European market are presented in the following case study.

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<sup>21</sup> € 1.5 billion were collected in 2003 by HFA, ASCAP and BMI in the USA – Music and Copyright 292, (2005). € 790 million were collected by JASRAC in Japan in the year ending on March 31, 2006. GEMA in Germany collected alone € 852.2 million in 2004.  
Source: *The collective management of rights in Europe. The quest for efficiency*, study carried out by KEA European Affairs on behalf of the European Parliament, August 2006.

## Case Study

### REVENUES FROM COLLECTIVE RIGHTS LICENSING

#### ■ Introduction

Music right holders have three main sources of return from the exploitation of their works:

- 1) **Direct sales** to individuals through retailers (record shops, supermarkets and online sellers)
- 2) Revenues derived from **live music performances**
- 3) **Licensing of rights to commercial users**; these users – record companies, broadcasters or public performance outlets - require the music product as an input into their final products.

Licensing of rights to commercial users is usually exercised through collecting societies. Collecting societies act as a one-stop-shop between the myriads of rights holders (authors, composers, publishers, record companies, singers, players) and the users of rights.

There are several different types of music collecting societies. Some of them act on behalf of authors and publishers, others on behalf of performers and/or phonogram producers - in some countries there are joint

collecting societies standing for performers and record producers at the same time.

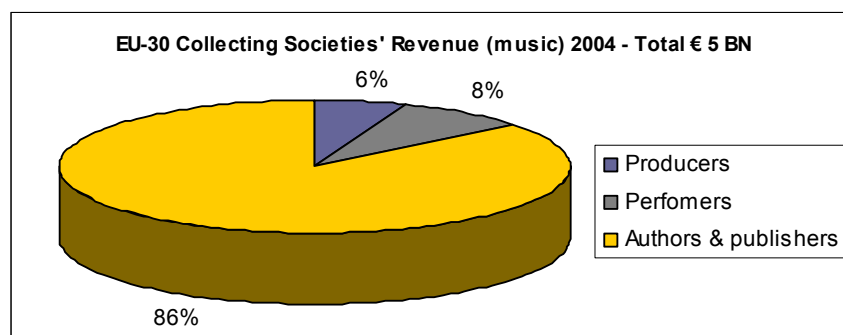
#### ■ Collecting societies in figures

##### • Collected revenue

In Europe there are more than **60** music collecting societies that collected **€ 5 billion** in revenues in 2004 - the numbers breakdown as follows: authors' and publishers' societies collected € 4.4 billion (86% of the total); records producers' societies collected € 293 million (6%) and performers' societies € 350 million (8%).

The following figure presents the breakdown of the revenues collected by music collecting societies on behalf of authors, composers, publishers, performers and record companies in Europe in 2004:

**Figure 30. EU30 Collecting societies' revenues (music 2004)**



Source: KEA

#### a. Copyright

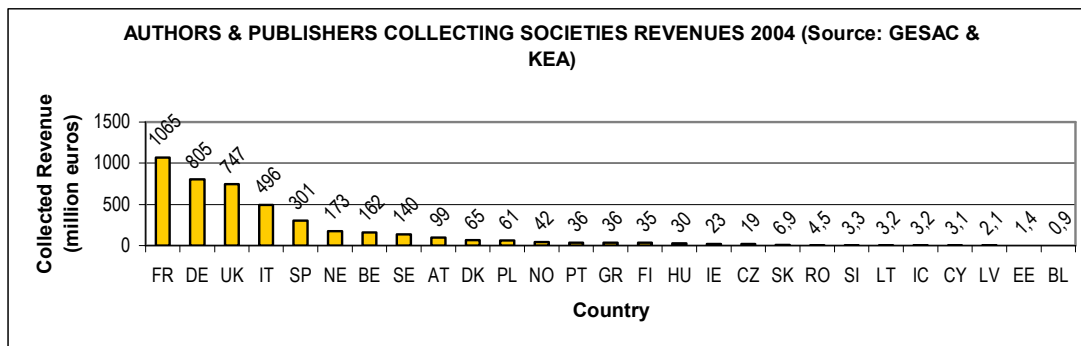
The following graph presents the revenues collected by authors' and publishers' collecting societies across Europe, except for Malta (where rights are administered by an

agency of the UK Society MCPS-PRS), Luxembourg (where rights are administered by a branch of the French society SACEM) and Liechtenstein (revenues for Liechtenstein authors are collected by the Swiss collecting

society SUISA). It should be noted that some authors' collecting societies manage not only music rights but also other categories of rights such as audiovisual works, as is the case of SGAE in Spain, and any authors' rights (visual,

audiovisual and musical) - this is the case of the following societies: SABAM (Belgium), SIAE (Italy), EAU (Estonia), AKAA/LAA (Latvia), ARTISJUS (Hungary), LATGA-A (Lithuania), ZAIKS (Poland) and SPA (Portugal).

**Figure 31. Authors and publishers collecting societies' revenues 2004**



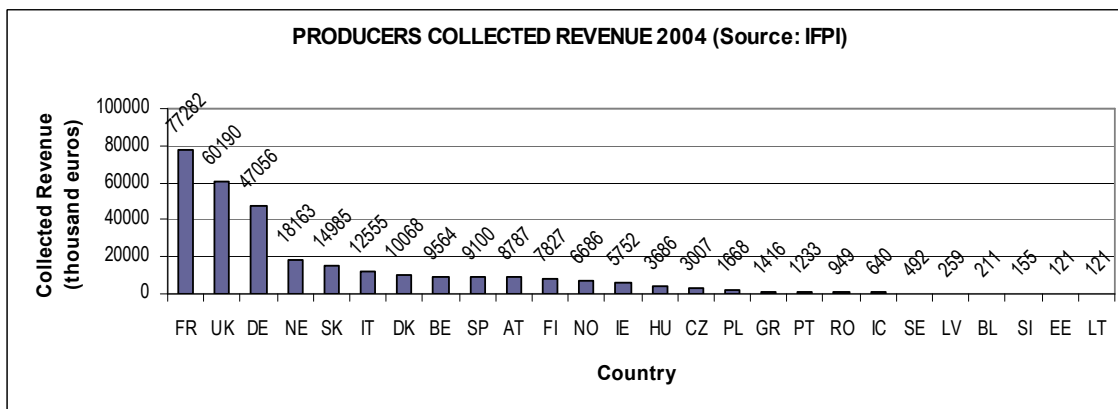
**b. Related Rights**

Related rights are the rights administered by collecting societies representing record producers and music performers. In some cases a single society administers both types of rights.

- The Graph below gathers economic information for **phonogram producers** in all the examined countries except for Malta, Luxembourg, Cyprus, and Liechtenstein.

For these joint collecting societies, revenue collected on behalf of producers is presented in the "producers' graph" below, whereas the revenue collected for performers is in the "performers' graph" below.

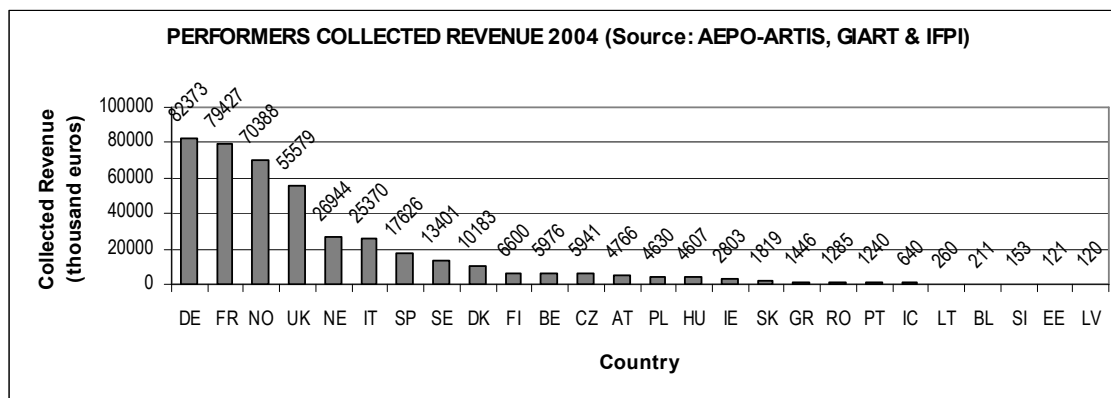
**Figure 32. Producers collected revenues 2004**



• The **performers'** graph below presents the revenue collected in all the examined countries except Malta, Luxembourg and Cyprus. It should be noted that some performers collecting societies represent also audiovisual

performers as it is the case for the French society ADAMI & SPEDIDAM, Belgium's URADEX, Lithuania's AGATA, Netherlands's NORMA, Poland's STOART, Slovakia's INTERGAM and OZIS and Sweden's SAMI.

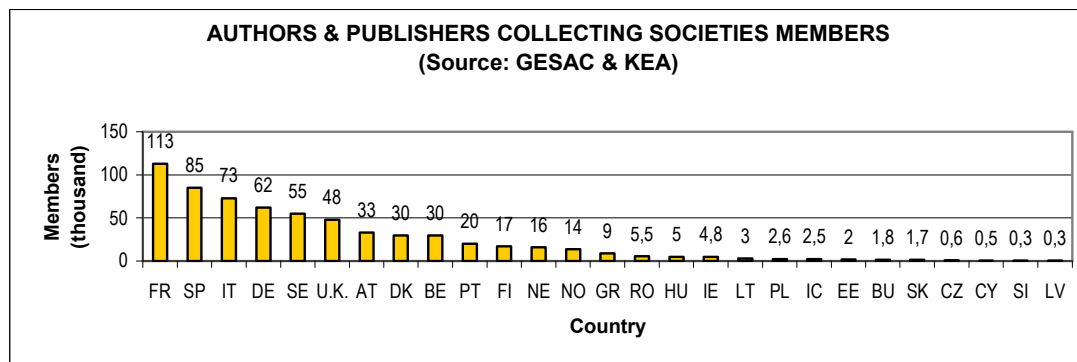
**Figure 33. Performers collected revenues 2004**



• **Members**

The total number of members affiliated to European authors and publishers collecting societies (Malta, Luxembourg and Liechtenstein aside), is 635,000:

**Figure 34. Authors and publishers collecting societies members**

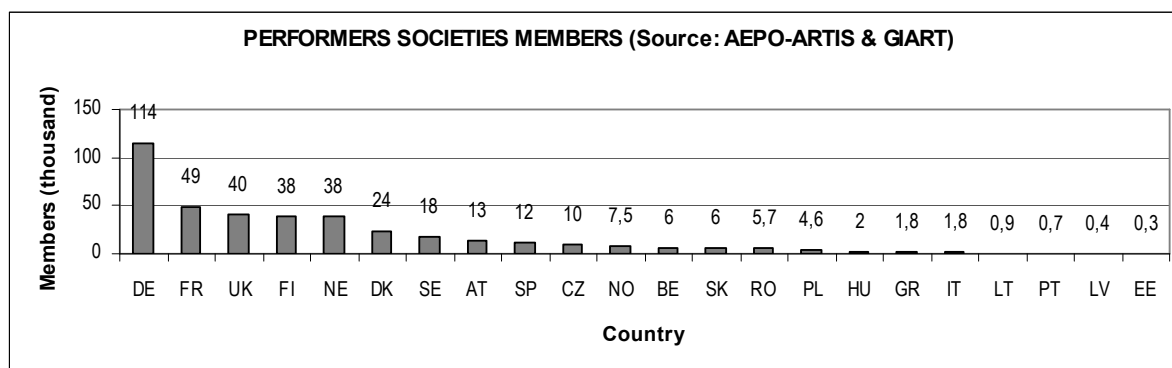


The number of performers affiliated to a collecting society in the EU, Norway and Romania is 394,000; this figure also includes audiovisual performers, since it is not

possible to differentiate music and audiovisual performers in their membership.



**Figure 35. Performers societies members**



### Conclusion

The licensing of rights is an important economic activity and it is also an essential tool to enforce copyright - the only asset companies and individuals creating works of art have. Collecting societies play a main role as intermediaries between the general public and creators, since otherwise a composer or an artist would not be able to receive a fair compensation from the public uses made of his work.

From an economic point of view, collective management of music rights is a significant source of revenues for artists, publishers and producers. Societies in Europe collected more than 4.35 billion Euro in 2004 on behalf of authors/composers and music publishers. This is almost three times what is collected by societies in the USA and more than five times the amount collected in Japan<sup>22</sup>. Collective rights management was born in Europe at the end of the 19<sup>th</sup> century and still represents a source of competitive advantage for European creators in comparison with artists established in territories where the practice of collective management is less developed.

<sup>22</sup> 1.5 billion Euros were collected in 2003 by HFA, ASCAP and BMI in the USA – Music and Copyright 292, (2005). 790 million Euros were collected by JASRAC in Japan in the year ending on March 31, 2006. GEMA in Germany collected alone 852.2 million Euros in 2004.

## TRADE

Obtaining complete and reliable figures on the international trade of recorded music is a task made very difficult by the very nature of music works. Trade data does not provide a comprehensive picture of the direction and magnitude of international music flows. Since they are based on customs information, they can only show the imports and exports of tangible musical products whereas much of the trade occurs in the form of original masters which are then processed locally for domestic retail distribution.

However, data provided by national music organisations can help in grasping the value of music as a key contributor to cultural trade.

➤ The trade value of Swedish song writing amounted to € 83 million in 2004<sup>23</sup> - indeed, Swedish authors Christian Karlsson/Pontus Winnberg write songs for Madonna and Britney Spears and Max Martin works with the Backstreet Boys, Kelly Clarkson, Celine Dion as well as Pink. Overall the Swedish authorities estimate that the export income in the form of royalties from rights management (for Swedish authors, producers, performers) was close to SKR 1.3 billion (€140 million) in 2004<sup>24</sup>.

➤ A report prepared in 2002 by the UK's DCMS and the National Music Council<sup>25</sup> to assess the contribution of the music business to the UK economy estimates that the music sector provided a net surplus of £ 435 million to the UK balance of payments in 2000. The surplus was broken up as follows:

**Table 31: Contribution of UK music composers, publishing and live performance to national balance of payments (2000)**

Sector	Earnings (£ million)	Payments (£ million)	Net (£ million)
Composition of musical works & music publishing	359	202	157
Live performance (non-classical)	77	23	54
Recording	567	343	224
TOTAL	1003	568	435

➤ A similar report that was undertaken by the Music Board of Ireland<sup>26</sup>, estimated that sales of records by Irish artists exceeded 56 million albums in 2001, with 55 million albums having been purchased abroad. In the same year, Irish consumers purchased around 6 million foreign artists CD's, giving Ireland a CD "exports net balance" of 49 million units. When considering the various sources of income for music artists (recording royalties, live performances, performance rights income, etc), the earnings of Irish artists abroad greatly exceed those of foreign artists in Ireland - the net income generated by Irish music artists is estimated at € 224 million.

The Swedish, UK and Irish examples show that the three main sources of music income highlighted above (recorded music, live music and rights licensing) may generate a significant trade surplus for national economies and contribute positively to a net trade balance in exchanges of cultural works. However, it is important to note that for the UK and Ireland, the examples are derived from countries which have a competitive advantage as sources of Anglo-American repertoire - repertoires of other European countries encounter several difficulties in travelling across national borders.

<sup>23</sup> Export Music Sweden 'Export performance of the Swedish music industry 2004'

<sup>24</sup> Export Music Sweden 'Export performance of the Swedish music industry 2004'

<sup>25</sup> Counting the notes. The economic contribution of the UK music business

<sup>26</sup> The economic significance of the Irish music industry, a study carried out by Goodbody Economic Consultants, July 2002

Moreover, it should be stressed that, notwithstanding the European roots of the majority of the music majors, Europe's music is still marginal on the US market, the largest in the world - domestic repertoire accounts for 92% of the US market, leaving little space for imports from Europe and other areas of the world<sup>27</sup>.

## EMPLOYMENT

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There are no comprehensive figures about employment in the music sector at the European level. According to a study carried out in 2001, the music industry in Europe directly employs around 650,000 workers (1998 estimates)<sup>28</sup>. However, the number of those directly or indirectly involved in the various music activities (music publishing, recorded music, live music, rights trading) is supposed to be far higher than this figure.

If we only take the number of members in collecting societies representing authors, publishers and performers in Europe, we obtain a figure which is above 1 million (see case study on collective licensing of rights above). Even considering that this figure also includes authors and performers active in other artistic sectors than music, the results are impressive. In particular, data on artists affiliated to collecting societies do not take a whole range of people employed by the music sector into account: record companies' employees, manufacturers of musical instruments, music teachers, music retailers, managers, promoters and people working in the live music sector.

Data collected at national levels also provides significant employment figures even through they are partial and reflect local situations:

- The DCMS estimates employment in the UK music sector at 122,000<sup>29</sup>
- In France, the French trade association SNEP estimates that 100,000 people are employed in music related activities<sup>30</sup>
- In Ireland, employment in the music industry is estimated at 8,101 full-time equivalent workers (FTEs) for the year 2001, which amounts to around 15,000 jobs in the sector or one eighth of the UK music employment<sup>31</sup>

## STRUCTURE OF THE SECTOR

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The structure of the music industry in Europe corresponds to the structure of other cultural industries, notably film and publishing. The market is split between a very limited number of large companies (often integrated in bigger media conglomerates) and a myriad of medium-sized and small cultural entrepreneurs.

- **Turnover of majors and independents**

Hereafter is a table showing the relative weight, in terms of turnover, of the five music majors<sup>32</sup> and the largest independent music companies in Europe:

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<sup>27</sup> IFPI Report, *The recording industry in numbers*, 2005

<sup>28</sup> *Panorama of digital music in Europe*, study carried out by Kern European Affairs on behalf of the European Commission, 2001

<sup>29</sup> DCMS, *Creative Industries Mapping Document*, 2001

<sup>30</sup> SNEP, *L'économie du disque 2000*

<sup>31</sup> *The economic significance of the Irish music industry*, a study carried out by Goodbody Economic Consultants, July 2002

<sup>32</sup> Since July 2004, Sony Music and BMG are united under the Sony-BMG joint venture. Results for the two companies from August 2004 onwards have been calculated by dividing by two the turnover of Sony-BMG

**Table 32: Turnover of majors and main independent music companies in Europe**

Company	Date (account closed or year)	Nationality	Turnover (€ million)	Notes
Universal Music Group	December 31 2004	FR/US	4,989	
Sony Music <sup>33</sup>	March 31 2005	JP/US	3,1445	1€=140¥
EMI Group Plc	March 31 2005	UK	2,914	1£=1.5€
Warner Music Group	September 30 2004	US	2,750	1€=1.25\$
BMG <sup>34</sup>	December 31 2004	DE	2,547	
Sanctuary Records Group	2004	UK	250	1£=1.5€
EDEL Group	2005	DE	153.4	
PIAS Group	September 2005	BE	108	
Wagram Music	2004	FR	46.3	
Beggars Group	2004	UK	37.2	1£=1.5€

The table shown above highlights the significant distance between the majors and the largest independent record companies in terms of turnover - Sanctuary Records, Europe's biggest independent record company, has a turnover which only amounts to one tenth of BMG's, the smallest of the five majors when the results were published.

It is also significant that three out of five (now four) majors belong to European media groups - this is a sign of Europe's strength in the music sector and marks a notable difference with the film industry, where all seven majors are US (Hollywood) based.

Although inferior to majors in terms of sales in Europe, independent record companies account for the majority of the overall employment in the record industry. Most of them are SMEs, some are micro-enterprises or self-employed people. This is an advantage in terms of flexibility and creativity - many innovative acts in recent years have come from independent labels.

However, music SMEs suffer from structural deficiencies, very similar to those affecting their counterparts active in the film sector: difficulty in the access to finance and leverage of their intangible assets (copyright); lack of human and financial resources to apprehend and manage new and complex technological evolutions; difficulty in trans-national distribution of works; increased market access problems due to ever higher marketing and promotional costs.

- **Concentration in other sectors**

Besides the music industry, concentration also characterises other parts of the music business such as the radio sector and live performances' organisation.

The situation varies greatly across European countries, but generally a few radios (public broadcasters and commercial radios) control the bulk of audiences, leaving the remaining market share to a multitude of independent players.

In the field of events and concert organisation, concerns have been expressed about the entry on the European market of large multinational companies which are taking market shares away from traditional, usually territory-based concert promoters.

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<sup>33</sup> See footnote above

<sup>34</sup> See footnote above

## NATIONAL DIMENSION

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As far as the origin of repertoire is concerned, significant differences exist amongst member States.

- Sales of national repertoire songs are traditionally low in some countries (Austria, Belgium, Ireland, The Netherlands, Portugal) where they usually represent less than a quarter of total music sales.
- Sales of national repertoire are higher in the Nordic countries and in Greece (where they have been higher than 50% in the last four years).
- In the larger member States (UK, France, Germany, Italy, Spain), national repertoire is stronger and it normally accounts for half of CD sales (this value is higher for France).
- The highest sales of national repertoire are however recorded in some of the new or acceding EU member States where they reach levels of 77% (Romania), 65% (Latvia) or 61% (Czech Republic).

Sales of national repertoires mirror the presence of a strong national music tradition and are a signal that European consumers often prefer listening to local artists - even in smaller Member States the share of domestic repertoire is sometimes impressive and testifies the richness of cultural diversity in the European musical landscape.

## SECONDARY ECONOMIC IMPACT

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### **IFPI estimations on indirect value of recorded music**

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

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

- Music is at the origin of the phenomenal growth in portable digital music players. IFPI estimates the value of this sector to be USD 9 billion in 2005 - over four times the estimated value of digital music retail sales. In addition, the market for peripheral equipment such as speaker systems and docking stations is estimated to be worth USD 1 billion by industry analysts.
- Music is also one of the main drivers of the rapidly-growing digital economy. IFPI estimates that consumers spent over USD 75 billion on broadband subscriptions and USD 60 billion on mobile data services in 2005.
- Music has been a key driver of 3G mobile services - research from mobile operators confirms music is the top entertainment product on mobile phones, attracting the 18-35 age group in particular.

The press and publishing sector plays a major role in the economy of culture in Europe. Some European publishers are world leaders and the cultural and linguistic diversity that defines Europe's identity is well reflected in the wealth of national, regional and local publishers that operate in the EU.

Ever since the invention of the press, which took place in Germany in the 15<sup>th</sup> century, Europe has been at the forefront of innovation in the publishing sector. Publishing emerged as the first cultural industry during the 18<sup>th</sup> century and since then books and the press have remained an important medium for the circulation of ideas. The digital revolution, as well as the emergence of new media, has had a significant impact on the structure and functioning of the publishing industries.

### STRUCTURE OF THE SECTOR

The structure of the press and publishing sector varies greatly across Europe - major differences exist between different countries and between different sectors of the publishing industry. Significant differences exist between the book and the press sector in regard to content creation - whereas book publishers usually rely on the creative contribution of external authors and writers, newspapers and magazines work with journalists as paid employees.

### SECTOR COMPETITIVENESS<sup>35</sup>

- **Large and small players**

As for film and music, the publishing industry is characterised by a very small number of very large players (in some cases, world leaders in publishing - see below) and a very large number of medium-sized, small or micro players. This is particularly true for the book sector, where a vast number of small, often specialised publishers still exist across all member States. In the press (newspaper and magazine) sector, the dominance of large groups is more pronounced and the market is more concentrated - this is mainly due to the higher barriers to enter the market. However, the variety of regional and local press in some European countries also testifies the vitality of the publishing industry.

- **Major European publishers**

Large and very large publishers are mostly established in the biggest Member States. Europe is home to several major players in the publishing field:

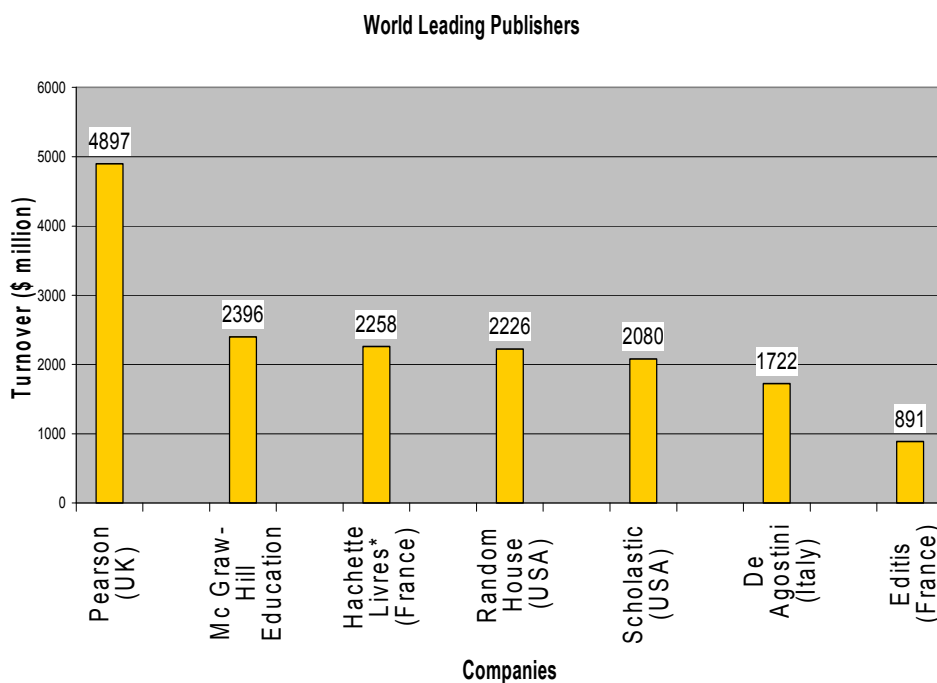
- German-based Bertelsmann controls the Random House group, the world's largest English language trade book publisher
- French group Lagardère owns Hachette whose number of titles and international presence makes them the number one magazine publisher in the world
- The UK also hosts several important international publishing groups while Italy and Spain have publishers active outside of Europe (mainly in Latin American markets)

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<sup>35</sup> *Publishing Market Watch*, op.cit.

As far as book publishing is concerned, 4 of the 6 largest publishers in the world are European, as shown in the following graphic:

**Figure 36. World leading publishers**



(Except professional books and book clubs)  
Source: FEP

Some of the largest European publishers are integrated into media groups active in areas other than press and publishing. This is the case for:

- Bertelsmann (audiovisual, radio and TV, music, printing) and Springer (broadcasting) in Germany;
- Lagardère (audiovisual, radio and TV, new media) in France;
- Mondadori, the largest Italian publisher, part of the Fininvest media group (TV, Radio, audiovisual), De Agostini in Italy and Grupo Planeta in Spain, who jointly own a broadcaster and are active in film and TV productions.
- Some Scandinavian, German and Austrian publishers took advantage of the liberalisation of the media market in Central and Eastern Europe after the fall of communism, when most State-owned media were privatised, to extend their business in this sector - the Orkla media group, based in Norway, and the Egmont group (Denmark) have significant publishing interests in Eastern Europe. Many publishers are also part of larger groups active in non-media related fields.

## THE ECONOMY OF THE PUBLISHING INDUSTRY IN EUROPE<sup>36</sup>

The publishing industry is made up by several different business sectors. In order to simplify the analysis, three main sectors are generally identified (each one being composed of relevant sub-sectors). The three sectors are the following:

1. Newspapers  
Daily/non daily/Sunday newspapers  
National/regional/local newspapers  
Paid-for/free newspapers
2. Books  
Consumer or trade publishing  
Educational, academic or school publishing  
Business or professional publishing
3. Magazines  
Consumer magazines  
Trade press  
Academic journals

These sectors present specific features that make it difficult to establish consistent comparisons on a cross-sector basis. However, some basic indicators might be identified in order to assess the economic importance of the publishing sector in its entirety - the following indicators have been selected:

- Turnover of the sector
- Number of titles published

For the newspaper and magazine business, advertising represents a significant source of income. Therefore the following two criteria have also to be taken into account:

- Advertising revenues
- Share of advertising revenues on total turnover of the sector

### SECTOR TURNOVER

The combined turnover of the publishing industry in Europe (EU25 - three sectors listed above) was about € 112 billion in 2001. The contribution of each sector to this figure is as follows:

**Table 33: Combined turnover of the publishing industry in Europe (2001)**

Sector	Total turnover 2001 (€ billion)
Newspapers	43
Books	32
Magazines	37
TOTAL	112

Comparisons with previous years, although results for all countries were not always available, show a gradual increase in the turnover of the publishing sector in Europe (+ 5.4% from 1999 to 2001). The four largest countries (Germany, UK, France and Italy) account for approximately 70% of the total turnover.

<sup>36</sup> The figures and data included in this sector profile are derived from *Publishing Market Watch* (PMW), Final Report. Study undertaken on behalf of the European Commission by Rightscom and the Media Group of the Turku School of Economics and Business Administration, January 2005. Any other source is indicated, where necessary.



The figures on the book industry were presented in the Publishing Market Watch report, a Study undertaken on behalf of the European Commission by Rightscom and the Media Group of the Turku School of Economics and Business Administration, as the total turnover of the European book industry according to data provided by Eurostat.

It may be worth stressing here that the pan-European trade federation of book publishers, FEP<sup>37</sup>, suggests in its most recent published statistics (May 2006) that the actual figure for 2001 is close to € 21 billion (and € 22 billion for 2004)

Discrepancies are due to the different methodology adopted in calculating the global turnover of the book publishing sector.

## NUMBER OF TITLES PUBLISHED

The number of titles published varies across each sector. In the case of newspapers, the number of titles shows a decreasing trend in all the three main sub-sectors (daily newspapers, non dailies and free sheets). Magazine titles on the other hand experienced an upward trend, with business titles making up the greater proportion of available titles (though the proportion is inversed in the new member States). The number of books published in Europe has also risen steadily in Europe over the last years. The following table gives an overview of titles available in Europe in 2001<sup>38</sup>:

**Table 34: Number of published titles in Europe i.e. newspapers, magazines, books-2001**

Sector	Number of published titles (2001)
Newspapers	6,066
Of which:	
- Daily newspapers	- 1,315
- Non-daily newspapers	- 1,643
- Free sheets	- 3,108
Magazines	29,968
Of which:	
- Consumer titles	- 8,178
- Business titles	- 18,670
Books	468,435

In this case, the weight of larger member States (especially the UK and Germany) is also considerable. In the sector of book publishing, for instance, the number of titles published in the four largest EU countries equals 2/3 of the total published titles.

## ADVERTISING<sup>39</sup>

Advertising revenues for daily newspapers in Europe amounted to € 20.9 billion in 2001. Advertising revenues for magazines in the same year were € 14.2 billion. Trends show a stable growth of revenues in press advertising over the years with only some substantial variations.

Apart from absolute value, it is interesting to examine the amount spent on press advertising in regard to the total spending of advertising on all media. This has remained more or less stable over the years and is around 30% for newspapers and 20% for magazines in Europe, with some notable differences amongst member States. Expenditures on newspaper advertising are usually higher in Nordic countries (58% in Finland, 55% in Sweden) and lower in Southern Europe and new member States whereas magazine advertisement expenses are more thoroughly spread out with remarkable peaks in France (33%), Greece (29%) and Austria (29%). The lowest spending can be found in Denmark and Ireland, both below 5%.

<sup>37</sup> <http://www.fep-fee.be>

<sup>38</sup> *Publishing Market Watch*, op.cit.

<sup>39</sup> *Publishing Market Watch*, op.cit.

## IMPACT OF E-COMMERCE AND ICT

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Like the other content industries (film & music), the publishing sector is experiencing profound disruptions in its structure and functioning as a consequence of the digital revolution. The impact of ICT on the press and publishing sector has been important in recent years and ICT will continue to be a major challenge for the publishing industry in Europe's future. The main ICT-related issues for the publishing sector concern changing media consumption patterns, shifts in advertising expenditure, increased media fragmentation and the entry of new players into the digital publishing market.

The challenges created by the emergence of online services to the publishing sector vary greatly from one branch of the sector to the other:

- **Newspapers**

This is the branch which faced the largest threats from new technologies while at the same time taking great advantage of the opportunities created by the Internet. Most European newspapers have already created online services - this step has allowed them to reach out to new consumers and at the same time to build new business models and new interactive relationships with their readers. The same process is now being launched with regard to mobile business, where many newspaper publishers are positioning themselves to benefit from 3G mobile markets.

- **Books**

The major change brought by digital media to book publishers concerns the sector of educational publishing, where the emergence of new interactive media (digitised audio, text and video content, virtual libraries, e-learning tools) has put into question the traditional way of teaching and learning at school. However, many book publishers have been able to occupy the space created by digital learning devices to combine new and traditional educational content.

In regard to e-books, they have not been very successful in the European market when compared with the US experience. In the US, in 2003 over 1.3 million downloadable e-books were sold, generating revenues of nearly USD 7.4 million, a 27% increase over 2002<sup>40</sup>. Comprehensive figures lack for Europe, but the level of sales is well below US standards.

- **Magazines**

As for newspapers, magazines have experienced an erosion of advertising due to competition of new media and the Internet. Some magazines have made important investments to develop online services (based on a subscription or pay-per-view business model) but it is unclear whether the revenue generated has been sufficient to cover the investment. Some interesting opportunities have been offered to magazine publishers by new mobile interactive services. Business-to-business and specialised magazines have often been able to appropriate the Internet in a more lucrative way than generalist publications.

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<sup>40</sup> *Publishing Market Watch*, op.cit.

## TRADE

According to UNESCO's statistics, in 2002, the trade of printed media as a whole amounted to USD 18.2 billion, including USD 11.3 billion for the trade of books, USD 4.5 billion for newspapers and periodicals, and USD 2.4 billion for other printed matter.

Europe registered higher volumes of exchange in all categories for both imports and exports. In 2002, European countries accounted for 53.1% of world trade in books and 66.6% in newspapers and periodicals. It should be noted that these figures also include intra-Community trade of printed material. North America is the second most active region in this area with its trade amounting to between one-third and two-thirds that of Europe, depending on the specific category.

As for trends in this sector, the following table shows the evolution of trade in publishing between 1994 and 2002 with a comparison between Europe and North America:

**Table 35: The evolution of US and European trade in publishing (1994-2002)**

Year	Europe		North America	
	Exports	Imports	Exports	Imports
1994	Value: \$ 8,517 million	Value: \$ 7,233 million	Value: \$ 3,394 million	Value: \$ 3,527 million
	Share: Books 58.4% Newspapers and periodicals 67.3% Other printed matter 61.5%	Share: Books 47.3% Newspapers and periodicals 57.3% Other printed matter 50.1%	Share: Books 24.1% Newspapers and periodicals 25.2% Other printed matter 24%	Share: Books 25.2% Newspapers and periodicals 22% Other printed matter 26.5%
	Value: \$ 10,897 million	Value: \$ 9,474 million	Value: \$ 4,013 million	Value: \$ 4,999 million
2002	Share: Books 60.9% Newspapers and periodicals 70.4% Other printed matter 55.7%	Share: Books 45.2% Newspapers and periodicals 62.7% Other printed matter 46.9%	Share: Books 21.4% Newspapers and periodicals 23.7% Other printed matter 33.9%	Share: Books 26.5% Newspapers and periodicals 20.3% Other printed matter 35.8%

In general terms, the regional structure of trade remained stable between 1994 and 2002, with Europe and North America having most of the exchanges. Europe is a net exporter of printed goods and represented around two-third of the world's exports in books, newspapers and periodicals in 2002 - this trend has been consolidated over the years. The value of EU exports in the publishing sector has more than doubled the value of North American exports and the difference continued to grow.

If we examine the situation at the national level, we can observe that Germany, Italy, Spain, the United Kingdom and the US were the world's largest exporters in 2002. In this year, their joint supply accounted for 57% of global exports. As for imports, Canada, France, Germany, the United Kingdom and the US constituted the main destinations with 76% of all imports for the same year. It is interesting to note that the high growth rates were registered by some non-traditional exporters such as the Czech Republic and Poland for newspapers and periodicals.

## EMPLOYMENT

The total number of employees in the publishing industries (newspapers, magazines and books) of the EU25 in 2001 was over 670,000<sup>41</sup>. Over the years this number has grown in most European countries with the exception of Italy and the Nordic countries. The situation, on a country-by-country basis in 2001, was as follows:

**Table 36: total number of employees in publishing industries by country (2001)**

Country	Number of employees
Austria	7,981
Denmark	30,908
Finland	16,635
France	81,487
Germany	178,388
Hungary	7,155
Italy	35,076
Lithuania	6,022
Latvia	5,089
Malta	698
Netherlands	37,145
Poland	28,082
Portugal	10,488
Spain	45,411
Sweden	24,570
Slovenia	2,943
Slovakia	4,056
UK	148,644
TOTAL	670,808

The country with the highest number of employees in the publishing sector was Germany, followed by the UK. Nordic countries have a higher percentage of employees working in the publishing sector over total employment - it can be seen that the Netherlands have more employees in the publishing industries than Italy while Denmark surpasses Poland; Denmark is ranked the 6<sup>th</sup> European country based on the number of people employed by the publishing industries although it is only ranked 14<sup>th</sup> by number of employees in general.

- **Sectoral analysis**

On a sector-by-sector basis, employees in the European publishing industries are distributed as follows:

**Table 37: Employees in European publishing industries by sector (2001)**

Sector	Number of employees (2001)
Newspapers	303,271
Magazines	209,225
Books	159,909
TOTAL	672,405 <sup>42</sup>

The large countries account for more than half of the total number of employees in each sector. Some remarks may be made for the following sectors:

<sup>41</sup> *Publishing Market Watch*, op.cit.

<sup>42</sup> The difference in the total figure from the table above is due to the fact that data for some countries were only available for certain sectors and were therefore included only in this table

- *Newspapers*: Germany with over 100,000 employees is by far ranked 1<sup>st</sup> in Europe in respect to people working in the newspaper sector - the UK is 2<sup>nd</sup> with 48,659 employees. Denmark is the 5<sup>th</sup> EU country in this category with 17,798 employees, ahead of Italy, the Netherlands, Poland and Sweden
- *Magazines*: UK has the largest number of people working in the magazine industry (65,896) followed by Germany (46,105) and France (32,224). Both the UK and France have more people employed by the magazine industry than by the newspaper industry, whilst for other EU countries the contrary is true
- *Books*: the UK comes 1<sup>st</sup> for number of employees (34,089) followed by Germany (31,339), France and Spain. Italy and Poland have a higher number of employees in the book sector than in newspapers and magazines.

## NATIONAL DIMENSION

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- **Consumption habits**

The major difference observed in Europe concerns consumption habits of populations with regard to published products. In this respect considerable diversity has been recorded between Northern Europe and Southern Europe. Whereas on average nearly half of Europeans (46%) read newspapers every day (5 to 7 days a week), the percentage varies from 78% of Swedes and Finns to 32% of French and 20% of Greeks<sup>43</sup>. Average circulation of daily newspapers per thousand people is almost ten times higher in Norway than in Greece, Portugal or Romania.

- **Readership patterns**

The same patterns can be found in book readership. In Northern European countries there is a higher tendency to read than in other regions. When asked whether they read for reasons other than work or study, 71.8% of people in Sweden, 66.2% in Finland and 63.2% in the UK answered affirmatively (the average EU value is 45%). On the contrary, 67.3% of Portuguese, 58.3% of Belgians and 54.3% of Greeks declare they have not read a book in the last 12 months<sup>44</sup>.

The percentage of magazine readership (people who regularly read one or more magazines) is considerably higher throughout Europe than any other publishing sector - 70% of Europeans regularly read and differences amongst European countries are less pronounced than in the newspaper and book sectors.

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<sup>43</sup> *Publishing Market Watch*, op.cit.

<sup>44</sup> *Publishing Market Watch*, op.cit.

## TELEVISION

TV broadcasting began in the USA during the late 1920s. The first regularly scheduled television service began on July 2, 1928 in a suburb of Washington, D.C. and it was shortly followed by other TV broadcasts. In Europe, the UK led the way. From 1936 to 1939 in London, a city where there were 12,000 to 15,000 receivers, TV broadcasts were on the air an average of four hours a day.

Today, around 200 million households own a TV in Europe. 97.6% of Europeans claim to watch television on a regular basis<sup>45</sup>. On average, most Europeans watch more than 200 minutes of TV per day. Thus, watching TV is one of the most popular activities in our society. Broadcasting has also become an important industry. Between 1995 to 2002, the broadcasting sector's revenue increased by about 6.5% a year<sup>46</sup>. Today, it amounts to more than € 60 billion a year.

The broadcasting sector is composed of three main categories:

- Public service broadcasting - whose revenues depend on a mix of licence fees (main source) and advertising (additional source)
- Free commercial TV based on advertising as the main source of revenue
- Pay-TV - deriving its revenue from subscription fees

As a consequence of technological evolutions, TV channels can be broadcast via a growing number of platforms (terrestrial, satellite, cable, Internet). ICT is revolutionizing the European broadcasting landscape: new actors are entering the market (cable operators, telecommunication companies), new services are being developed (mobile TV, IPTV, VoD, etc.) and new channels are being launched. By 2010 most European countries will have switched to digital TV thus opening up additional new opportunities to Europe's broadcasting market. As a result of these technology changes, a thorough re-evaluation of existing consumption habits and business models is required.

## ECONOMY OF THE SECTOR

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### OVERALL GROWTH IN REVENUES

The broadcasting sector's revenue has been growing at about 6.5% a year between 1995 and 2002<sup>47</sup>. Growth was notably triggered by:

- The impact of ICTs, which have resulted in an increase in the number of available channels and in the launch of new companies
- The increase in the funding of public service broadcasting
- Growth in the advertising market

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<sup>45</sup> Eurobarometer survey of the European's participation in cultural activities - SPADARO (Rosario), Eurostat, Luxembourg, 2002.

<sup>46</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers - Report completed by David Graham & Associates Limited for the European Commission, Directorate-General for Information Society and the Media, Brussels, 2005, 239 p.

<sup>47</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers - Report completed by David Graham & Associates Limited for the European Commission, Directorate-General for Information Society and the Media, Brussels, 2005, 239 p.

## GROWTH IN REVENUES BY MARKET SEGMENT

Taking into account the different components of the European TV industry over the period 1997 to 2002, the compound annual increase in revenue has been as follows:

- 4.5% for commercial channels;
- 5% for public broadcasters;
- 20% for secondary basic and free channels;
- 26% for pay TV packagers<sup>48</sup>.

Digital TV packages, basic secondary channels and free channels (i.e. channels with an audience share lower than 3%) have contributed the most to market growth. This reflects both the growth in the pay-TV market over the last few years and the fragmentation of TV viewing with an exponential increase in the number of specialist channels.

## BREAKDOWN BY REVENUE SOURCES

In 2002, the sector's revenue in the EU15 totalled € 61.1 billion – equivalent to 0.66% of EU15's GDP<sup>49</sup>. It was broken down as follows:

- *License fees*: € 15.2 billion (24.9% of the total revenue). From 1995 to 2002 they grew at about 3% a year
- *Advertising and sponsorship revenues*: € 22.6 billion (37% of the total revenue). From 1995 to 2002 they grew at about 5% a year
- *Consumer payments for pay TV services and cable relay*: € 19 billion (31.1% of the total revenue). From 1995 to 2002 they grew at more than 10% a year
- *Other miscellaneous broadcasting platform revenues* (publishing activities, program sales...): € 4.3 billion (7% of the total revenue).

## STRUCTURE OF THE SECTOR

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The broadcasting sector is composed of different types of channels:

- Free (commercial) TV
- Public service broadcasting
- Various types of pay-TV's

These channels can be broadcast via terrestrial, satellite or cable infrastructures in addition to being streamed via the Internet.

The structure of the European TV market is marked by the following trends and characteristics:

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<sup>48</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers, op. cit.

<sup>49</sup> *ibid.*

- **Vertical integration to ensure full ownership of rights and a steady flow of content**

Within the six largest EU15 markets, 40% of non-news programming is made by in-house departments within the broadcaster and 25% is made by third-party producers<sup>50</sup>.

Moreover, both pay-TV platform owners and primary channel broadcasters are the main owners of basic tier and free-to-air secondary channels in Europe. Numerous premium secondary channels are also owned by pay TV platform owners.

- **Horizontal integration in order to operate beyond national frontiers**

Many TV companies have chosen horizontal integration and developed broadcasting activities on several European territories. For instance, RTL Group has TV channels in 9 EU countries (Belgium, France, Germany, Hungary, Luxembourg, Netherlands, Portugal, Spain and UK), Modern Times Group in 9 countries (Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, Norway, Spain and Sweden) and SBS Broadcasting in 8 countries (Belgium, Denmark, Finland, Hungary, Netherlands, Norway, Romania and Sweden).

- **Public and private broadcasters**

The European audiovisual landscape is characterised by the duality between public and private broadcasters. Public broadcasting faces rising competition across Europe: the audience share of the EU15 public TV channels fell from around 50% in the 1990's to around 35% in 2003<sup>51</sup>, mainly due to the growth of the private sector. In the new member States, except for Poland, Malta and Slovenia, national TV markets are characterised by the prominent role of private channels which often enjoy larger audience shares than public broadcasters.

- **A refocus on production activities**

The turnover of the TV production sector has grown from € 6.5 billion in 1997 to € 11 billion in 2001<sup>52</sup>.

Content is at the heart of a TV companies' strategy - generating attractive content is crucial in order to get audience shares. This is achieved in different ways:

Purchasing rights

In 2002, total spending across the EU15 amounted to about € 5.4 billion on sports rights (about € 2.2 billion for primary channels and about € 3.2 billion for secondary channels) and about € 6.5 billion on TV and film rights acquisitions (about € 3.5 billion for primary channels and about € 3 billion for secondary channels)<sup>53</sup>.

Broadcasters' investment in TV production

Broadcasters are key investors in TV production. In 2004, the first European TV producer, in terms of operating revenues, was pan-European broadcaster RTL Group. Its Content Division recorded operating revenues amounting to € 1,086 million (including feature film production and rights trade)<sup>54</sup>. In addition to

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<sup>50</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers, op.cit.

<sup>51</sup> Le rôle clé de la radiodiffusion de service public dans la société européenne du 21<sup>e</sup> siècle - Contribution de l'UER, Amsterdam, 1<sup>er</sup>-3 septembre 2004 - European Broadcasting Union.

<sup>52</sup> ibid.

<sup>53</sup> ibid.

<sup>54</sup> Yearbook 2005, European Audiovisual Observatory, 2005



RTL Group, 3 other broadcasters ranked within the 5 leading TV production groups in the EU: Mediatrade, (owned by Mediaset) Groupe Canal+ and Bavaria Film (owned by ARD)<sup>55</sup>.

In 2002, about **€ 15.8 billion was invested in content creation for TV in the EU15:**

- € 14 billion from commissions made by primary channels
- € 1.1 billion from commissions made by secondary channels
- € 0.3 billion from direct subsidies available to producers
- € 0.4 billion generated by producers' direct income from ancillary rights<sup>56</sup>

This € 15.8 billion was spent as follows:

- € 2.8 billion on national and local news as well as sports coverage (spending on sports rights is excluded)
- € 4.5 billion on commissions from independent producers
- € 6.5 billion on in-house productions or subsidiaries
- € 2 billion on works commissioned from suppliers external to the commissioning broadcaster but linked to another broadcaster<sup>57</sup>

Over the last few years, TV channels have increasingly shifted towards producing their own productions because of the rise in popularity of local content and in addition to regulatory requirements at the national and EU level (notably the Television Without Frontiers Directive's articles 4 and 5<sup>58</sup>).

In 2004 domestic TV production (including co-production) increased slightly in the five main European countries (133 hours, representing + 2.5% compared to 2003)<sup>59</sup>. Production volume grew in Germany, Italy and the UK yet it declined in both France and Spain.

This recovery is mainly due to commercial TV, particularly in Italy and Spain. However, public broadcasters continue to be the main commissioners and suppliers of domestic fiction - in the UK for instance, the BBC finances 40% of all nationally produced content<sup>60</sup>.

### **Portuguese content is taking over Brazilian productions**

Portuguese TV channels used to propose a major proportion of products acquired from Brazilian TV Globo. Private Portuguese channel TVI has now dramatically developed local content, broadcasting Portuguese contents exclusively from 6 to 12 pm. Whereas in 1999 Brazilian production had a 95% market share on Portuguese TV, in 2005 the seven national productions aired by TVI reached an average 44% market share. As a consequence, the number of Portuguese production professionals (actors, technicians...) increased tenfold from 102 in 1999 to 1069 in 2005.

<sup>55</sup> Yearbook 2005, European Audiovisual Observatory, 2005

<sup>56</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers

<sup>57</sup> ibid.

<sup>58</sup> Council Directive 89/552/EEC of 3 October 1989 on the coordination of certain provisions laid down by Law, Regulation or Administrative Action in Member States concerning the pursuit of television broadcasting activities.

According to article 4, broadcasters must "reserve for European works [...] a majority proportion of their transmission time, excluding the time appointed to news, sports events, games, advertising and teletext services".

According to article 5, broadcasters must "reserve at least 10 % of their transmission time, excluding the time appointed to news, sports events, games, advertising and teletext services, or alternately, at the discretion of the Member State, at least 10 % of their programming budget, for European works created by producers who are independent of broadcasters".

<sup>59</sup> Yearbook 2005, European Audiovisual Observatory, 2005

<sup>60</sup> Le rôle clé de la radiodiffusion de service public dans la société européenne du 21<sup>e</sup> siècle, op. cit.

- **The importance of broadcasting activities – broadcasters are Europe's leading audiovisual companies**

The size of the major European broadcasting companies is considerable, especially if compared with the enterprises active in the film industry. The broadcasting sector is highly concentrated at the national level with usually two/three large public and/or private groups controlling most of the market in terms of audience and advertising revenues.

The following table displays, in comparison with global players, the international ranking of European companies active in audiovisual activities:

**Table 38: The 20 leading audiovisual companies worldwide according to their 2004 turnover (assuming €1=€1.25)**

Rank	Company	Country	USD million	€ million <sup>61</sup>
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	12,395
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

Source: European Audiovisual Observatory

\*: 2003 figures

Nine out of twenty of the leading world audiovisual companies are European. Broadcasting is a considerable part of their activities:

- 17 out of the 20 leading audiovisual enterprises worldwide are mainly, or partly, active in broadcasting
- Of these nine companies, four are the public service broadcasters for the largest European audiovisual markets (BBC in the UK, ARD in Germany, RAI in Italy and France Televisions in France).
- The largest companies are Hollywood majors.

<sup>61</sup> Assuming 1€=1.25€

## THE IMPACT OF ICT

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The development of digital technology in relation to broadcasting is radically changing TV services across Europe. The main consequences of the transition from analogue to digital TV are likely to be the multiplication of available channels, the fragmentation of audiences and the emergence of new interactive services (amongst which VOD services). Traditional business models of the sector are also being affected by ICT by provoking structural changes in the audiovisual and telecommunications markets across Europe.

- **More free and niche channels**

Digitisation increases the number of European households receiving between 20 and 40 free channels. Most European countries should switch the analogue terrestrial broadcasting of their TV spectrum within the next 5 to 10 years. Thanks to digitisation, the costs of launching and running a niche offering have decreased significantly. As storage and distribution get cheaper with the digitisation of content, niche channels can operate profitably. As a consequence, the audiences' share of traditional channels is expected to be eroded in favour of smaller specialised channels.

- **Convergence and the launch of new platforms**

New media – especially broadband Internet and mobile 3G handsets – are developing as audiovisual platforms. Newcomers have thus appeared on the TV market. Cable operators, for instance, pursue strategies on three levels: TV, broadband Internet and telephony. The appearance of these new platforms will have consequences which are still difficult to assess.

### **Development of triple play services offer**

Triple play service means the provision of three services over a single broadband connection: high-speed Internet, television (including Video on Demand services) and telephone service. Today, triple play services are usually offered by cable television operators and by telecommunication operators. These service providers compete with each another and also with satellite broadcasters since they offer TV services.

The authors of a study on multiple play<sup>62</sup> have analysed 87 providers in the 30 OECD countries. They observed that triple play services were available from 48 providers in 23 OECD countries in September 2005. Nearly 66% of the 29 cable networks examined offered triple play services such as Casema in the Netherlands, Noos in France, Telewest in the UK, Welho in Finland, Auna in Spain, Telenet in Belgium and UPC in Hungary for example. In the case of telecommunication networks, around 44% of the 50 analysed offered triple play services such as France Telecom in France, Lyse in Norway, Belgacom in Belgium, AON in Austria and AR Telecom in Portugal to list a few. Telecommunication and cable TV operators that do not yet offer triple play packages are expected to do so in the near future.

- **Development of new services**

Besides facilitating the entrance into the market of new operators and service providers, ICTs allow established TV companies to launch digital offerings such as pay-per-view, niche channels and/or interactive applications.

- In 2006, German private TV broadcaster ProSiebenSat.1 launched pay-TV channels, mobile TV and video-on-demand services.

- French group Canal+ launched video-on-demand services in October 2005 (1,000 programmes, mainly cinema movies), High Definition TV in April 2006 and a mobile TV service called Canalsat. In February 2006, there were

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<sup>62</sup> *Multiple Play: Pricing and Policy Trends*, Working Party on Telecommunication and Information Services Policies, OECD, 07 April 2006.

30,000 subscribers to Canalsat on French telecom operator SFR, paying € 7 a month. In order to continue broadening its offer, Canal+ has recently tested mobile TV on a DVB-H platform.

- German pay TV operator Premiere launched HDTV in December 2005 on MPEG4 format. The next steps in innovation are expected to be the increased broadcast of HDTV signals, the launch of IPTV and mobile TV.

- English satellite broadcaster BSkyB plans to enter the broadband market by 2010. It will offer all of its TV subscribers free broadband connections. Although it will not be a full IPTV service, SkyBroadband will offer online distribution for BSkyB's content, including films and sports rights. Whereas the trend for cable operators is to enter the TV market, BSkyB, as a TV operator, will compete against traditional broadband providers (telecommunication and cable operators) on the broadband market and on the triple play offer.

## TRADE

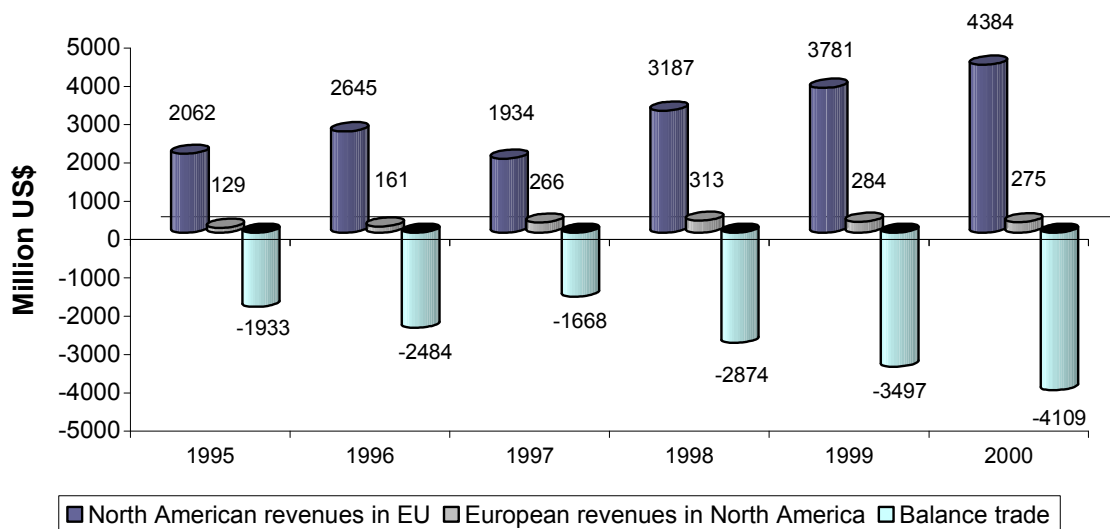
Comprehensive figures on international trade flows in TV programmes are not available due to difficulties encountered when attempting to measure the amount of trade in services. However, available data shows that the EU recorded an important trade deficit with the US concerning audiovisual programmes.

In 2000, the balance of trade between TV companies in the EU and in the USA showed a deficit of about € 4.1 billion:

- Import (the USA to the EU): € 4.4 billion;
- Export (the EU to the USA): € 300 million<sup>63</sup>.

Between 1997 and 2000, this deficit grew exponentially:

**Figure 37. Trade in TV programmes between the EU and North America**



Source: ETS/European Audiovisual Observatory, 2002, in *International Flows of Selected Cultural Goods and Services, 1994-2003*, Unesco Institute for Statistics, Paris, December 2005, 99 p.

<sup>63</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers, op.cit.

## EMPLOYMENT

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It is estimated<sup>64</sup> that about 300,000 people were employed in the broader TV sector of the EU15 in 2002, including TV content production:

- About 150,000 people worked in broadcasting or integrated broadcaster/delivery companies;
- About 150,000 people worked in TV production:
  - o About 90,000 worked on in-house production (including news and sport);
  - o About 60,000 worked at external production companies.

In regards to direct employment provided by broadcasters, according to the European Audiovisual Observatory there were 196,628 people employed permanently by TV companies in the EU25 throughout 2003<sup>65</sup>. The largest TV workforces are in Germany (almost 60,000 people) and in the UK (about 50,000 people)<sup>66</sup>.

## NATIONAL DIMENSION

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A national approach to the European broadcasting sector shows major differences between the EU15 countries and the new member States.

The broadcasting sector is wealthier in the EU15 countries than in the new member States. In terms of advertising expenditure, it appears that the EU15's broadcasters receive higher revenues from advertising than broadcasters in the new member States. Another distinction between these two groups of countries can be applied to public broadcasting. The share of licensing fees is usually higher in the EU15 (larger share of public broadcasters' revenues) than in the new member States (barely half of the revenues).

The EU15's public broadcasters also usually attract larger audiences than public broadcasters of the new member States do. In the EU15, the daily audience market share of public TV is around 40-45%. This figure is quite homogenous across the EU15 with only a few exceptions: Denmark (71.8%) is the country with the highest public TV audience market share (71.8% daily). Greece, French speaking Belgium and Portugal are on the opposite end of the spectrum with lower than average public TV audience market share (respectively 16.1%, 20.3% and 23.6%).

In the new member States, the situation is quite different. Private broadcasters widely dominate the market. On average, public TV has a 20-25% daily audience market share. In Lithuania, the figure is 12.5%. Poland is an exception; its public TV gathers 51.9% of the daily audience. In some of the new member States, audience for public TV was much higher ten years ago than today. Over the last decade, the daily audience market share of public TV has fallen from 73.7% to 24.6% in Slovakia and from 79% to 19.1% in Hungary.

Broadcasting companies' activities are not limited to the national level. A few European audiovisual companies broadcast programmes worldwide. BBC and TV5 are the two best examples:

- BBC World is the English speaking BBC's commercially funded international news and information TV channel, broadcasting 24 hours a day. It is received in 270 million homes in more than 200 countries and territories<sup>67</sup>.
- TV5 is a general French speaking TV channel<sup>68</sup>, received in 160 million homes in 203 countries. On average, 24.5 million people watch TV5 everyday<sup>69</sup>. It is one of the three biggest TV networks, the two others being CNN and MTV.

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<sup>64</sup> Study on the impact of measures concerning the promotion of the distribution and production of TV programmes (Community and national) provided for under Article 25 (a) of the directive on television without frontiers, op.cit.

<sup>65</sup> Yearbook 2005, European Audiovisual Observatory, 2005

<sup>66</sup> "Graham report"

<sup>67</sup> BBC on [http://www.bbcworld.com/content/template\\_clickpage.asp?pageid=141](http://www.bbcworld.com/content/template_clickpage.asp?pageid=141)

<sup>68</sup> TV5 is a consortium of public broadcasters established in French-speaking territories (France, Canada, Belgium, Switzerland)

<sup>69</sup> TV5 on <http://www.tv5.org/TV5Site/tv5monde/presentation.php>

## VIDEO GAMES

Despite being a "young" thirty-year old cultural industry, video games can be regarded as a "serious business" today and particularly relevant in relation to the EU Lisbon strategy:

- Video games are one of the fastest growing sub-sectors of cultural industries.
- Video games are closely linked to the ICT sector as they both contribute to the evolution of hardware and benefit from high-speed broadband penetration in the same way as they trigger it.
- Video games are a driver for the development of new digital services, both online and mobile.

Although the sector is at present dominated by American and Japanese companies, European companies possess some significant market shares (they own 11% of the US market, the largest in the world) – and there is room for further growth.

## STRUCTURE OF THE SECTOR

### DEFINITION

A video game is usually defined as "an electronic or computerized game played by manipulating images on a video display or television screen".

In the following sections, the term "video games" includes **console games**<sup>70</sup>, **PC offline games**<sup>71</sup>, **online games**<sup>72</sup> and **wireless games**<sup>73</sup>. The hardware and accessories used to play the games are not included in the video games sector. Such a definition also corresponds to the category of interactive leisure (or entertainment) software.

### TWO MAIN PLAYERS: "DEVELOPERS" AND "PUBLISHERS"

The industry is mainly composed of "developers" and "publishers".

**Developers** are the creative resource. They conceive and produce programmes that are used for creating the video games that are then sold and marketed by publishers. They are the "risk takers", creating prototypes (demos) in order to attract publishers, whereas most of the revenues generated by video games benefit publishers and manufacturers. Development and content creation activities are carried out by a few large studios and a large number of SMEs. A typical development studio employs around 25 people<sup>74</sup>. In 2004, the UK was the European country recording the highest number of development studios (120). It was followed by Germany (50), France (45) and Italy (27). The Netherlands, Sweden, Norway, Belgium, Spain, Austria, Switzerland, Denmark, Ireland and Finland also accommodate development studios<sup>75</sup>.

<sup>70</sup> A **video game console** is an interactive entertainment computer. The term is used to distinguish a machine designed for consumers to buy and use solely for playing video games from a personal computer or arcade games. A console game is a form of interactive multimedia used for entertainment. The game consists of manipulable images (and usually sounds) generated by a game console, and displayed on a television or similar audio-video system. The game itself is usually controlled and manipulated using a handheld device connected to the console called a controller. In the case of a console off-line game the game is played without connection to a broader network, as the internet, via a game console.

<sup>71</sup> **PC off-line games**: games for entertainment that are played on a personal computer without a connection to the internet.

<sup>72</sup> **Online games** refer to video games that are played over some form of computer network, most commonly the Internet. Online games can range from simple text based games to games incorporating complex graphics and virtual worlds populated by many players simultaneously. Many online games have associated online communities, making online games a form of social activity beyond single player games.

<sup>73</sup> **Wireless games**: In modern usage, wireless is a method of communication that uses low-powered radio waves to transmit data between devices. The term refers to communication without cables or cords, chiefly using radio frequency and infrared waves.

<sup>74</sup> *The European Games Yearbook 2003/2004*, ISFE

<sup>75</sup> *The European Games Yearbook 2003/2004*, ISFE

However, in recent years one third of all game developers in the world went out of business annually<sup>76</sup>. In Europe, they decreased from more than 300 in 2002 to 281 in 2003<sup>77</sup>. This is notably due to the increase of development costs, in particular for SMEs:

- In the early 1990's the average cost of developing a video game was USD 40,000<sup>78</sup>
- In 2004, the average cost had risen to USD 10 million<sup>79</sup>
- The cost is expected to reach more than USD 65 million in some cases for the next generation of consoles<sup>80</sup>

Whereas at present most games are released on the three main consoles (Microsoft's Xbox, Sony's PlayStation and Nintendo's GameCube) and PC at the same time, in the near future games are likely to be developed for one platform only. The reason for this is the ambition of platform vendors to have a grip on the entire value chain of the market, from sales of hardware equipment to sales of video games. As a consequence, development costs will dramatically increase as software developers will depend on a single platform for the distribution of their games.

It is estimated that the number of profitable consoles games titles could not exceed 80 by 2008<sup>81</sup>.

**Publishers** produce the video games created by developers. They are also involved in marketing, manufacturing and wholesale. Europe counts 15 major European-owned publishers<sup>82</sup>.

## MAJOR GLOBAL PLAYERS

The list of the leading video game publishers worldwide is a clear indicator of the dominance of US and Japanese companies in the sector. Four European companies are on the list - this is a signal that Europe has untapped potential which should be further developed.

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<sup>76</sup> *Game development technologies in Europe*, Malte Behrmann, European Games Developer Federation, 2006

<sup>77</sup> *Yearbook 2005*, Volume 4, European Audiovisual Observatory, 2005

<sup>78</sup> CRANDALL (Robert W.), SIDAK (J. Gregory), *Video Games: Serious Business for America's Economy* - Study commissioned by the Entertainment Software Association, 58 p.

<sup>79</sup> CRANDALL (Robert W.), SIDAK (J. Gregory), op. cit.

<sup>80</sup> *Creating growth – How the UK can develop world class creative businesses*, NESTA Research Report, April 2006

<sup>81</sup> *Creating growth – How the UK can develop world class creative businesses*, op. cit.

<sup>82</sup> *The European Games Yearbook 2003/2004*, ISFE

**Table 39: Top-20 video game publishing companies in the world in 2004**

Rank	Company	Country	Turnover 2004 (USD million)
1	Sony <sup>83</sup>	JP	4,092.06
2	Electronic Arts	US	3,129
3	Microsoft (Home and Entertainment) <sup>84</sup>	US	2,876
4	Nintendo <sup>85</sup>	JP	2,119
5	Activision	US	1,405.9
6	Take-Two Interactive Software Inc.	US	1,128
7	Konami <sup>86</sup>	JP	879.4
8	Ubi Soft Entertainment S.A.	FR	869.2
9	Infogrames Entertainment	FR	782.4
10	Sega <sup>87</sup>	JP	797.2
11	THQ Inc	US	756.7
12	Square Enix	JP	687.8
13	Vivendi Universal Publishing	FR/US	647
14	Capcom	JP	597.1
15	Namco (Home Video game software) <sup>88</sup>	JP	443.8
16	Bandai (Video games) <sup>89</sup>	JP	359.8
17	Koei	JP	263
18	Eidos PLC	UK	242.6
19	Acclaim Entertainment Inc <sup>90</sup>	US	142.7
20	Majesco Holding Inc	US	121

Source: European Audiovisual Observatory

## A CONCENTRATED MARKET

The video game publishing market is highly concentrated:

- Since 2003, the bankruptcies of major companies and a series of important mergers have accelerated the concentration process.
- The increase of the production's length and costs has also contributed to market concentration.
- Entering the market on the basis of an original game concept has become highly difficult especially for independent development studios as there are usually only three categories of "top-selling games": those which are based around film titles, those which are licensed from sport franchises and those which have developed a strong brand loyalty over the years.

<sup>83</sup> Sony reports game division revenues but does not isolate software and hardware revenues. The EAO has taken, as a hypothesis, that software represents 60% of the game activities turnover (\$ 6,821 million).

<sup>84</sup> Microsoft's Home and Entertainment branch includes the Microsoft Xbox video game system, PC games, the Home Products Division and TV platform products.

<sup>85</sup> Nintendo reports total revenues, but does not isolate software and hardware revenues. The EAO has taken, as a hypothesis, that software represents 44% of the game activities turnover (\$ 4,816).

<sup>86</sup> Consumer software sales only.

<sup>87</sup> Including hardware sales.

<sup>88</sup> Bandai and Namco merged in September 2005.

<sup>89</sup> Bandai and Namco merged in September 2005.

<sup>90</sup> Bankruptcy in September 2004



## REVENUES

On a global level the **revenues of the video game industry as a whole are reported to have doubled** between 1997 and 2003, reaching € 15.3 billion<sup>91</sup> in 2003. The turnover of the main international video games publishers alone amounted to USD 21 billion in 2004 (€ 16.6 billion), an increase by 3.7% compared with 2003<sup>92</sup>. The industry's revenues are expected to grow by 16.5% a year until 2009<sup>93</sup>.

The sector has undergone difficulties in recent years and profitability indicators have been negative since 2000, as exemplified in the following tables:

**Table 40: Financial situation of European video games publishers (€ million) 1999-2003**

	1999	2000	2001	2002	2003
Number of companies	41	41	39	38	36
Operating revenue	1,749	2,013	1,855	2,416	2,201
Operating profit	49	-252	-199	-179	-38
Profit/loss before tax	204	-283	-214	-241	-74
Profit/loss for period	129	-270	-323	-334	-130

Source: *Yearbook 2005*, Volume 4, European Audiovisual Observatory, 2005

**Table 41: Financial situation of European video games developers (€ million) 1999-2003**

	1999	2000	2001	2002	2003
Number of companies	223	275	276	309	281
Operating revenue	542	588	851	955	1,124
Operating profit	-12	-159	-229	-178	11
Profit/loss before tax	31	-122	-251	-188	20
Profit/loss for period	7	-120	-335	-201	35

Source: *Yearbook 2005*, Volume 4, European Audiovisual Observatory, 2005

Yet, the outlook is far from being dull:

- The market is cyclical as the largest segment of the video game industry is the console games market which is very dependent on the cycle of game consoles. Thanks to the launch of the next generation of game consoles, the market is expected to grow in 2006 and 2007.
- New markets (wireless and online) are far easier to enter. For instance, developing a Java mobile game costs between € 100,000 to € 500,000<sup>94</sup>.
- Although it faces difficulties, the online gaming market is growing at a rapid pace. Today it is the most dynamic sector of the video game industry. The European video game market is projected to reach USD 11 billion (€ 8.7 billion) in 2007<sup>95</sup>.

<sup>91</sup> *The European Games Yearbook 2003/2004*, ISFE

<sup>92</sup> *Yearbook 2005*, Volume 4, European Audiovisual Observatory, 2005

<sup>93</sup> *Global Entertainment and Media Outlook 2005-2009*, 6<sup>th</sup> annual edition, PriceWaterhouseCoopers, June 2005.

<sup>94</sup> *The European Games Yearbook 2003/2004*, ISFE

<sup>95</sup> *Digital Broadband Content: The online computer and video game industry*, op. cit.

## TURNOVER OF THE VIDEO GAME SECTOR AT EUROPEAN LEVEL

The turnover of the European video game sector increased from €2.6 billion in 1997 to **€5.25 billion in 2003**<sup>96</sup>. A breakdown by country is as follows (in € million):

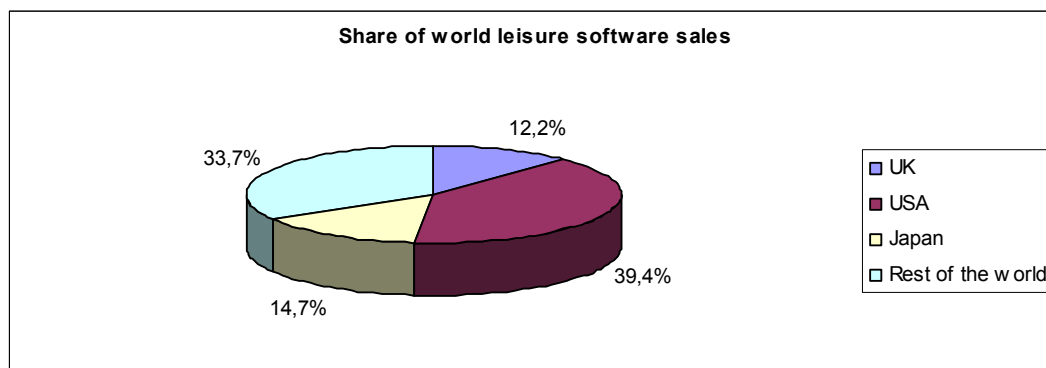
Country	Turnover (€ million)
Austria & Switzerland	227.1
Benelux	300.8
France	869.2
Germany	945.8
Ireland	103.9
Italy	388.7
Denmark, Finland, Norway and Sweden	393.3
Spain and Portugal	387.3
UK	1,632.4

In Europe, the turnover of video game publishing companies amounted to **USD 2.8 billion (€ 2.2 billion) in 2003**, representing about **14% of the worldwide market**<sup>97</sup>.

## VIDEO GAMES SALES AT GLOBAL LEVEL

The following graph represents the repartition of world sales, showing the importance of the US, Japanese and UK markets:

**Figure 38. Share of world leisure software sales (2005)**



Source: ELSPA 2005 Yearbook

In 2005, video games published by US companies captured 44% of the world market and titles published by Japanese companies took 35% of the world market<sup>98</sup>. The US and Japan are also the only two countries to have their own console manufacturers (Nintendo and Sony in Japan; Microsoft in the US), which constitutes a strong competitive advantage. Other countries that perform well on this market are Canada and South Korea.

<sup>96</sup> *The European Games Yearbook 2003/2004*, ISFE

<sup>97</sup> *Yearbook 2005*, Volume 4, European Audiovisual Observatory, 2005

<sup>98</sup> *Digital Broadband Content: The online computer and video game industry*, BEINISCH (Yischai) PAUNOV (Caroline), VICKERY (Graham), WUNSCH-VINCENT (Sacha), OECD, Directorate for Science, Technology and Industry, Paris, 68 p., 2005.

## MARKET GROWTH FOR ONLINE GAMES

Today the main segments of the video game market are<sup>99</sup>:

⇒ <b>Traditional markets : 90%</b> Console off-line: 73% PC off-line: 17%	⇒ <b>“New markets” : 10%</b> Wireless games 3.4% Online: 6.4%
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According to estimates, the video game industry's projected market proportions by 2008 are as follows<sup>100</sup>:

⇒ <b>Traditional markets : 47 %</b> Console games off-line: 41% PC games off-line: 6%	⇒ <b>“New markets” : 53%</b> Wireless games: 25% Online games: 28%.
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In 2003, the mobile gaming market<sup>101</sup> amounted to € 55 million in Western Europe with about 1.25 million games being downloaded every month<sup>102</sup>.

The online sector is growing and it is estimated that it will become the second-largest market segment in upcoming years. Demand for online games will increase in relation to the online capabilities of the next generation of consoles, the rise of broadband Internet connections and new models of wireless telephones capable of downloading games.

In South Korea, where broadband penetration is the highest in the world, online games totalled 61.9% of video game revenues in 2004<sup>103</sup>. As a direct effect of the online games boom, the market for PC games will continue to deteriorate and should be surpassed by online games

## EMPLOYMENT

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No global figures on employment in the sector are available in Europe.

It is estimated that video game developers employ around 13,250 people in Europe<sup>104</sup>. As already noted, the development sector experienced difficulties in recent years and these are visible at the employment level. In the UK, employment in games development fell by 6% between 2000 and 2006<sup>105</sup>. Over the same period employment within the UK video game industry rose by 7.5%: the number of employees in publishing, distribution, peripherals/accessories and retailing has thus increased.

In relation to publishers, the only figures available are those of particular companies. For instance<sup>106</sup>:

- French publisher and developer Ubisoft employs over 1,100 people in Europe
- American company Electronic Arts, the world's largest publisher, employs 930 people in Western Europe

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<sup>99</sup> *Digital Broadband Content: The online computer and video game industry*, op. cit.

<sup>100</sup> *Digital Broadband Content: The online computer and video game industry*, op. cit.

<sup>101</sup> **A mobile game** is a computer game played on a mobile phone, smartphone, PDA or handheld computer. Mobile games may be played using the communications technologies present in the device itself. More common, however, are games that are downloaded to the mobile phone and played using a set of game technologies on the device. Mobile games are usually downloaded via the mobile operator's radio network, but in some cases are also loaded into the mobile handsets when purchased.

<sup>102</sup> *The European Games Yearbook 2003/2004*, ISFE

<sup>103</sup> *Game development technologies in Europe*, op. cit.

<sup>104</sup> *The European Games Yearbook 2003/2004*, ISFE

<sup>105</sup> *Creating growth – How the UK can develop world class creative businesses*, op. cit.

<sup>106</sup> *The European Games Yearbook 2003/2004*, ISFE

- UK publisher and developer Codemasters employs 380 people
- French publisher Atari employs over 1,000 people in Europe

Additionally the sector generates employment in related sectors such as mastering, manufacturing & replication, distribution, retail, media (gaming magazines and websites), hardware companies and specialist services. In the UK for example, 20,000 people were employed by 270 companies in games-related sectors throughout 2004<sup>107</sup>.

In the USA, the video game sector as a whole directly employed about 50,000 people in 1998<sup>108</sup>. The number of jobs supported by the sector is much more important than the number of direct jobs within the sector. By 2009, the entertainment software industry is expected to support around 250,000 jobs in the USA<sup>109</sup>.

## NATIONAL DIMENSION

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The UK is the largest video game market in Europe and the third in the world following the USA and Japan<sup>110</sup>. In 2003, the UK video game market exceeded USD 2 billion while also being the first developer and producer in Europe<sup>111</sup>. It is followed by:

- The German market (representing €1 billion in 2002)
- The French market (representing € 990 million revenues in 2002). French groups Ubisoft and Infogrames Entertainment are two of the world's largest publishers – the case study below represents the Ubisoft company
- The Spanish market (representing € 800 million in 2003)<sup>112</sup>

Around a dozen of European countries accommodate development studios. In this sector, Romania is an emerging country.

## SECONDARY ECONOMIC IMPACT

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According to the authors of a study on video games' impact on the American economy<sup>113</sup>, in the US the video games industry generated USD 10.3 billion in software sales in 2004 and USD 7.8 billion in sales of complementary products. It has thus contributed more than USD 18 billion to the American economy as a whole. The authors distinguish four economic benefits of the video game industry for the American economy:

- *The market for games themselves*; including domestic sales (USD 8.2 billion), foreign export (USD 2.1 billion) and video game rentals (USD 700 million)
- *Salaries* paid to the 144,000 full-time US-based employees whose jobs are supported by the entertainment software industry
- *The stimulative effect of entertainment software on technological innovation* (introduction of newer and faster central processing units in computers) and consumer demand in complementary markets (games consoles, PCs specialised in gaming applications, HDTV, interactive devices for entertainment software, broadband Internet and mobile telephone service)

<sup>107</sup> *Digital Broadband Content: The online computer and video game industry*, op. cit.

<sup>108</sup> CRANDALL (Robert W.), SIDAK (J. Gregory), op. cit.

<sup>109</sup> CRANDALL (Robert W.), SIDAK (J. Gregory), op.cit.

<sup>110</sup> *Global Entertainment and Media Outlook 2005-2009*, op. cit.

<sup>111</sup> *Global Entertainment and Media Outlook 2005-2009*, op. cit

<sup>112</sup> *Digital Broadband Content: The online computer and video game industry*, op. cit.

<sup>113</sup> CRANDALL (Robert W.), SIDAK (J. Gregory), op. cit.

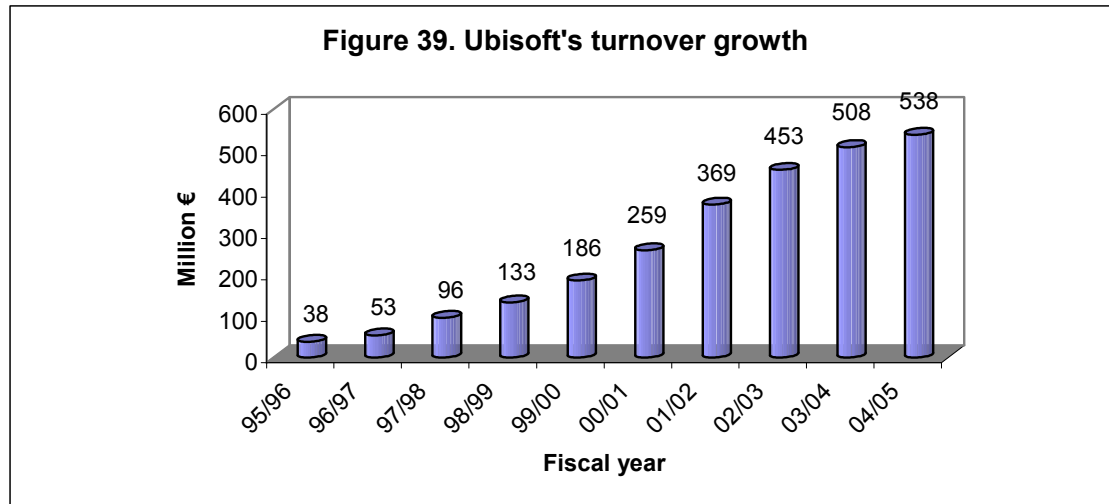
- *Technological transfers from the entertainment software industry to other industries or fields* (education, advertising, military simulation technologies and medical & corporate training)

Although there is no estimation of them, similar secondary impact and spin off effects are generated in Europe albeit at a lower level because of the reduced size of the market. Online gaming for instance is a key driver for high-speed broadband Internet uptake whilst mobile gaming is instrumental in driving the upgrade toward 3G mobile handsets.

## Case Study The rise of Ubisoft

Ubisoft is a developer, publisher and distributor of interactive entertainment products. Twenty years after its creation in France, it has become a worldwide multimedia company employing around 3,000 people.

Established in 1986, Ubisoft was in 2004 the 3<sup>rd</sup> independent publisher in France and Germany, 5<sup>th</sup> in the UK and 7<sup>th</sup> in the US. In early 2005, it became 2<sup>nd</sup> in France and the UK. The company has a portfolio of over 1 000 titles. Its turnover is on constant raise, as illustrated below:



Source: Ubisoft Annual Report 2005

Between 1995 and 2005 Ubisoft's sales have multiplied by 14.

Between 2001 and 2005 they have more than doubled and reached € 538 million in 2005. The sales are distributed as follows:

- 53% in Europe
- 42% in North America
- 5% other.

According to Ubisoft's CEO Yves Guillemot, the company plans to double its worldwide revenue and to triple its profits by 2010. At present, Ubisoft has subsidiaries in 21 countries and distributes its products in 55 countries. The company has 13 studios in 9 countries: Canada (2), China, France (3), Germany, Italy, Morocco, Romania, Spain and the USA (2).

### ■ Ubisoft's strategy

#### • *Operating on as many market segments as possible*

Ubisoft is a creator of brands. The company provides products for all major supports of the video games' market: 128-bit consoles, portable consoles and PCs. It is currently working on titles for the next generation of home consoles for the three main manufacturers.

#### • *Investing in training*

For Ubisoft, a talented workforce is the key to success. In order to have an efficient workforce, Ubisoft invests in training, for example, the recent creation of the Ubisoft Campus in Montreal. The Campus provides training to people from all the company's studios and then helps develop the production teams' skills. It also provides educational foundation for future professionals of the videogame industry. Moreover, Ubisoft plans to establish partnerships with schools worldwide in order to teach future developers production methods and tools.

- *Building relationships with independent producers*

Ubisoft's in-house production force is the second largest video game production team in the world. However, the company keeps relationships with independent developers, which are a source of creativity, to diversify Ubisoft's portfolio.

- **Jobs creation and job off-shoring**

Ubisoft is a job creator. From 2002 to 2005, Ubisoft's workforce increased by 50%.

On 31 March 2005, Ubisoft employed 2 972 people worldwide: 75% in production studios and 25% in distribution and support functions. The average employee's age was 30.4 and the average seniority was 2.92 years. The majority of Ubisoft's employees have permanent work contracts. The following table displays the distribution of Ubisoft personnel by country.

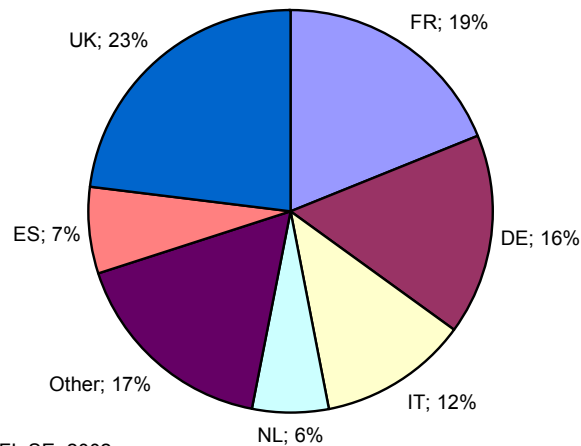
Country	Workforce on 31-03-2004	Workforce on 31-03-2005	Evolution
Australia	15	13	-13,33%
Austria	9	6	-33,33%
Belgium	10	8	-20,00%
Canada	719	1110	54,38%
China	209	329	57,42%
France	630	656	4,13%
Germany	66	66	0,00%
Hong-Kong	5	5	0,00%
Italy	58	49	-15,52%
Japan	17	17	0,00%
Morocco	52	42	-19,23%
Netherlands	10	10	0,00%
Romania	114	218	91,23%
Scandinavia	21	22	4,76%
South Korea	3	2	-33,33%
Spain	51	48	-5,88%
Switzerland	8	6	-25,00%
UK	48	44	-8,33%
United States	307	321	4,56%
<b>Total</b>	<b>2352</b>	<b>2972</b>	<b>26,36%</b>
<b>Total Europe</b>	<b>1025</b>	<b>1133</b>	<b>10,54%</b>

Source: Ubisoft Annual Report 2005

## ECONOMY OF THE SECTOR<sup>114</sup>

Advertising is one of the major creative industries in Europe. In 2003, advertising in the EU25 generated € 32 billion in value added and employed 782,600 people. The total turnover at the European level of the advertising sector was € 121 billion - the principal contributor in terms of turnover was the UK followed by France, Germany and Italy as shown in the following graph:

**Figure 40: Turnover in advertising in the EU-25, share by Member State, 2003**



Note: IE, LV, LU, MT, PL, SI, FI, SE: 2002 –  
GR not available

Source: Eurostat

In comparison, the US advertising market was estimated at USD 271 billion (€ 213.5 billion) in 2005<sup>115</sup>

In 2001, 167,481 enterprises had advertising as their principal activity. Besides its economic relevance, advertising offers a significant contribution to Europe in terms of creativity and innovation. Advertising agencies rely on creativity as the main quality of their workforce - advertising also has important spill over effects on other creative sectors such as graphic design, interactive media and audio-visual production. Competitions and contests are regularly organised at national and EU levels to award the most creative advertising campaigns - European agencies have a reputation for creativity which is key in attracting international clients.

<sup>114</sup> The source of this section is the report prepared by Eurostat: "Statistics in brief, Advertising and staff selection in Europe", Pekka Alajääskö, April 2006  
[http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-NP-06-013/FR/KS-NP-06-013-FR.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-NP-06-013/FR/KS-NP-06-013-FR.PDF)

<sup>115</sup> Advertising Age, Special Report: 100 Leading national advertisers, June 2006  
<http://adage.com/images/random/LNA2006.pdf>



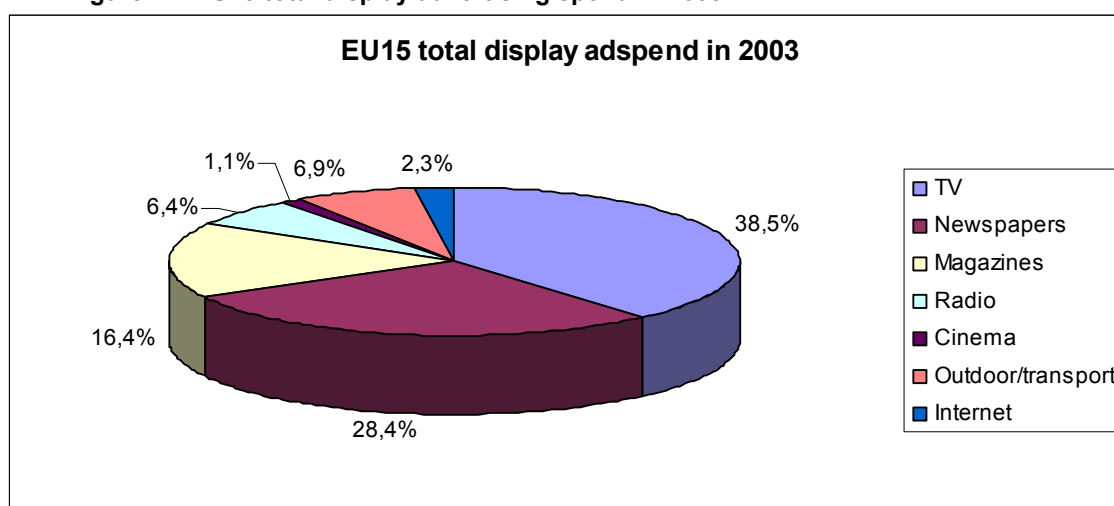
## THE IMPACT OF ADVERTISING ON THE MEDIA SECTOR

Advertising also has a relevant impact on the revenues generated by the media sector including, in particular, TV (free-to-air commercial broadcasters are one of the single most important vehicle of advertising) and the press (newspaper and magazines).

In the EU15, total advertising spent for 2003 amounted to € 62.3 billion, a considerable increase compared with 1996 (€ 46.5 billion) but a decrease compared to the record breaking expenditures of 2000 (€ 68.2 billion)<sup>116</sup>. In 2003, advertising expenses accounted for 0.85% of EU15's GDP<sup>117</sup>.

The following graph represents the division of advertising expenses at an EU level across different mediums in 2003:

**Figure 41: EU15 total display advertising spend in 2003**



Source: *Yearbook 2005*, European Audiovisual Observatory, 2005

TV attracts the largest part of advertising spending, followed by newspapers and magazines - however, the situation varies greatly between countries.

The new EU Member States are characterised by a percentage of advertising spent on TV significantly higher than in the EU15 countries. The spending in both the EU10 and the EU15 countries was quite stable during the period of 1994-2004. However, there are significant disparities. In 2003 for instance, the national share spent on TV advertising was lower than 20% in Denmark, Finland and Ireland yet higher than 50 % in Hungary, Italy, Poland and Portugal<sup>118</sup>.

## TRADE

Assessing trade in services provided by advertising agencies is not simple because of the inherent obstacles encountered when trying to measure trade in services (see above Section I.IV). Many agencies are also local subsidiaries of major international groups (see below for a ranking of the world's leading advertising agencies). It is

<sup>116</sup> *Yearbook 2005*, European Audiovisual Observatory, 2005

<sup>117</sup> *Yearbook 2005*, European Audiovisual Observatory, 2005

<sup>118</sup> *Europe – Public Television in the New Member States* - European Broadcasting Union, Strategic Information Service, Brussels, 2005, 109 p.

certain that the development of ICT and the liberalisation of services at both Internal Market and global levels have facilitated trans-national provisions of advertising services.

On the basis of data transmitted by nine European countries in 2003 (Denmark, Greece, Luxembourg, Poland, Romania, Slovenia, Spain, Sweden, UK), Eurostat<sup>119</sup> has been able to draw the following conclusions about trade in advertising services:

- The export of advertising services generated a significant share of the turnover for advertising agencies in Luxembourg (more than 23%), Slovenia (15%) and Denmark (14%) whilst in Spain and Poland exports were less than 5%.
- Most of the turnover generated by exports in advertising services originated from other EU countries (21% for Luxembourg).
- Turnover generated by exports to non-EU clients was higher than average in Slovenia (6% of the total) and UK (5% of the total) - in all the other countries this share was less than 3%.

## THE IMPACT OF ICT

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The rapid development of digital technologies and the Internet have provoked three major positive effects on the advertising industry:

- Traditional advertisers are using new advertising space (online and new media). The Internet for instance has become an important medium for advertising
- New Internet businesses use traditional advertising mediums (print, TV and radio). Since the end of the 1990's, they have become new clients for the advertising sector
- New media agencies have been created in order to answer to firms' demand for serving a global market

However, ICT is also causing major disruptions in the traditional advertising business.

Reaching target audiences through traditional media outlets becomes more and more difficult because of new media technologies and further audience fragmentation. This is particularly the case with free-to-air television. Consumers are also disposing of tools that enable them to ignore advertising such as personal/digital video recorders (PVR). Since their appearance on the market, PVRs have deprived advertisers of more than 1% of impact. In 2005, there were 10 million digital video recorders in the USA and this number is expected to reach 42 million by 2010<sup>120</sup>.

## ONLINE ADVERTISING IN FIGURES<sup>121</sup>

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In 2005, online advertising amounted to almost € 5 billion in Europe. The UK accounted for 43% of all Europe's online advertising expenditures. France had the second largest share of the market (22.5%) and Germany accounted for 18% of overall spending on advertising. A significant gap between the three largest markets and the next tier remains, with Sweden, Spain and Italy each estimated at accounting for about 3% of the online advertising spend market.

The average share of online advertising over total advertising spent is estimated at 6.8% across Europe.

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<sup>119</sup> Eurostat: "Statistics in brief, Advertising and staff selection in Europe", Pekka Alajääskö, April 2006  
[http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-NP-06-013/FR/KS-NP-06-013-FR.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-NP-06-013/FR/KS-NP-06-013-FR.PDF)

<sup>120</sup> Randall Stross, "If everyone skips the ads, how will TV survive", in *The New York Times*, 20 May 2006

<sup>121</sup> European Interactive Advertising Association: Europe Online, August 2006  
<http://www.eiaa.net/FTP/downloads/EIAA%20-%20Europe%20Online%202021.8.06.pdf>

The following table presents figures for overall and online advertising in a number of selected European countries:

**Table 42: Advertising Expenditures in selected European countries 2005**

Country	overall advertising expenditure (€ billion) <sup>122</sup>	online advertising expenditure (€ million)
Belgium	2.4	55 <sup>123</sup>
Denmark	1.7	81 <sup>124</sup>
France	10.2	1,100 <sup>125</sup>
Germany	16.3	885 <sup>126</sup>
Italy	8.6	138 <sup>127</sup>
Netherlands	3.7	97 <sup>128</sup>
Norway	2.5	120 <sup>129</sup>
Spain	6.7	150 <sup>130</sup>
Sweden	1.9	160 <sup>131</sup>
United Kingdom	17.4	2,100 <sup>132</sup>
<b>Total</b>	<b>71.4</b>	<b>4,886</b>

Source: European Interactive Advertising Association: Europe Online, August 2006

By way of comparison, in the US Internet advertising revenues for 2005 exceeded USD 12.5 billion (€ 9.9 billion). Combined online and mobile advertising is estimated to achieve USD 22 billion (€ 17.3 billion) in 2006<sup>133</sup>.

## THE COMPETITIVENESS OF EUROPEAN COMPANIES

Europe is a hub for creativity in many sectors and advertising is one of them. As shown by the following graph, three out of the world's six leading advertising agencies are Europe-based:

<sup>122</sup> ZenithOptimedia, 2006

<sup>123</sup> IAB Belgium

<sup>124</sup> IAB Europe

<sup>125</sup> TNS Media Research/Mediametrie/Netratings/Ipsos

<sup>126</sup> Nielsen & OVKMarkt, 2006

<sup>127</sup> Nielsen Media Research/IAB Italy/Assointernet

<sup>128</sup> ZenithOptimedia, 2006

<sup>129</sup> ZenithOptimedia, 2006

<sup>130</sup> IAB Spain - estimate

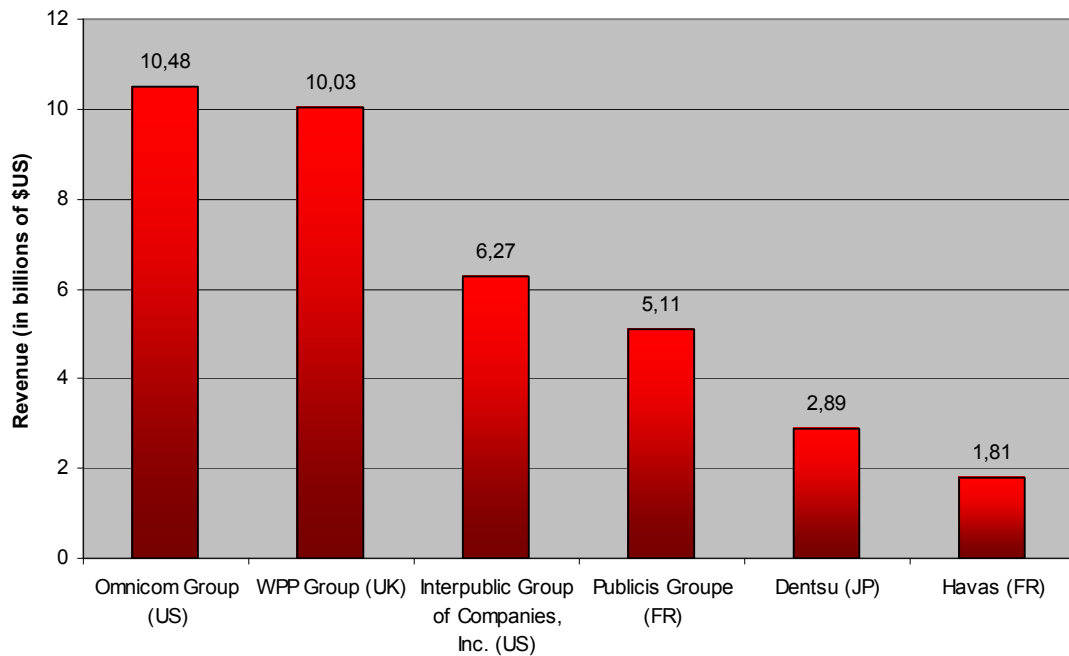
<sup>131</sup> ZenithOptimedia, 2006

<sup>132</sup> IAB UK, 2006

<sup>133</sup> Financial Times, *Old media increase share of online ads*, September 12 2006

**Figure 42: Top six marketing and advertising companies in the world based on 2005 revenues**

The Top Six Marketing and Advertising Companies in the World Based on 2005 Revenue



Source: ADAGE research<sup>134</sup>

Some of the most reputed and award-winning advertising agencies belong to European groups - prime examples are Ogilvy & Mather (part of WPP), Leo Burnett and Saatchi & Saatchi (part of the Publicis group).

### **London as global advertising hub**

There are three main centres in the world for the advertising industry: New York for the Americas, Tokyo for Asia and London for Europe. Two thirds of all international advertising agencies have their European headquarters in London<sup>135</sup> and the UK is the largest advertising market in Europe, followed by Germany and France.

<sup>134</sup> <http://adage.com/images/random/familytree06.pdf>

<sup>135</sup> *Creative Industries Mapping Document* - Department for Culture, Media & Sport, London, 2001

Design is an asset in post-industrialised economies where a product's quality and uniqueness become competitive parameters – as important as technology and price. Beyond the most “obvious” industries based on design (such as the fashion industry), design activities are relevant for an increasing number of businesses. In the latter case, the added-value of design is not limited to “aesthetic characteristics” but impacts the whole production process.

The following sector profile focuses on the added-value design activities bring to random enterprises and national economies as a whole.

### STRUCTURE OF THE SECTOR

The designer's function is to conceive industrial objects that are aimed for mass-reproduction: cars, furniture, clothes, etc.

He/she is at the cross roads of technical, commercial and cultural constraints.

Depending on his/her focus of activity, he/she will be described as a graphic designer (working on graphic presentations of products and documents, including multimedia and web design), product designer (conceiving a product), packaging designer (conceiving products' packages), industrial designer (conceiving and developing an industrial product) and/or a fashion designer (from “haute couture” creation to the production of high street ranges for specific stores, etc.).

Design activities are either carried out by design agencies, or integrated into a random company.

In regard to design agencies, these are composed of a large number of smaller consultancies and a few larger consultancies. In the UK, it is estimated that 73% of design consultancies employ 20 or fewer staff<sup>136</sup>. In France, 40% of consultancies employ one or two people and only 15% employ at least 10 employees<sup>137</sup>. Additionally, the sector is reported to include a significant number of self-employed.

Traditionally, design activities have constituted a major asset in Europe. This is obvious in relation to the most well-known design activities such as fashion design (from the original designer market dominated by French international brands such as Chanel, Dior, or Yves Saint Laurent to “high street ranges” such as Adolfo Dominguez or Zara), product design (from Finnish Alvar Aalto, to French Philippe Starck, Italian Alessi and even Swedish IKEA stores) or car design. In all of these sectors, Europe is well positioned and often the world leader, as in the case of fashion presented below.

<sup>136</sup> DCMS *Creative Industries Mapping Document 2001*

<sup>137</sup> [www.placeaudesign.com](http://www.placeaudesign.com)

## **Fashion design in Europe**

The role played by fashion in promoting the image of Europe as a creative hub should not be underestimated. Paris, Milan and London are recognised on a global level as fashion capitals along with New York. Fashion is a relatively small industry but it has important economic spill over effects on a range of industry sectors including textile, advertising and tourism.

Despite the lack of consistent data in the sector, it is undisputable that Europe plays a central role in the economy of fashion. The world's two largest luxury groups are based in France – LVMH and PPR. Europe is also home to a series of large and small fashion houses which offer a significant contribution to local and national economies.

In terms of turnover generated by fashion design activities, European groups are world leaders:

**Table 43: Revenues of European leading fashion groups 2005**

	Revenues (€ million ) 2005
<b>LVMH</b> (Louis Vuitton, Christian Dior, Givenchy, Fendi, Kenzo, Donna Karan)	4,812
<b>PPR</b> (Gucci, Yves-Saint-Laurent, Balenciaga, Sergio Rossi)	3,036
<b>Prada Group</b>	2,750
<b>Giorgio Armani Group</b>	1,428

Source: annual reports of the groups. For Prada, see <http://www.fashionunited.co.uk/news/prada.htm>

Defining the values generated by design activities is neither easy to achieve on the basis of statistical frameworks nor the best way to assess the added-value generated by design to national economies. Indeed, a most interesting subject of investigation in this section is to determine to what extent the integration of design activities into a random enterprise generates a significant impact on the company's overall performances.

## **THE INDIRECT IMPACT OF DESIGN ON COMPANIES PERFORMANCES AND NATIONAL ECONOMIES**

*"Good design is good business"*

Thomas Watson Jr. president of IBM declared in 1966<sup>138</sup>.

To understand these indirect impacts, design activities must be further presented and the design process explained in more details.

### **1. The design process**

The term "design" is often incorrectly interpreted as meaning something that applies only to an object's appearance.

Design however is a far ranging notion that relates much more to a process as it does to an object.

The following ladder of "design maturity"<sup>139</sup> presents the different degrees in the intensity of "design use", from the aesthetic "final touch" to a comprehensive impact on the whole production process (maximising the product quality and reliability while minimising production and distribution costs, integrating market research and customers' requirements, working on marketing and branding to support the product, etc.).

<sup>138</sup> Quoted in Marc Richetti, « *Good design is good business, the economic valuation of design* », in *Designing value*, Gianni Malossi, dir. (Associazione per il disegno industriale, Camera Nazionale della Moda Italiana)

<sup>139</sup> National Agency for Enterprise and Housing (2003)

#### Level 4 Design as innovation

Design professionals work together with the owner or managers **to renew** the entire company, or to renew large parts of the company's business ideas.

#### Level 3: Design as a process

**Design is integrated** into the product development process at the first stage of development.

#### Level2: Design as styling

Companies use design as the **final touch** in the product development process. Design services may be provided by a professional designer or they may be provided by others.

#### Level 1: Non-design

Design plays only a tiny part of the product development process and professional designers play no part in the process

Taken in this broad sense, design is used by many business sectors as an innovation input to the production process.

## 2. Assessment of the added-value of design at micro- and macro-economic level

The design process may be applied at various points along the value chain, thereby contributing to maximise the value added in one or two ways:

- Contributing to minimise input costs through more efficient production methods
- Helping to maximise sales revenues by providing a tool to create a product that satisfies customers' requirements.

Attempts to quantify the impact of design in the success of a business are not common though. The following paragraphs will outline examples on the basis of some of the few existing assessments. They have adopted two different approaches:

- A micro-economic approach (measuring the economic performances of an enterprise using design in terms of turnover, exports, profitability, productivity and performance).
- A macro-economic approach (assessing the added value of design in terms of its contribution to enhancing the competitiveness of the nations).

### 2.1. Micro-analyses of design

The following UK, Belgian and Danish surveys highlight the positive correlations found between the use of design by a company and:

- Its performance on the stock exchange (British survey)
- Its profitability, solvency and liquidity (Belgian Survey)
- Growth revenues, employment and exports (Danish survey)

These examples also show that the more intensive the use of design is (along the "ladder" presented above), the better the results.

**UNITED KINGDOM - The Design Index  
Survey conducted by the Design Council of England, 1999**

In 1998 Fitch, a UK-based design Consultancy, devised a means of assessing design-led firms' success using the respective firms' share market performance. Drawing on the services of investment fund managers, Fitch compiled a hypothetical "design-led" portfolio of its publicly listed clients in the US and compared the performance of that fund over a five year time period with the Standard and Poors 500<sup>140</sup> index. The hypothetical fund increased 40.8% while over the same period the market index gained 14.1%<sup>141</sup>.

In 1999, the Design Council of England applied this approach applying it to a set of 6 hypothetical funds comprising British design-embracing firms. The six funds performed between 5% and 28% better than the market index (in this case the FTSE All-Share index<sup>142</sup>) between the period of January 1995-August 1999. An aggregate a fund of all 95 companies involved performed 10% better than the FTSE index.

Subsequently, a real investment fund was launched with a portfolio based on those businesses.

**BELGIUM (Flanders Community) -  
Survey carried out on behalf of the Ministry of Economy, 1999-2001<sup>143</sup>**

The survey was carried out in 2003 using economic financial data from the period 1999-2001, on a sample of 400 Flemish businesses belonging to 9 sectors in which it was thought that design could play a significant role. The Study considered three indicators in corporate performance: profitability, solvency and, liquidity. The intensity of the use of design by companies was measured through a questionnaire which examined the companies' behaviour in different areas and which enabled the companies to be divided into three groups. The study concludes that a strong interest in design makes companies more profitable. The immediate outcome of the research was that the Ministry set up a centre of excellence for product innovation and design.

**DENMARK - Study of the Danish Design Centre for the National Agency for Enterprise and Housing, 2003**

The survey<sup>144</sup> was carried out by the Danish Design Centre for the National Agency for Enterprise and Housing, in 2003, on over 1000 private Danish companies, with at least 10 employees each. It examined:

- Total (private) investment in design:

Danish companies invest an annual € 0.7 billion (DKK 5 billion) in the external procurement of design and approx. € 0.3 billion (DKK 2 billion) in internal design purchases. The effect of public investments in design, the resources devoted to education and research and the annual € 1.7 million (DKK 12.5 million) of public funding invested in the promotion of design has not been subject to study.

- The difference in gross revenue, employment and exports for companies that adopt a comprehensive approach to design compared to those that don't.  
The Study found that:

- Danish companies that purchased designs had registered over the previous five financial years. Approx. 22% above average growth in gross revenues (approx € 7.8 billion - DKK 58 billion) than for companies which did not purchase designs.

- Companies which had experienced an increase in design activity (i.e. investments in design-related employee training or external procurement of design services) achieved an additional 40% of gross revenue increase compared to companies where design activity was either constant or had decreased.

- Companies that employed design professionals and purchased external design externally had exported 34% of their turnover on average compared to 18% by companies that had adopted a different design purchasing behaviour or none at all.

- There was a positive correlation between design and employment since job creation was higher in companies that had employed design compared to companies with no design activity.

- Gross revenue performances were better and the number of exports was greater the higher companies ranked on the "design ladder".

<sup>140</sup> A benchmark of US common stock performance, which includes 500 of the largest stocks (by market value) listed in the US

<sup>141</sup> New Zealand Institute of Economic Research in its report « *Building a case for added value* », Wellington, 2003

<sup>142</sup> A weighted average of all shares traded on the London Stock Exchange. It represents about 900 LSE (London Stock Exchange) listed stocks. These stocks make up over 95% of total market capitalization, and around 99% of all trades.

<sup>143</sup> Compagnie CV (2004), op.cit.

<sup>144</sup> National Agency for Enterprise and Housing (2003), op.cit.



## 2.2. Macro analyses of design

As businesses have begun to recognise the opportunities for growth provided by a design-led strategy, so have governments.

From an economy-wide perspective, the most compelling case for the use of design as a means of maximising international competitiveness is provided by the World Economic Forum's *Global Competitiveness Report 2001-2002*.

The basis of the report is a suite of indexes that measure a range of factors - including the use of design as an input to business- that influence competitiveness. The following rankings were extracted from this report:

**Table 44: Global Competitiveness Report 2001-2002 - ranking of countries on the basis of their competitiveness and use of design**

Country	Current competitiveness ranking	Design ranking
Finland	1	1
United States	2	2
The Netherlands	3	7
Germany	4	3
Switzerland	5	6
Sweden	6	8
United Kingdom	7	10
Denmark	8	9
Australia	9	21
Singapore	10	22
Canada	11	15
France	12	4
Austria	13	12
Belgium	14	16
Japan	15	5
Iceland	16	14
Israel	17	13
Hong Kong SAR	18	24
Norway	19	18
New Zealand	20	20

Source: World Economic Forum – table extracted from the Report *Design for Latvia, Structures and strategies for development and supply of design services*, 2004.

In April 2006, Designium, the New Centre of Innovation in Design at the University of Art and Design in Helsinki, prepared its “*Global Design Watch*”, an update to its 2003 Report “*Design Policy and Promotion Programme in Selected Countries and Regions*”. It ended up with the following rankings:

Rank	Country
1.	Japan
2.	US
3.	Germany
4.	Switzerland
5.	Denmark
6.	France
7.	Finland
8.	Sweden
9.	Belgium
10.	Austria

The difference in the results presented in these two tables comes from the indicators chosen. However, there were also noticeable changes resulting from the improvements of the performances recorded by some countries. In

particular, the report notes a significant improvement in Denmark and Singapore's positions. This can be attributed to the comprehensive policies that were set up by governments to support design.

Governments are increasingly aware of the importance in design to improve economic performances and are setting up programmes to support the development and the use of design. The aforementioned study, *Global Design Watch*<sup>145</sup>, lists the national design programmes recently developed in Denmark, Estonia, Finland, Germany, Italy, Lithuania, the Netherlands, Sweden, the United Kingdom, Hong-Kong, Japan, Singapore, South Korea and the United States. All of these programmes include in their main objectives the aim of strengthening the competitiveness of businesses and the economy.

## **Conclusion:**

Design is increasingly perceived as an important competitiveness factor. The Global Competitiveness Report integrates a "design ranking" in calculating the "competitiveness" indices and ranking of the nations. Some national governments develop specific schemes to support the integration of design into the production process of cultural and non-cultural activities. Design, which builds on the resources generated out of the cultural & creative sector, has become an innovation sector in our post-industrialised economies.

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<sup>145</sup> *Global Design Watch* (update to the 2003 Report Design Policy and Promotion Programmes in Selected Countries and Regions) prepared in April 2006 by Designium, the New Centre of Innovation in Design, at the University of Art and Design in Helsinki (Ktja Sorvali, Jaana Hytönen, Eija Nieminen)

Since its origin, the arts market has operated beyond national frontiers. When the first auctions began in Venice during the early XVIth century, then subsequently systematized during the following centuries in countries such as Holland, Great Britain or France, a painting sold in Paris could well have initially been bought in Brussels or Amsterdam. Months later it could even be resold in London – as for the performing arts, the arts field can be seen as a precursor to the European integration process.

The art market went global after WWII, with the US increasingly gaining importance and eventually becoming the leader of the art market. Today other regions of the world, Asia and its “Hong-Kong hub” for example, are gaining momentum. In Europe, the art market is still growing, but at a slower pace than in the US.

### STRUCTURE OF THE SECTOR

The art market involves different categories of players that can be described as follows:

- Artists include painters, sculptors, ceramists, draughtsman, set designers, graphic artists, illustrators, creators of stained glass, etc.
- Distributors include commercial as well as non-commercial distributors:

“Commercial distributors” sell original pieces of work to the public, they could be art dealers (including galleries, antiquaries, organisers of specialist fairs, shops and warehouses) as well as auction houses.

“Non commercial distributors” exploit the original work and/or present it to the public, without selling the work. They include the State and public institutions (for instance a public institution may buy a contemporary art work – the box below on “Arts Galleries in France” shows that 6 % of the turnover of French Art Galleries is generated by sales to public institutions), editors, advertisers, museums, enterprises (an enterprise may buy a work of art and then make use of it for its own image, or make it available to the public through setting up show-rooms or organising exhibitions), or associations.

Two major trends must be highlighted to understand the evolution of the art market’s structure: the rise of auction houses in the past 50 years and the development of specialised events.

- **The rise of auction houses**

Until the Second World War, auctions only constituted a tiny share of the art market. Prior to their eminence, major art was primarily sold by art dealers. Today, auction houses account for 52 % of the global arts market, with this figures being 46% on the European market.<sup>146</sup>

Amongst auction houses, the two main players that can be described as “the Majors” within the arts market are Christie’s and Sotheby’s.

<sup>146</sup> TEFAF Report *The European Art Market in 2002*

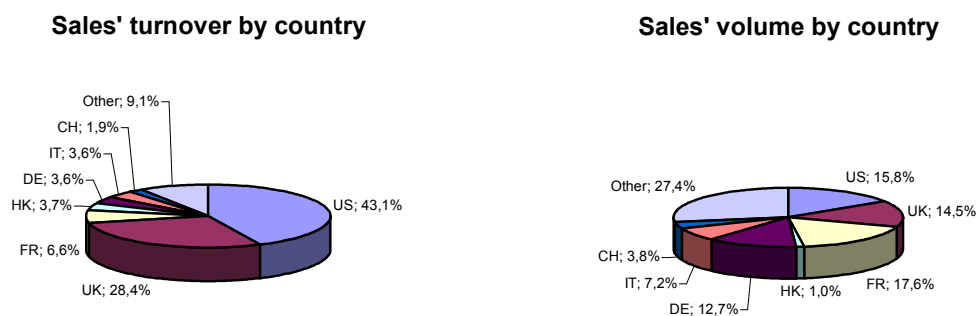
Despite it now belongs to French Group Financière Pinault, Christie's, which was founded in 1766 by James Christie, and conducted the greatest auctions of the 18<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> centuries, is established in the UK under the name Christie's International plc. Founded in the UK, Sotheby's is now American and established in the US under the name Sotheby's Holdings Inc.

There are several reasons as to why and how auction houses gained so much significance, their: pricing strategies, expertise and professionalism, ability to provide clients with appropriate legal counsel, communication strategies and ability to create a "trend" to win the preference of the public over other players such as art dealers and galleries.

Above all, auction houses think and operate on a global level. They work through their different offices around the world and are able to provide their clients with various locations in regard to where they want to sell and buy, thereby allowing them to choose the corresponding regulatory environment too. As a result, their operations outside of Europe are reported to have developed at a rapid pace.

In 2005, Christies recorded USD 3.2 billion (approx. € 2.5 billion) sales turnover. According to its annual report, the same year Sotheby's sales turnover stood at USD 2.75 billion (approx. € 2.1 billion). The following figure shows auction houses' sales turnover and volume of transaction by country.

**Figure 41. Auction houses sales turnover and sales volume by country**



These figures show that whereas the volume of sales is quite balanced, the bulk of sales' turnover is attributable to the UK and the US. As it will be further explained below, the evolution of the average price of art pieces sold by auction houses is a good indication of the state of the arts market (as the average price per auction increases, it becomes more important that one attracts major pieces to be auctioned). Over the last few years the average price of artwork in the US has soared whereas in Europe it has dropped. This is why sales' volume by country is more balanced than sales' turnover by country.

Both auction houses increasingly operate at regional level and develop innovative strategies on emerging markets such as Hong-Kong, Russia and India in particular.<sup>147</sup>

It should be noted that for the first time in 2005, Hong-Kong joined the club of the top auction places, reaching the 4th rank, thereby surpassing Germany and Switzerland, two countries that have historically constituted important art hubs in Europe.

<sup>147</sup> Christie's press release 25 July 2006 "Christie's International announces record worldwide sales of £1.17 billion for the first half of 2006, up 39% from the same period last year"

In addition to Christie's and Sotheby's, local auction houses are operating at a regional level, often specialised in more local markets.

- **The development of specialist fairs**

In 2002 an estimated USD 1 billion was spent on art fairs globally<sup>148</sup>.

Traditionally, in this regard, Europe is a world centre. Out of the most important art fairs in the world, many take place in Europe: FIAC in Paris, London Frieze in the UK, the Berlin Art Forum, the Berlin Biennale, the Frankfurt Fair in Germany; the veteran "Venice Biennale International Exhibition" (since 1893), the Arte Fiera Bologna in Italy, Art Brussels in Belgium, Art ARCO in Spain, etc. In the past decades we have witnessed specialist fairs blossom in Europe

This phenomenon can be seen as a response to the importance taken by auction houses. It is a way for art galleries and dealers to operate on a global level too. Like the Cannes film festival or MIDEM for music, these fairs constitute annual meetings attended by the whole profession from all around the world – it presents an opportunity to gain access to more markets and clients. Specialist fairs are also used as a PR tool. French renowned specialist of the art market Raymonde Moulin presents them as the inescapable "*communication tool for any gallery willing to develop an international strategy*"<sup>149</sup>. Furthermore, they too offer the expertise that is looked for among buyers that auction houses generally provide.

It is consequently a challenge to keep these fairs operating in Europe, to maintain a place for Europe on the global art market as well as to benefit from the direct and indirect economic impacts they generate, indirect impact being most of them concentrated in the tourism sector.

Chapter IV of this study presents the direct and indirect economic impacts generated by the Documenta fair in Kassel, Germany. Below is presented the case of the Maastricht art fair.

#### **The Maastricht Art Fair**

The Maastricht Art Fair (TEFAF) which specializes in 17<sup>th</sup>-century Dutch pictures started in 1988. It is acknowledged as being the most important Art Fair in Europe, and one of the world's largest. At its 2006 gathering:

- 218 art and antique dealers from 15 countries participated in the fair (82 % of the participants were non-Dutch)
- It is estimated that over USD 500 million worth of art was sold
- 84 000 visitors attended the event, an increase of 8% from 2005
- Half of the visitors came from the Netherlands, the other half was composed by visitors from Belgium, Germany, France, the UK, as well as Japan, Australia, Brazil, and some 5% from the US
- The fair attracted representatives from 110 museums around the world, an increase of 30% from 2005
- A team of over 140 international experts were there covering all specialities<sup>150</sup>

<sup>148</sup> According to David Kusin, quoted in *The Rise and Rise of art fairs*, [www.artandantiquesfairguide.com](http://www.artandantiquesfairguide.com), 2003

<sup>149</sup> Raymonde Moulin, *La FIAC balance entre effervescence et muse*", in *Libération*, 6 October 2005 "

<sup>150</sup> Sources:

[www.tefaf.org](http://www.tefaf.org)

Bloomberg (Linda Sandler : *Maastricht Fair Draws 84,000 Buyers, More Than 100 Private Jets*, for Bloomberg, 20 March 2006, <http://www.bloomberg.com/apps/news?pid=10000088&sid=a2yTZX8yxm50&refer=culture#>)

- **A multitude of galleries**

European cities are filled with art galleries of every kind. They contribute to the promotion and sustainability of European artists as well as to the attraction of tourists and the development of economic activities in the areas where they are established. Figures on galleries are practically non-existent. Yet, in December 2005 a study was released by the French Professional Committee of Art Galleries. The survey is an unprecedented document on the socio-economic impact of this rather unstudied sector of activity<sup>151</sup>. It was completed on the basis of consultation with 230 galleries.

<u>A survey on the economic impact of French Art Galleries</u>	
Turnover by destination	<ul style="list-style-type: none"> <li>• 2/3 of the turnover of French galleries is generated by private auctions in France, 14% by sales towards other EU countries, 13% by sales towards non-EU countries and 6% by sales to French public institutions</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• French galleries are small structures employing an average of 3 people (14% employ 5 or more).</li> <li>• Potential for hiring more personnel is particularly high in: new galleries, galleries specialised in avant-garde contemporary art</li> </ul>
Visitors	<ul style="list-style-type: none"> <li>• French galleries record approx. 93 visitors per week</li> </ul>
Volume of activity	<ul style="list-style-type: none"> <li>• On average, they organise eight exhibitions and publish two catalogues annually.</li> <li>• The volume of commercial transactions is higher than that of auction houses</li> </ul>
Turnover	<ul style="list-style-type: none"> <li>• In 2004 the average turnover was € 800,000 before taxation</li> <li>• Turnover varies according to the area of specialisation:               <ul style="list-style-type: none"> <li>- approx. € 500,000 for avant-garde contemporary art</li> <li>- € 840,000 for classical art</li> <li>- approx. € 1,2 million for modern art</li> <li>- approx. € 1 million for the second market</li> </ul> </li> <li>• Galleries established in Paris and its surroundings record a significantly higher turnover than those established in other French regions (respectively € 900,000 against less than € 350,000).</li> </ul>
Optimism	<ul style="list-style-type: none"> <li>• 42 % say they are optimistic in relation to the future of their activity, 68 % in relation to their professional future and 55% in relation to their sector of activity</li> </ul>
Barriers	<ul style="list-style-type: none"> <li>• Resale right and VAT on imports</li> </ul>

## **REVENUES<sup>152</sup> OF THE SECTOR AND THE POSITION OF THE EUROPEAN MARKET**

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Assessing the art market is a difficult task. There is only very little data on sales by art dealers and a substantial part of the market is underground. Also, the way the market is evaluated varies from country to country as well as amongst professional associations.

At the European level, the art market's turnover was estimated at € 12 billion by the European Fine Arts Foundation (TEFAF) in 2002. The same year, the art market turnover in Europe and in the US was worth € 24.6 billion.

<sup>151</sup> The survey was completed on a sample of 230 art galleries in November-December 2005 - 73% in Paris and its region, and 27% in the rest of France.

<sup>152</sup> TEFAF Report The European Art Market in 2002

Sales within auction houses account for the bulk of the art market's revenue, both at a global and European level (approximately 50%, i.e. € 5.5 billion in EU15).

On the European art market, the UK ranks first, representing 56% of the European art market with France holding second place representing 16.8%. The main centres of activity after the UK and France are Germany, Italy and Sweden.

The following table presents an assessment of the European art market. Unfortunately, it does not take into account the new member States as it was completed before their accession to the EU. To our knowledge, this report, which appears to be the only comprehensive report on the sector, has not been updated since they have joined.

**Table 45: The European art market 2002: turnover, number of enterprises and jobs**

Country	TURNOVER (€ MILLION)			NUMBER OF ENTERPRISES			JOBS		
	Auction houses	Art dealers	Total	Auction houses	Art dealers	Total	Auction houses	Art dealers	Total
Austria	62.27	93.41	155.68	40	900	940	180	2100	2280
Belgium & Luxembourg	74.77	91.39	166.17	20	220	240	100	650	750
Denmark	68.20	83.35	151.55	8	149	157	118	286	404
Finland	17.78	21.73	39.51	4	67	71	53	128	181
France	770.69	1257.44	2028.12	460	13700	14160	2200	23000	25200
Germany	301.93	472.25	774.18	100	900	1000	450	2200	2650
Greece	NA	NA	NA	NA	NA	NA	NA	NA	NA
Ireland	31.58	38.60	70.18	3	59	62	47	114	161
Italy	204.85	250.37	455.22	28	506	534	400	971	1371
The Netherlands	105.33	70.22	175.55	40	300	340	200	900	1100
Portugal	NA	NA	NA	NA	NA	NA	NA	NA	NA
Spain	109.88	93.41	203.29	9	161	170	127	309	436
Sweden	150.17	183.54	333.71	19	149	168	267	286	553
UK	3381.69	3381.69	6763.39	754	9463	10217	17123	19940	37063
TOTAL EU	5279.14	6037.40	11316.54	1485	26574	28248	21265	50884	72149
Norway	32.26	39.43	71.69	6	116	122	92	223	315
Switzerland	234.34	390.56	624.90	20	425	445	200	900	1100
TOTAL Europe	5545.74	6467.39	12013.13	1511	27115	28626	21557	52007	73564
US	6900	5600	12500	810	8019	8829	18394	16899	35293
Europe + US	12400	12200	24600	2321	35134	37455	39951	68906	108857

*Source: Kusun & Company 2002, in TEFAP Report*

*Note:* In this table it is not clear whether the turnover of art auction houses refers to the turnover of the auction houses or the combined sales of art by the auction houses. Since auction houses operate on commission, their turnover, is of course, significantly lower than the combined art sales. Similarly, the reference site Art Price recorded the turnover for fine arts sales by auction houses in 2005 as €5.5 billion, which, again seems to refer to total art sales rather than actual turnover of the auction houses. However, it seems to us as though firms that can be distinguished in the 30 territories covered by our study actually have a turnover of less than €1 billion.

TEFAF notes that the European market is losing market shares (7.2% between 1998 and 2002, while over the same period the US increased their market share by 7 %).

Another relevant indicator to measure the dynamism of the art market is the evolution of the average price of art pieces sold by auction houses: as the average price per auction increases, it becomes more important that one attracts major pieces to be auctioned.

Over the last few years the average price of artwork in the US has soared whereas in Europe it has dropped. On a global level, the average price of fine art works sold at auctions have enjoyed an average annual growth of 6% during the period of 1998-2002. Throughout the same period in Europe, this average price experienced a 3% decrease.

The following table exemplifies both the rise in price for works of art and a shift in sales location:

**Table 46: The rise in price for works of arts**

Year	Artist	Title	Price (USDm)	Auction house
1954	Canaletto	View of S.Redentore from the Giudecca	0.018	SL
1958	Cézanne	Garçon au gilet rouge	0.618	SL
1967	Monet	La terrasse à Sainte Adresse	1.540	CL
1970	Velásquez	Juan de Pareja	5.524	CL
1980	Turner	Juliet and her nanny	6.400	SNY
1986	Manet	Larue Mosnier au Pavéurs	10.080	CL
1987	Van Gogh	Iris flowers	49.000	SNY
1989	Picasso	Les noces de Pierrette	51.671	BG
1990	Van Gogh	Portrait Dr. Gachet	75.000	CNY
1995	Picasso	Angel Fernandez de Soto	26.500	SNY
1998	Van Gogh	Portrait of artists without beard	65.000	CNY
2000	Picasso	Woman with her arms folded	50.000	CNY
2001	Cézanne	La montagne Sainte Victoire	35.000	PNY
2002	Rubens	The child's murder at Bethlehem	68.400	SL
2003	Mantegna	Descent in limbo	25.500	SNY
2004	Picasso	Garçon à la pipe	93.000	SNY
2005	Canaletto	Canal Grande towards the North-East	29.400	SL
2006	Picasso	Dora Maar with a cat	85.000	SNY

SL/SNY: Sotheby's London/New York

CL/CNY: Christie's London/New York

BG: Binoche Godeau Paris

PNY: Phillips New York

Source: Art Sales Index/DW/Die Welt Sat. 12<sup>th</sup> August 2006.

## EMPLOYMENT

In 2002 it was estimated that the art market in Europe directly employed **72,149 people** and consisted of **28,600 enterprises**<sup>153</sup>:

- 27,115 shops or galleries (95%), employing an average two employees
- 1, 511 auction houses (5%), employing an average 14 employees. In its annual report for 2005, Sotheby's recorded having 253 employees in Europe (out of a total 1443 employees).

In comparison, the US market is reported to consist of 8,800 enterprises employing over 35,300 employees. In other terms, the European art market generates more employment than the US art market.

TEFAF assesses the percentage of part-time employees in Europe at 25% (23% for auction houses, 26% for art dealers). In addition:

- 52% of total employees are women
- Over half of employees are self-employed or associates
- An average 62% of people working as art dealers have a university degree

<sup>153</sup> TEFAF Report op.cit



**Table 47: The European art market 2002 – number of employees, salary, % of part-time and % women**

Country	Number of employees	Salary in €	% part-time	% women
UK	37,063	37,535	27	46
France	25,200	28,904	11	62
Germany	2,650	30,688	36	64
Switzerland	1,100	42,996	18	59
Total UE	72,149	29,454	28	52
US	35,293	46,898	28	58

Source: Kusun & Company (2002) – in TEFAF Report

## SECONDARY SOCIO-ECONOMIC IMPACT

The art market generates considerable indirect impacts. Related economic activities can be divided into three categories:

- *Occupations and activities that are linked to restoration and heritage* - In addition to their economic value, they represent an extraordinary and centenary know-how, in relation to which Europe is in a unique situation in the world.
- *Ancillary activities such as audit, advertising, arts fairs, banks, insurance and security, transport, technologies* - In 2002, the arts sector spent some € 1.7 billion in 2001 on ancillary services.<sup>154</sup>
- *Cultural tourism* - Art markets have reinforced the attraction of a certain number of regions, such as, for instance, the surroundings of Cologne or Maastricht where people from Paris, London, Düsseldorf or Brussels can, within one and a half to three hours, and thanks to efficient transport infrastructures, go and attend an art fair and discover the richness of the art works on offer.

The following table assesses for each of these activities the revenues generated at European level.

**Table 48: The European art market indirect economic impact**

Sector	Spending by the art market (€ million)	Corresponding jobs
Audit	166.30	6,094
Advertising	532.16	190,500
Arts fairs	232.82	5,531
Bank spending and interests	83.15	3,047
Conservation and restoration	116.41	4,266
Insurance and security	166.30	6,094
Legal Counsel	99.78	3,656
Packaging and transport	232.82	8,531
Technologies	33.26	1,219
<b>TOTAL</b>	<b>1,663.00</b>	<b>60,936</b>

Source: Kusun & Company 2002

Note: Jobs are estimated on the basis of sales. The sales/employees ratio was estimated in the British Arts Market Study of 1997. [Report "The British Art Market in 1997", completed by Market Tracking International for the British Art Market Foundation]

<sup>154</sup> TEFAF Report op.cit.

## **IMPACT OF E-COMMERCE AND OF NEW TECHNOLOGIES**

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Internet sales have not yet generated a significant turnover, however, developments in information technology have contributed radical change to the art market. Information technology has helped to foster globalisation and optimize new opportunities that are the drivers to further productivity gains. Yet, the optimal use of these technologies requires experience as well as new investments. The European Fine Arts Foundation acknowledges that younger art dealers in Europe, specialising in Fine Arts, are aware of the need to invest in new technologies.

## THE PERFORMING ARTS

This sector's core activities consist of the creation, production and performance (including tours) of operas, orchestras, dance, drama, circus, and street performers. These activities result in a wide range of occupations (musicians, dancers, choreographers, music managers, theatre directors, administrative staff, festivals organisers, etc.), that can be included under the following categories: artistic staff, technical staff, and an administrative staff working in different venues.

Venues are manifold. They include, for instance, theatres, operas, multi-arts centres, studios, open-air sites for festivals, etc. Europe possesses a unique richness in this respect, which is rooted in the continent's history. These venues are of different status. Most of them are public (this is the case for most European theatres), others are private or are constituted as charities, associations & foundations, etc. Taking the example of theatre, Spain and Portugal have a large number of privately-owned theatres. State-owned theatres can be found in other countries such as in France while Central and Eastern Europe, where theatre was formerly under State control, are increasingly experimenting with public-private partnerships.

As a result, the sector is heterogeneous, mixing employees and free-lancers, State-subsidised and private entities, as well as charities and associations.

There is a drastic lack of data at the European level in relation to the sector's *core activities* presented above. From an economic standpoint, the sector is not addressed in a comprehensive way at the pan-European level. Data made available at the national level is neither comparable nor complete. They often focus exclusively on one aspect (most of the time on public subsidies granted by central governments) and are unable to describe the sector in all its complexity (subsidies fuelled from different levels of government, share represented by sponsorship and donations, employment in the totality of the sector, value represented by the private sector and the "third sector"; assessment of the indirect socio-economic impact of the sector, etc).

The sector of performing arts was consequently approached throughout the study, focusing on different issues, and on the basis of case studies:

- The above "Music Sector Profile" presents a case study providing insight of its economic weight that is on the rise. Interviews with professionals confirmed these results. While stressing that "music bands and festivals are going through the roof", Peter Jenner, responsible for the IMMF (International Music Manager Forum), complained about the lack of economic data and the lack of existing centralised information. Similar complaints were voiced through PEARLE, the organisation representing employers in the sector.
- Chapter 3 includes developments on public support to the performing arts (including an assessment of its level as a % of national culture budgets) as well as on sponsorship in the sector. The sector is traditionally a beneficiary of public support. The level of public intervention represents, as an average, 15 to 20% of total cultural budget, with theatre and classical music receiving the largest percentage. Concerning sponsorship, performing arts are the most private-supported cultural sectors, followed by visual & fine arts and heritage.
- Chapter 4 includes information on the indirect impact of the performing arts. Here again, there is no centralisation of information. For example, there is no report available on "direct and indirect revenue and employment generated by festivals in Europe" (there is no way to estimate the actual number of festivals that take place in European territory!), nor any available idea of the revenues and employment generated by European opera houses, theatres, etc. In Chapter 4 the indirect socio-

economic impact of performing arts, contributing to cultural tourism and local development, is exemplified through a set of case studies.

Amongst the material consulted, a single survey assesses the economic impact “of performing arts” as a whole (dance, theatre, opera, etc.) in relation to the whole national economy. This Irish Study (presented below) on the economic impact of the performing arts in Ireland is a survey<sup>155</sup> based on the questionnaire’s responses from 36 theatre production companies, 11 venue-based production companies, 26 performing arts venues, 8 festivals and 5 other organisations in the field.

The survey shows:

- Earned revenues and sponsorship are increasing
- Funding from the central government was reduced whereas funding fuelled through local authorities increased
- The indirect economic impact (on local economy) is important and by far surpasses public subsidies received
- ¾ of the performing arts employment is part time
- Training in business and financial skills as well as in ICT is called upon
- The main challenges identified are: attracting an audience, increasing subsidies, adequacy of operating income and industry recognition.

In other terms, the pursuit for more independently earned resources should not end up with a decline in public subsidies - public/private partnerships seem to be the way forward.

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<sup>155</sup> *Economic impact of Professional Performing Arts in Ireland*, September 2004, undertaken on behalf of Theatre Forum by Fitzpatrick Associates

## Case Study - THE ECONOMIC IMPACT OF PERFORMING ARTS IN IRELAND

The survey<sup>156</sup> on the economic impact of professional performing arts in Ireland is based on the questionnaire's responses from 36 theatre production companies, 11 venue-based production companies, 26 performing arts venues, 8 festivals and 5 other organisations in the field.

### ■ Income

• In 2003, the sector's income was € 82 million. The breakdown of income by sources is as follows:

Box office:.....	40%	(there were 3 million admissions recorded at distinct events in 2003)
State funding: .....	38%	
Other earned income:.....	12%	
Sponsorships/donations: ....	6%	
Other income:.....	4%	

• In terms of trends regarding income sources, a comparison between 2002 and 2003 shows:

Box-office income:.....	+ 2.5%
Sponsorship: .....	+ 2.5%
Other earned income:.....	+ 10%
Arts Council Funding:.....	- 17%;
Other State Funding (local):	+ 10%.

### ■ Expenditure – Direct and indirect economic impact

• The level of expenditures measures the economic impact in this sector.

In 2003, approximately € 73 million were spent by all organisations of the performing arts in Ireland.

The percentage breakdown of expenditures by category is as follows:

Artistic programme costs: .....	43%;
Non artistic costs (salary): .....	40%
Marketing, public relations, buildings, other:....	17%

• On the basis of this information, the report estimates<sup>157</sup> that the overall economic impact of the industry's expenditure amounts to approx. € 110 million.

• Indirect economic impacts represented by additional expenditures (including expenditure of the audience outside the venue on transport, food, drink, and accommodation) are estimated to reach € 37 million.

Hence the report concludes that the performing arts industry's expenditures in Ireland amounts to approx. € 147 million, which by far surpasses public subsidies received.

### ■ Employment

• It is estimated that 5,000 people worked in the performing arts in Ireland throughout 2003.

• Survey results show that approximately ¾ of employees in the performing arts are part-time while the rest are full-time.

• A considerable number of people are employed indirectly as a result of this sector's activities. These indirect jobs include: printing, advertising, catering, security, building & carpentry, etc.

### ■ Training and development

• In response to what training and development is seen as important for all staff categories in the performing arts, we see that:

↗ The most common training and development needs mentioned by respondents for **management/administration staff** are:

Information technology (to manage box-office systems):	33%
Training to finance: .....	21%
Management: .....	15%
Marketing: .....	21%
Fundraising and attracting sponsorship: .....	18%

↗ The most common training and development needs mentioned by respondents for **artistic staff** are:

Artistic skills and techniques: .....	22%
Administration and business management training:	21%

↗ The most common training and development needs mentioned by respondents for **technical staff** are:

<sup>156</sup> *Economic impact of Professional Performing Arts in Ireland*, September 2004, undertaken on behalf of Theatre Forum by Fitzpatrick Associates

<sup>157</sup> after having applied a 1.5 multiplier

Technical training: .....; 33%  
Health and safety training: ..... 49%

### ■ Identified challenges

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Respondents were asked to indicate their most prevailing challenges. Some of the main challenges include: attracting an audience, increasing subsidies, adequacy of operating income and industry recognition.

**These findings support the view that in order to get the most out of the socio-economic potential of the performing arts, there needs to be better training and support to acquire business and management skills.**

## HERITAGE

The sector of cultural heritage is heterogeneous and includes heritage sites, museums and their collections, libraries and archives and archaeological sites.

Although the sector is essential to Europe's memory, history and identities, figures on its economic value are almost non-existent. This should not prevent the attempt to approach the sector from an economic standpoint.

Europa Nostra, a pan-European federation of more than 200 non-governmental heritage organisations therefore published in 2005 a document titled "Cultural Heritage counts for Europe", illustrating the wide scope of benefits the sector brings to European societies and economies.

In particular, two socio-economic spin-off effects of heritage must be stressed:

- The creation of local jobs and the development of corresponding skills. This impact is explored under point 1 below
- Transforming territories, and notably cities, through the improvement of buildings thereby increasing local attractiveness and generating significant "returns on investments". This impact is explored under point 2 below .

### 1. A STRONG POTENTIAL FOR GENERATING QUALIFIED JOBS

The most evident economic impact of the sector is its potential in job creation.

In 1993 the EU White Paper on "*Growth, competitiveness and jobs*" highlighted the job potential deriving from "new services". Amongst them, those created on the basis of heritages were cited.

More precisely, in 2005 the French Association Européenne des Entreprises de Restauration du Patrimoine Architectural (AEERPA), showed the importance of employment in the cultural heritage sector in five European countries. The following table is extracted from an AEERPA study:

**Table 49: Number of employed directly linked to cultural heritage**

Country	Heritage services	Restoration work	Heritage work
Belgium	5,450	2,500	5,000
Spain	20,000	3,000	13,000
France	20,000	9,49	42,714
Italy	18,000	10,00	23,000
UK	35,000	35,00	100,000
Romania	14,000	1,000	4,000

Study for the AEERPA

Due to the exploitation of heritage, many new jobs were generated in the tourism sector and as a result the figures are even more impressive (please refer to Chapter IV. Section I). According to recent estimates<sup>158</sup>, more than 8 million jobs are directly and indirectly sustained by the cultural heritage sector in Europe.

The heritage sector has a large job potential because it is labour-intensive: "rehabilitation is sixty to seventy percent labour with the balance being materials".<sup>159</sup> Hence "a million dollars spent on new construction generates 36.1 jobs but 1 million dollars spent on rehabilitating an historic building generates 40 jobs".

In addition, jobs related to restoration and conservation are often highly skilled and require rare skills - they are therefore usually well paid. Yet, Europe is experiencing a shortage in these specialised skills, as highlighted in the AEERPA White Paper on *The economic advantages of architectural heritage in Europe*.<sup>160</sup> This shortage may impede the full exploitation of the sector's job potential.

## 2. THE ABILITY TO GENERATE RETURN ON INVESTMENTS

The sector is generally thought to be non-profitable and it is presented as being heavily supported by "the public purse".

A 2004 report from the Fundación Caja Madrid<sup>161</sup> presents the following international comparison of public spending on cultural heritage:

**Table 50: Comparison of public spending on conservation, restoration and rehabilitation of cultural heritage (PSH) (2001)**

	Italy	France	Portugal	Spain
PSH central administrations (€ million)	876.67	1,017.78	152.59	385.70
PSH / total spending by public central administrations (%)	0.22%	0.39%	0.45%	0.18%
PSH / GDP (%)	0.07%	0.07%	0.13%	0.06%
PSH per capita (€)	15.16	17.23	14.87	9.61

These are significant figures.

The ratios public support to heritage / total public spending on culture are even more talkative:

- 50% in Greece (2005)
- 52% in Italy (2000)
- 47% in Finland (2001),
- 47% in France and Hungary (2003),
- 43.5% in Ireland (2002),
- 50% in Lithuania (2003)

<sup>158</sup> Dr.Y.Nypan, Directorate fir Cultural Heritage, Norway "Cultural heritage monuments and historic buildings a value generators in a post-industrial economy. Why emphasis on exploring the role of the sector as economic driver", Oslo, December 2003.

<sup>159</sup> Donovan D.Rypkema, Heritage Strategies International, Washington USA, speaking at the European Cultural Heritage Forum in December 2005 in Belgium

<sup>160</sup> Association Européenne des Entreprises de Restauration du Patrimoine Architectural, Livre Blanc, Les avantages économiques de la restauration du patrimoine architectural en Europe, rapport réalisé par Pr. Xavier Greffe, juin 2006

<sup>161</sup> ALONSON HIERRO (Juan), MARTIN FERNANDEZ (Juan) *Preservación del patrimonio histórico de España. Análisis desde una perspectiva económica*, Fundación Caja Madrid, 2004



Yet, the issue is more complex and the sector, although highly subsidised, can actually turn out to be profitable, in particular in relation to tourism and city revitalisation.

#### • Cultural tourism

Revenues generated by cultural tourism are most significant. According to Nypan<sup>162</sup>, 79% of the turnover in Europe's cultural heritage sector is due to tourism while 16% is derived from investments in maintenance by private owners, charities, and foundations. The remaining 5% is received from public and governmental bodies. The impact of heritage driving the tourism industry is obvious in our cities. However, heritage is also a powerful lever for cultural tourism in rural areas as the European countryside is rich with historical sites, structures, and buildings (churches, castles, Roman roads & aqueducts, etc.).

A visitor survey organised by VisitBritain, with financial support from English Heritage, showed that between 2,244 sites in England, of which 922 are classified as historical interests, there were 58 million visits in 2004. Commissioned by English Heritage and the Association of English cathedrals, a study covering 42 cathedrals and their 8.8 million visitors showed that visitors spent a total of £ 91 million per year in the local economy with a total economic impact of £ 150 million<sup>163</sup>.

#### • City revitalisation

Enhancing heritage is also a way to contribute to the revitalisation of city centres, as it is developed in Chapter IV. City revitalisation is not only limited to a Church or a monument, but to a larger scope of old buildings (abandoned shipyards, industrial plants, old libraries, etc) that can be renovated and re-used for other purposes previously unforeseen. This in turn has many indirect socio-economic impacts:

- The improvement of the area's image and reputation, which acts as a magnet to businesses
- Increased possibilities to hold conferences, and other PR events in part of these renovated sites, thereby generating new demand (particularly in the hotel, restaurant and catering sector) and attracting "business tourists"
- An improvement in the quality-of-life.

In the UK, regeneration was achieved across Essex, Kent and East London (the Thames Gateway). English heritage has identified more than 100 historic hubs in this area (town, cities, and villages) that have historic assets and the potential to act as a catalyst for revitalising the whole area. In Rochester, six years of investment in heritage revitalisation has seen more than 70 buildings renovated on Rochester High Street and created more than 1,200 square meters of environmental improvements. £ 1.5 million of public sector funding brought in more than £ 4 million of private sector investments.<sup>164</sup>

In addition, historical districts add value to property. Properties within historical districts appreciate at greater rates than the local market overall.

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<sup>162</sup> Dr.Y.Nypan, Directorate fir Cultural Heritage, Norway "Cultural heritage monuments and historic buildings a value generators in a post-industrial economy. Why emphasis on exploring the role of the sector as economic driver", Oslo, December 2003.

<sup>163</sup> *Cultural Heritage counts for Europe* Europa Nostra Forum, Brussels 7 December 2005, Contribution by Anita Pollack, Head of European Policy, English Heritage.

<sup>164</sup> *Cultural Heritage counts for Europe* Europa Nostra Forum, Brussels 7 December 2005, Contribution by Anita Pollack, Head of European Policy, English Heritage.

- On the whole, returns on investments in this sector are significantly higher than in many other economic sectors. Nypan estimates that:
  - Historic rehabilitation created 13% higher returns on investments than new construction as well as 16.5% more jobs.
  - Historic rehabilitation created approximately 10% higher return on investments than highway constructions and 26.6% more jobs
  - Cultural heritage tourism generates incomes in trade and services at the amount of € 335 billion per year for Europe

## Annex 2. Statistical Matrix

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DOMAINS	SECTORS	SUB-SECTORS-ACTIVITIES	NACE	SOURCE
Architecture	N.A	Architectural services Landscape architectural services Engineering services Other scientific and technical consulting services	7420 Architectural and engineering activities and related technical consultancy	Eurostat database
Design	N.A	Fashion design, i.e. a portion of companies whose main activities are classified as retail, wholesale and agencies of textiles and clothing and footwear, manufacture of textiles, apparel, and footwear manufacture and design of printing plates, and design and design consultancy services.  Graphic design, i.e. a portion of companies whose main activities are classified as: printing and ancillary services related to it, architectural activities, artistic creation and graphic design and advertising services.  Interior design, i.e. a portion of companies whose main activities are classified as other business activities and services and artistic creation  Product design, i.e. a portion of companies whose main activities are classified as other business activities and services and artistic creation	<u>Fashion design:</u> 1700 Manufacture of textiles 1800 Manufacture of wearing apparel 1930 Manufacture of footwear 2624 Manufacture of other technical ceramic products 5116 Agents involved in the sale of textiles clothing, footwear and leather goods 5141 Wholesale of textiles 5142 Wholesale of clothing and footwear 5241 Wholesale of textiles 5242 Wholesale of clothing and footwear 7487 Other business activities n.e.c. 9305 Other business activities n.e.c. <u>Graphic design:</u> 2222 Printing n.e.c. 2225 Ancillary services related to printing 7420 Architectural and engineering activities and related technical consultancy 7440 Advertising 7487 Other business activities n.e.c. 9231 Artistic and literary creation and interpretation 9305 Other service activities n.e.c. <u>Product design:</u> 2222 Printing n.e.c. 2225 Ancillary services related to printing 7420 Architectural and engineering activities and related technical consultancy 7440 Advertising 7487 Other business activities n.e.c. 9231 Artistic and literary creation and interpretation 9305 Other service activities n.e.c	Amadeus database

Domains	Sectors	Sub-sectors-activities	Nace	
Visual arts	<b>Crafts</b>	Ranges in most categories in manufacturing and retail. Can only be captured in individual firms' trade descriptions including "crafts" "hand made products" etc.		Amadeus database
	<b>Paintings</b>	A portion of companies whose main activities are classified as retail in specialised and non-specialised stores, renting own property (e.g. for exhibitions) creation of arts and operation of arts facilities and museums	Paintings, picture framing and sale of art: 5212 Other retail sale in non-specialised stores 5248 Other retail sale in specialised stores 7020 Letting of own property 7487 Other business activities n.e.c. 9231 Artistic and literary creation and interpretation 9232 Operation of arts facilities 9252 Museums activities and preservation of historical sites	Amadeus database
	<b>Sculpture</b>	Idem as for paintings.	5212 Other retail sale in non-specialised stores 5248 Other retail sale in specialised stores 7020 Letting of own property 7487 Other business activities n.e.c. 9231 Artistic and literary creation and interpretation 9232 Operation of arts facilities 9252 Museums activities and preservation of historical sites	Amadeus database
	<b>Photography</b>	Commercial and consumer photograph production, Photography for commercials, publishers, fashion, real estate or tourism purposes and news and photo agencies	7481 photographic activities 9240 news agency activities	Eurostat database + complements of the Amadeus database
Performing Arts	<b>Theatre</b>	i.e. a portion of companies whose main activities are classified as artistic and literary creation and interpretation	9231 Artistic and literary creation and interpretation	Amadeus database
	<b>Dance</b>	Idem as for theatre.	9231 Artistic and literary creation and interpretation	Amadeus database
	<b>Circus</b>		9234 Other entertainment activities n.e.c	Amadeus database

Domains	Sectors	Sub-sectors-activities	Nace	
<b>Audiovisual</b>	<b>Film and video</b>	Production (including the production of commercials, activities of studios) Distribution Exhibition Video sale through and rental These companies include film production, distribution and exhibition plus sales and rentals of videos and DVDs	9211 motion picture production 9212 motion picture distribution 9213 motion picture exhibition 5248 Other retail sale in specialised stores 7140 renting of personal and household goods n.e.c.	Amadeus database except for video sale through and rental where data from the European Audiovisual Observatory were used.
	<b>Radio and Television</b>	- Production of radio and television programmes whether or not combined with the broadcasting - Cable and satellite distribution of TV –programmes	9220 radio and television activities 6420 telecommunications	Amadeus database
	<b>Software publishing including games</b>	Development, production, supply and documentation of ready-made (non-customized) software including games	7221 publishing of software 2214 publishing of sound recordings	Eurostat databases + complements from the Amadeus database
<b>Advertising</b>		Operations of advertising agencies and services	7440 advertising agencies	Eurostat database
<b>Music</b>		Creation and interpretation Publishing revenues Production activities Distribution activities Wholesale and retail Performance rights	9231 Artistic and literary creation and interpretation 5248 Other retail sale in specialised stores	Eurostat database + complements from the Amadeus database
<b>Books And Press</b>		Publishing of books, magazines, newspapers and wholesale of books, Retail of magazines and newspapers and books Mail order retail of books	2211 publishing of books 2212 publishing of newspapers 2213 publishing of magazines 5147 wholesale of other household goods 5247 retail sale of books newspapers 5261 retail sale via mail order houses	Eurostat database. Exclusion of "directory publishing" (as requested by the European Commission) was achieved with the help of the Amadeus database

<b>Heritage</b>	<b>Museums</b> <b>Arts&amp;antique</b> <b>markets</b> <b>Libraries</b> <b>Archeological</b> <b>activities</b> <b>Archives</b>		9251 library and archives activities 9252 Museums activities and preservation of historical sites	Amadeus database + data on Libraries obtained using UNESCO documents
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### Annex 3. Contribution of the cultural & creative sector and of other industry sectors to the European economy

	Manufacture of food products, beverages and tobacco (%)	Manufacture of textiles and textile products (%)	Manufacture of wood and wood products	Manufacture of coke, refined petroleum products and nuclear fuel	Manufacture of chemicals, chemical products and man-made fibres	Manufacture of rubber and plastic products	Manufacture of machinery and equipment n.e.c.	Manufacture of electrical and optical equipment	Real estate activities	Computer and related activities	Creative Sector
<i>Austria</i>	0.04	0.01	0.02	N/A	0.02	0.02	0.05	0.05	0.05	0.02	0.04
<i>Belgium</i>	0.06	0.02	0.01	0.02	0.09	0.02	0.03	0.03	0.03	0.03	0.07
<i>Cyprus</i>	0.00	0.00	0.00	N/A	0.00	0.00	0.00	0.00	N/A	0.00	0.00
<i>Czech Republic</i>	0.02	0.01	0.01	0.00	0.01	0.01	0.02	0.02	0.01	0.01	0.02
<i>Denmark</i>	0.05	0.01	0.01	N/A	0.03	0.01	0.03	0.03	0.09	0.03	0.06
<i>Estonia</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Finland</i>	0.02	0.00	0.01	0.01	0.02	0.01	0.03	0.08	0.03	0.02	0.04
<i>France</i>	0.29	0.07	0.03	0.03	0.25	0.11	0.16	0.25	0.28	0.20	0.52
<i>Germany</i>	0.35	0.07	0.06	0.05	0.40	0.19	0.60	0.58	0.56	0.29	0.53
<i>Greece</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.01
<i>Hungary</i>	0.02	N/A	0.00	0.01	0.01	0.01	0.01	0.03	0.01	0.01	0.01
<i>Ireland</i>	0.07	0.00	0.00	N/A	0.16	0.00	0.01	0.07	0.02	0.02	0.02
<i>Italy</i>	0.19	0.17	0.05	0.02	0.15	0.09	0.27	0.19	0.12	0.15	0.29
<i>Latvia</i>	0.00	0.00	0.00	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Lithuania</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Luxembourg</i>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	N/A	0.00	0.00
<i>Malta</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00
<i>Netherlands</i>	0.10	0.01	0.01	0.01	0.08	0.02	0.05	0.05	0.11	0.07	0.13
<i>Poland</i>	0.09	0.01	0.01	0.04	0.03	0.02	0.02	0.03	0.02	0.01	0.02
<i>Portugal</i>	0.03	0.03	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02
<i>Slovakia</i>	0.00	0.00	0.00	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.01
<i>Slovenia</i>	0.00	0.00	0.00	0.00	0.01	0.00	0.01	0.01	0.00	0.00	0.01
<i>Spain</i>	0.17	0.05	0.03	0.04	0.10	0.05	0.08	0.07	0.23	0.07	0.18
<i>Sweden</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.11	0.06	0.06
<i>United Kingdom</i>	0.31	0.06	0.04	0.04	0.21	0.11	0.16	0.22	0.33	0.43	0.47
<i>Bulgaria</i>	0.00	0.00	0.00	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Romania</i>	0.01	0.01	0.00	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.01
<i>Norway</i>	0.03	0.00	0.01	N/A	0.02	0.00	0.02	0.01	0.05	0.02	0.06
<i>Iceland</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.00



<b>Total EU 25</b>	<b>1.8</b>	<b>0.5</b>	<b>0.3</b>	<b>0.03</b>	<b>1.6</b>	<b>0.7</b>	<b>1.5</b>	<b>1.5</b>	<b>2.0</b>	<b>1.4</b>	<b>2.5</b>
<b>Total EU 30 countries</b>	<b>1.9</b>	<b>0.5</b>	<b>0.3</b>	<b>0.03</b>	<b>1.6</b>	<b>0.7</b>	<b>1.6</b>	<b>1.7</b>	<b>2.1</b>	<b>1.5</b>	<b>2.6</b>

Source: EUROSTAT and AMADEUS

## Annex 4.

### The development of GDP in European countries 1999-2003 (€ million)

GDP IN MARKET PRICES	1999	2000	2001	2002	2003	NOMINAL GROWTH 1999-2003
Austria	200025	210392	215878	220688	226968	13,5%
Belgium	238233	251741	258884	267578	274582	15,3%
Cyprus	9008	9895	10599	11073	11704	29,9%
Czech Republic	55345	60397	67960	78388	80254	45,0%
Denmark	163200	173598	179226	184744	188662	15,6%
Estonia	5226	5940	6676	7472	8138	55,7%
Finland	120965	130859	136472	140853	143807	18,9%
France	1366466	1441372	1497184	1548555	1585172	16,0%
Germany	2012000	2062500	2113160	2145020	2163400	7,5%
Greece	117850	123173	131769	142369	154153	30,8%
Hungary	45075	51039	58419	69622	73538	63,1%
Ireland	90612	104379	117114	130515	139097	53,5%
Italy	1127091	1191057	1218535	1260598	1300929	15,4%
Latvia	6752	8379	9227	9792	9861	46,0%
Lithuania	10169	12408	13556	15017	16443	61,7%
Luxembourg	18739	21279	22020	22806	23956	27,8%
Malta	3633	4095	4218	4281	4217	16,1%
Netherlands	374070	402291	447731	465214	476349	27,3%
Poland	157617	185775	212196	209431	191408	21,4%
Portugal	114192	122270	129143	135001	136967	19,9%
Slovakia	19131	21926	23322	25733	28952	51,3%
Slovenia	20152	20814	22018	23699	24860	23,4%
Spain	579983	630263	679842	729021	780550	34,6%
Sweden	238020	262550	247253	258878	269548	13,2%
United Kingdom	1374500	1564573	1602840	1667312	1598172	16,3%
Bulgaria	12164	13704	15250	16589	17785	45,7%
Romania	33388	40346	44904	48442	50688	51,8%
Iceland	7969	9220	8579	9078	9362	17,5%
Norway	148373	181079	189632	202319	197012	32,8%
Total EU 25	8468054	9072963	9425241	9773659	9911689	17,0%
Total 30 countries	8669948	9317313	9683605	10050086	10186475	17,5%

Source: EUROSTAT (National accounts)

## Annex 5. Delimitation of the cultural field in view of extracting employment data

The following statistical table was established by French *Département des Etudes de la Prospective et des Statistiques* (Ministry of Culture and Education), coordinator of the Eurostat Task Force on Cultural Employment to further extract data in the cultural field.

This methodology was used in the present study.

**1. Occupations.** The following table lists the Isco codes containing cultural occupations.

Isco 3	Isco 4	Inclusion in the cultural field
243 – Archivists, librarians and related information professionals	24.31 – Archivists and curators	Yes
	24.32 – Librarians and related information professionals	Yes
245 – Writers and creative or performing artists	24.51 – Authors, journalists and other writers	Yes
	24.52 – Sculptors, painters and related artists	Yes
	24.53 – Composers, musicians and singers	Yes
	24.54 – Choreographers and dancers	Yes
	24.55 – Film, stage and related actors and directors	Yes
313 – Optical and electronic equipment operators	31.31 – Photographers and image and sound recording operators	Yes
	31.32 – Broadcasting and telecommunications equipment operators	No
	31.33 – Medical equipment operators	No
	31.39 – Optical and electronic equipment operators not elsewhere classified	No
347 – Artistic, entertainment and sports associate professionals	34.71 – Decorators and commercial designers	Yes
	34.72 – Radio, television and other announcers	Yes
	34.73 – Street, night-club and related musicians, singers and dancers	Yes
	34.74 – Clowns, magicians, acrobats and related associate professionals	Yes
	34.75 – Athletes, sports persons and related associate professionals	No
214 – Architects, engineers and related professionals	21.41 – Architects, town and traffic planners	Specific estimation <sup>165</sup>
	21.42 – Civil engineers	No
	...	No
	...	No
	...	No

<sup>165</sup> The most detailed code of the Isco nomenclature (2141) doesn't allow isolating architects from town and traffic planners. The Deps used a professional source to calculate the number of architects.

## 2. Activities

The following table lists the Nace codes containing cultural activities.

Nace 2	Nace 3	Inclusion in the cultural field
22 – Publishing, printing and reproduction of recorded media	22.1 – Publishing	Yes
	22.2 – Printing and service activities related to printing	No
	22.3 – Reproduction of recorded media	No
92 – Recreational, cultural and sporting activities	92.1 – Motion picture and video activities	Yes
	92.2 – Radio and television activities	Yes
	92.3 – Other entertainment activities	Yes
	92.4 – News agency activities	Yes
	92.5 – Library, archive, museums and other cultural activities	Yes
	92.6 – Sporting activities	No
	92.7 – Other recreational activities	No
74 – Other business activities	74.1 – Legal, accounting, book-keeping and auditing activities; tax consultancy; market research and public opinion polling; business and management consultancy; holdings	No
	74.2 – Architectural and engineering activities and related technical consultancy	Direct estimation <sup>166</sup>
	74.3 – Technical testing and analysis	No
	74.4 – Advertising	Yes
	74.5 – Labour recruitment and provision of personnel	No
	74.6 – Investigation and security activities	No
	74.7 – Industrial cleaning	No
	74.8 – Miscellaneous business activities not elsewhere classified.	Yes

<sup>166</sup> As the Nace nomenclature doesn't allow isolating architectural activities from engineering activities and related technical consultancy, the Deps used estimator calculated from professional sources.

## Annex 6.

### Method of calculation – extraction of employment data

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The following methodology was elaborated by French *Département des Etudes de la Prospective et des Statistiques* (Ministry of Culture and Education), coordinator of the Eurostat Task Force on Cultural Employment to further extract data in the cultural field.

Figures presented in this study in relation to employment in the cultural sector were obtained through the implementation by Eurostat of this methodology.

#### LE CALCUL DES COEFFICIENTS CULTURELS

La méthode consiste à calculer un coefficient culturel pour chaque croisement profession x activité codé en Isco 3/Nace 2 (profession codée à 3 chiffres et activité codée à 2 chiffres).

**Exemple 1 :** croisement Nace 22 (Édition, imprimerie, reproduction) avec Isco 131 (Dirigeants et gérants)

Ici la Nace 22 comprend des activités culturelles et l'Isco 131 ne contient que des professions non culturelles.

Le coefficient culturel est calculé de la façon suivante :

Coefficient (Nace 22/Isco 131) = (croisement Nace 22 x Isco 131) / (croisement Nace 22 x Isco 131) = 39%

Ce croisement est uniquement disponible pour les pays détaillant en Nace à 3 chiffres.

**Exemple 2 :** croisement Nace 75 (Administration publique) avec Isco 313 (Techniciens d'appareils optiques et électroniques)

Ici la Nace 75 ne comprend que des activités non culturelles et l'Isco 313 contient des professions culturelles.

Le coefficient culturel est calculé de la façon suivante :

Coefficient (Nace 75/Isco 313) = (croisement Nace 75 x Isco 313) / (croisement Nace 75 x Isco 313) = 20%

Ce croisement est uniquement disponible pour les pays détaillant en Isco à 4 chiffres.

*Remarque :* pour un croisement contenant à la fois des activités et des professions culturelles (exemple : croisement Nace 22 x Isco 313), il y a donc deux manières de calculer le coefficient culturel. Il a été choisi ici de faire la moyenne des deux coefficients (très élevés à chaque fois).

Une fois l'ensemble des coefficients calculés, on l'applique à chacun des pays et pour chacun des croisements Nace x Isco.

*Exemple :* pour un pays donné, le croisement Nace 22 x Isco 131 donne 10 000 actifs. Le coefficient culturel pour ce croisement est de 39 %. Il y a donc 3 900 emplois culturels dans ce croisement. En procédant ainsi pour tous les croisements Nace à deux chiffres et Isco à trois chiffres, on estime au final le nombre total d'emplois culturels.

## Annex 7. Employment-Tables of computation

### Cultural employment (and % of total employment), cultural and cultural tourism employment (and % of total employment) - EU 25

Country	Cultural employment (in thousands)	Cultural employment in % of total employment	Cultural & cultural tourism employment (in thousands)	Cultural & cultural tourism employment in % of total employment
<b>Austria (AT)</b>	<b>79,1</b>	<b>2.1%</b>	<b>110,9</b>	<b>3,0%</b>
Belgium (BE)	93,5	2.2%	112,7	2,7%
Cyprus (CY)	7,8	2.3%	7,8	2,3%
Czech Republic (CZ)	89,4	1.9%	116,1	2,5%
Denmark (DK)	80,6	3.0%	89,6	3,3%
Estonia (EE)	18,6	3.2%	21,15	3,6%
Finland (FI)	77,6	3.2%	88,85	3,7%
France (FR)	496,3	2.0%	618,25	2,5%
Germany (DE)	957	2.7%	1.138,2	3,2%
Greece (EL)	97,4	2.2%	139,4	3,2%
Hungary (HU)	80,6	5.1%	102,95	6,5%
Ireland (IE)	45,7	2.5%	61,9	3,4%
Italy (IT)	466,9	2.1%	622,9	2,8%
Latvia (LV)	29,1	2.9%	32,4	3,2%
Lithuania (LT)	28,9	2.0%	33,7	2,3%
Luxembourg (LU)	3,5	1.9%	4,4	2,4%
Malta (MT)	3	2.1%	4,8	3,3%
Netherlands (NL)	296,4	3.6%	343,05	4,2%
Poland (PL)	230,8	1.7%	264,7	1,9%
Portugal (PT)	76,2	1.5%	115,8	2,3%
Slovakia (SK)	28,7	1.3%	41	1,9%
Slovenia (SI)	28,7	3.0%	34,4	3,6%
Spain (ES)	379	2.1%	558,85	3,1%
Sweden (SE)	135,5	3.1%	155,15	3,6%
United Kingdom (UK)	883,3	3.2%	1.065,7	3,8%
<b>EU 25</b>	<b>4.713,6</b>	<b>2.5%</b>	<b>5.884,65</b>	<b>3,1%</b>

## Cultural employment in the EU-25 by gender

Country	Cultural employment		Total employment	
	women	men	women	men
Austria (AT)	42,9	57,1	45,4	54,6
Belgium (BE)	41	59	43,9	56,1
Cyprus (CY)	45,1	54,9	44,6	55,4
Czech Republic (CZ)	47,9	52,1	44,1	55,9
Denmark (DK)	45,5	54,5	47,5	52,5
Estonia (EE)	56,2	43,8	51	49
Finland (FI)	49,7	50,3	49,1	50,9
France (FR)	42,2	57,8	45,6	54,4
Germany (DE)	45,6	54,4	45,9	54,1
Greece (EL)	42,9	57,1	37,9	62,1
Hungary (HU)	51,7	48,3	47,1	52,9
Ireland (IE)	49,2	50,8	44,3	55,7
Italy (IT)	38,6	61,4	39,9	60,1
Latvia (LV)	70,8	29,2	50	50
Lithuania (LT)	76	24	50,7	49,3
Luxembourg (LU)	32,4	67,6	41,1	58,9
Malta (MT)	20,4	79,6	30,5	69,5
Netherlands (NL)	43,8	56,2	44,9	55,1
Poland (PL)	54,9	45,1	46,1	53,9
Portugal (PT)	42,8	57,2	45,3	54,7
Slovakia (SK)	53,2	46,8	46,1	53,9
Slovenia (SI)	54,5	45,5	46,3	53,7
Spain (ES)	43,8	56,2	39,9	60,1
Sweden (SE)	49,4	50,6	48,7	51,3
United Kingdom (UK)	47,1	52,9	46,8	53,2
<b>EU 25</b>	<b>45,6</b>	<b>54,4</b>	<b>44,6</b>	<b>55,4</b>

## Cultural employment in the EU25 by age

Country	Cultural employment			Total employment		
	15-24 years	25-49 years	more than 50 years	15-24 years	25-49 years	more than 50 years
Austria (AT)	8,2	72	19,7	13,2	69,6	17,3
Belgium (BE)	6,3	74,3	19,4	8,6	72	19,4
Cyprus (CY)	9,6	69	21,5	10,2	67,1	22,6
Czech Republic (CZ)	8,5	60,9	30,6	8,3	65,6	26,1
Denmark (DK)	8	62,2	29,8	13,1	59,2	27,8
Estonia (EE)	8,8	56,4	34,9	9,7	62,4	27,9
Finland (FI)	11,3	59,7	29	11,6	60,6	27,8
France (FR)	8,4	71,2	20,3	9,3	68,4	22,4
Germany (DE)	8	65,4	26,7	10,6	64,5	25
Greece (EL)	8	76,9	15	8,4	71,3	20,3
Hungary (HU)	5,8	67,9	26,3	7,9	69,3	22,9
Ireland (IE)	10,1	69,2	20,8	16,4	64,3	19,4
Italy (IT)	7,7	71,5	20,8	7,5	71,2	21,3
Latvia (LV)	11,9	60,6	27,5	10,7	65,1	24,2
Lithuania (LT)	7,1	71,1	21,8	7,5	70,6	22
Luxembourg (LU)	2,8	78,4	18,8	5,9	75	19,1
Malta (MT)	26,2	53,2	20,6	21,1	60,4	18,5
Netherlands (NL)	19,5	58,9	21,7	15,1	63,1	21,8
Poland (PL)	6,4	71,5	22,1	9,3	72,9	17,8
Portugal (PT)	12,7	70,6	16,7	10,4	68	21,6
Slovakia (SK)	8,2	67,5	24,3	11,2	70,5	18,3
Slovenia (SI)	11,7	67,3	21	9,8	72,9	17,4
Spain (ES)	9,4	76,2	14,3	10,4	70,4	19,2
Sweden (SE)	10,4	60,8	28,8	9,9	58,7	31,4
United Kingdom (UK)	13,3	61,6	25	14,1	59,9	26,1
<b>EU 25</b>	<b>10</b>	<b>67</b>	<b>23</b>	<b>10,6</b>	<b>66,7</b>	<b>22,8</b>



## Cultural employment in EU25 by education level

Country	Cultural employment			Total employment		
	at most lower secondary	upper secondary	tertiary	at most lower secondary	upper secondary	tertiary
Austria (AT)	7,9	58,4	33,7	17,4	64,5	18,1
Belgium (BE)	11,1	30,7	58,3	25,6	37,6	36,8
Cyprus (CY)	5,2	29,4	65,3	28,1	39	32,9
Czech Republic (CZ)	3,6	62,8	33,6	6,1	79,8	14,1
Denmark (DK)	12,1	36,4	51,5	18,5	49,7	31,8
Estonia (EE)	0	47,3	52,7	9,3	57	33,6
Finland (FI)	15,5	42,6	41,9	18,5	46,2	35,3
France (FR)	16,2	33,1	50,7	28,6	44	27,4
Germany (DE)	10	43,4	46,6	14,9	58,5	26,6
Greece (EL)	9,6	45,9	44,5	29	44,5	26,5
Hungary (HU)	3,2	41,6	55,2	13,5	65,4	21,1
Ireland (IE)	12,8	38,8	48,4	26,8	39,9	33,3
Italy (IT)	14,6	46,5	39	40,2	45,2	14,5
Latvia (LV)	2,7	52,8	44,5	10,9	65,2	23,8
Lithuania (LT)	2,2	44,6	53,2	5,9	61,3	32,8
Luxembourg (LU)	4,1	40,1	55,8	18,8	54,8	26,4
Malta (MT)	56,2	19,1	24,7	63,5	20	16,5
Netherlands (NL)	20,1	34,4	45,6	26,8	43	30,3
Poland (PL)	1,7	47,1	51,1	6,4	70,6	23,1
Portugal (PT)	40,7	27,4	31,9	69,7	15,2	15,1
Slovakia (SK)	0,7	66,1	33,2	4,7	79,9	15,3
Slovenia (SI)	3,9	48,7	47,4	13,3	65,7	21
Spain (ES)	17,7	22	60,4	46	22,1	31,9
Sweden (SE)	11,4	48,9	39,7	15,6	56,2	28,2
United Kingdom (UK)	6,4	48,3	45,3	10,6	59,1	30,3
<b>EU 25</b>	<b>11,5</b>	<b>41,7</b>	<b>46,8</b>	<b>23,6</b>	<b>50,7</b>	<b>25,7</b>

## Cultural employment in EU25 by employment status

Country	Cultural employment		Total employment	
	dependent	independent	dependent	independent
Austria (AT)	61,7	38,3	90,9	9,1
Belgium (BE)	67,8	32,2	86,5	13,5
Cyprus (CY)	73,6	26,4	79,1	20,9
Czech Republic (CZ)	66,4	33,6	83,3	16,7
Denmark (DK)	87,4	12,6	83,3	16,7
Estonia (EE)	87,7	12,3	92,2	7,8
Finland (FI)	83,2	16,8	90,3	9,7
France (FR)	81,4	18,6	90,9	9,1
Germany (DE)	67,2	32,8	89,1	10,9
Greece (EL)	64,6	35,4	71	29
Hungary (HU)	79,1	20,9	86,6	13,4
Ireland (IE)	73,6	26,4	86,2	13,8
Italy (IT)	48,5	51,5	72,8	27,2
Latvia (LV)	91,4	8,6	93,3	6,7
Lithuania (LT)	95,4	4,6	94,1	5,9
Luxembourg (LU)	75,3	24,7	93,1	6,9
Malta (MT)	77,4	22,6	87,4	12,6
Netherlands (NL)	69,2	30,8	89,7	10,3
Poland (PL)	79,8	20,2	87,3	12,7
Portugal (PT)	73,8	26,2	81,8	18,2
Slovakia (SK)	81,5	18,5	87,7	12,3
Slovenia (SI)	86,3	13,7	91,5	8,5
Spain (ES)	79,5	20,5	83,6	16,4
Sweden (SE)	76,4	23,6	90,8	9,2
United Kingdom (UK)	71,9	28,1	87,4	12,6
<b>EU 25</b>	<b>71,2</b>	<b>28,8</b>	<b>85,9</b>	<b>14,1</b>

## Cultural employment in EU25 by job stability

Country	Cultural employment		Total employment	
	permanent workers	temporary workers	permanent workers	temporary workers
Austria (AT)	89,9	10,2	92,8	7,2
Belgium (BE)	80,4	19,6	91,2	8,8
Cyprus (CY)	91,2	8,8	87,5	12,5
Czech Republic (CZ)	84,7	15,3	90,5	9,5
Denmark (DK)	86,7	13,3	90,3	9,7
Estonia (EE)	96,3	3,7	97,2	2,8
Finland (FI)	83,3	16,7	83,1	16,9
France (FR)	73,6	26,4	87,9	12,1
Germany (DE)	84,9	15,1	88,2	11,8
Greece (EL)	82,4	17,6	87,7	12,3
Hungary (HU)	93,3	6,7	93,2	6,8
Ireland (IE)	95	5	96,6	3,4
Italy (IT)	82,6	17,4	88,8	11,2
Latvia (LV)	87,8	12,2	91,7	8,3
Lithuania (LT)	100	0	94,6	5,4
Luxembourg (LU)	96,1	3,9	95,3	4,7
Malta (MT)	94,7	5,3	96,7	3,3
Netherlands (NL)	80	20	86,2	13,8
Poland (PL)	81,2	18,8	77,6	22,4
Portugal (PT)	70,8	29,2	80,3	19,7
Slovakia (SK)	93,6	6,4	94,8	5,2
Slovenia (SI)	69,3	30,7	82,7	17,3
Spain (ES)	71,5	28,5	68,9	31,1
Sweden (SE)	77	23	84,4	15,6
United Kingdom (UK)	92,7	7,3	94,3	5,7
<b>EU 25</b>	<b>83</b>	<b>17</b>	<b>86,7</b>	<b>13,3</b>

## Cultural employment in EU25 by work duration

Country	Cultural employment		Total employment	
	full-time workers	part-time workers	full-time workers	part-time workers
Austria (AT)	75,6	24,4	81,1	18,9
Belgium (BE)	79,7	20,3	77,9	22,1
Cyprus (CY)	83,6	16,4	92,4	7,6
Czech Republic (CZ)	86,6	13,4	94,9	5,1
Denmark (DK)	69	31	77,1	22,9
Estonia (EE)	88,7	11,3	92,2	7,8
Finland (FI)	80,6	19,4	86,9	13,1
France (FR)	77	23	83,3	16,7
Germany (DE)	71,9	28,1	77,2	22,8
Greece (EL)	92,5	7,5	95,8	4,2
Hungary (HU)	91,2	8,8	95,4	4,6
Ireland (IE)	78,1	21,9	82,5	17,5
Italy (IT)	80,6	19,4	87,1	12,9
Latvia (LV)	80,7	19,3	91,6	8,4
Lithuania (LT)	89,4	10,6	94,4	5,6
Luxembourg (LU)	82,5	17,5	82,1	17,9
Malta (MT)	83	17	91,5	8,5
Netherlands (NL)	41,4	58,6	54,5	45,5
Poland (PL)	84,8	15,2	92,3	7,7
Portugal (PT)	89,1	10,9	93,4	6,6
Slovakia (SK)	96,7	3,3	97,3	2,7
Slovenia (SI)	81,7	18,3	93,1	6,9
Spain (ES)	86,3	13,7	91	9
Sweden (SE)	72,9	27,1	76,1	23,9
United Kingdom (UK)	70,2	29,8	73,6	26,4
<b>EU 25</b>	<b>75</b>	<b>25</b>	<b>82,4</b>	<b>17,6</b>

## Cultural employment in EU25 by side jobs

Country	Cultural employment		Total employment	
	without side-job	with side-job	without side-job	with side-job
Austria (AT)	92,9	7,1	96,5	3,5
Belgium (BE)	95	5	96,1	3,9
Cyprus (CY)	91,6	8,4	93,3	6,7
Czech Republic (CZ)	94,3	5,7	97,4	2,6
Denmark (DK)	80,8	19,2	88,8	11,2
Estonia (EE)	93,2	6,8	96,2	3,8
Finland (FI)	91,5	8,5	96,1	3,9
France (FR)	93,3	6,7	97,1	2,9
Germany (DE)	95,2	4,8	97,3	2,7
Greece (EL)	97,7	2,3	97,8	2,2
Hungary (HU)	96,8	3,2	98,2	1,8
Ireland (IE)	98,1	1,9	98,2	1,8
Italy (IT)	94,6	5,4	97,9	2,1
Latvia (LV)	87,5	12,5	92,9	7,1
Lithuania (LT)	87,7	12,3	94,6	5,4
Luxembourg (LU)	99,4	0,6	98,4	1,6
Malta (MT)	95,4	4,6	95,7	4,3
Netherlands (NL)	86,6	13,7	94	6
Poland (PL)	91,5	8,5	91,2	8,8
Portugal (PT)	91,6	8,4	93,6	6,4
Slovakia (SK)	99,3	0,7	99,1	0,9
Slovenia (SI)	94	6	96,6	3,4
Spain (ES)	96,1	3,9	98	2
Sweden (SE)	87,4	12,6	90,9	9,1
United Kingdom (UK)	94	6	96,1	3,9
<b>EU 25</b>	<b>93,4</b>	<b>6,6</b>	<b>96,3</b>	<b>3,7</b>

## **Annex 8.**

### **ICT GLOSSARY**

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#### **Broadband**

Broadband in data communications refers to data transmission where multiple pieces of data are sent simultaneously to increase the effective rate of transmission, regardless of actual data rate. The wider the bandwidth, the more information carried.

#### **IPTV**

IPTV (Internet Protocol Television) describes a system where a digital television service is delivered using the Internet Protocol over a network infrastructure, which may include delivery by a broadband connection.

#### **Mobile Music**

Mobile music is music, which is downloaded to mobile phones and played by mobile phones. Although many phones play music as ringtones, true "music phones" generally allow users to import audio files from their PCs or download them wirelessly from a content provider (the latter is usually for a fee). In most cases mobile music is stored within the memory of the mobile phone, although many newer models feature removable storage.

#### **Triple-play**

In telecommunications, the Triple Play service is a marketing term for the provisioning of the three services: high-speed Internet, television (Video on Demand or regular broadcasts) and telephone service over a single broadband connection. Triple Play focuses on a combined business model rather than on solving technical issues or a common standard. Triple Play services are offered by cable television operators as well as by telecommunication operators. It paves the way for these service providers to compete with one another. It relies on the assumption that an integrated solution will increase opportunity costs for customers who may want to choose between service providers. Interoperability is not a design target. Triple Play has led to the term "Quadruple play" where wireless communications is introduced as another media to deliver video, Internet and voice content. The grouping together of services (as triple or quadruple play) is called multi-play.

#### **TV over DSL**

Television provided over the DSL transmission technology. DSL is a family of technologies that provide digital data transmission over the wires of a local telephone network.

#### **VOD**

Video on demand (VOD) systems allow users to select and watch video content over a network as part of an interactive television system. VOD systems either "stream" content, allowing viewing while the video is being downloaded, or "download" it in which the program is brought in its entirety to a set-top box before viewing starts.

Near video on demand (NVOD) is a pay-per-view consumer video technique used by multi-channel broadcasters using high-bandwidth distribution mechanisms such as satellite and cable television. Multiple copies of a programme are broadcast at short time intervals (typically 10–20 minutes) providing convenience for viewers, who can watch the programme without needing to tune in at a scheduled point in time. This form is bandwidth intensive and is generally provided only by large operators with a great deal of redundant capacity.

## **Annex 9.**

### **List of cultural ministries contacted**

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- Katrin KNEISSEL, Head of Unit, Department for the Arts, Federal Chancellery (**Austria**)
- Peter JOLLING, Cultural Advisor, Culture Ministry - Flemish Community of Belgium (**Belgium**)
- Henry INGBERG, Director of the Cinema and Audiovisual Center, Culture Ministry of the French Community of Belgium (**Belgium**)
- Peter MILADINOV, Head of the European Integration and relation with international institutions Department, Ministry of Culture (**Bulgaria**)
- Paikos AGIS, Cultural Officer, Ministry of Education and Culture (**Cyprus**)
- Jaromira MIZEROVA, Head of EU and International Organizations Department, Ministry of Culture (**Czech Republic**)
- Anne Julie SCHMITT JENSEN, Special Adviser, Ministry of Culture (**Denmark**)
- Ragnar SILL, Head of the Development Division of the Budget and Economical Analysis Department, Ministry of Culture (**Estonia**)
- Kimmo AULAKE, Special Adviser, Ministry of Education and Culture (**Finland**)
- Claire-Lyse CHAMBRON, Assistant to the Director of the International and European Affairs Department), Ministry of Culture, (**France**)
- Dirk Michael ROEDDER, German Ministry of culture (**Germany**)
- Werner WEBER, Commissioner for Culture and the Media, Office of the Federal Government (**Germany**)
- Georgios LIONTOS (Head of the EU Direction) Ministry of Culture (**Greece**)
- Mr Mihály NAGY, Head of Audiovisual Department, Ministry of Culture (**Hungary**)
- Thorgeir OLAFSSON, Head of the Arts Division, Ministry of Education, Science and Culture (**Iceland**)
- Keith NOLAN, Executive Officer, Ministry of Arts, Sport and Tourism, Arts Division (**Ireland**)
- Rinna MORATI, Civil Servant in the Office of the Diplomatic Council on Cultural Affairs, Ministry of Culture (**Italy**)
- Una SEDLENIECE, Department for Cultural Policy Planning of Latvian Ministry of culture (**Latvia**)
- Linda TRUSEVSKA (Head of EU Policy Division) Ministry of Culture (**Latvia**)
- Thomas BUECHEL, Deputy Head of Government (**Liechtenstein**)
- Vilma LEVICKAITE, Assistant to the Director of the Cultural Programme Centre, Ministry of Culture (**Lithuania**)
- Guy DOCKENDORF, General Director of the Ministry of Culture (**Luxembourg**)
- Marie-Louise MANGION, Head EU Affairs and Policy Development Department, Ministry of Culture and Tourism (**Malta**)
- Burt HOFESTEDE, Policy Advisor, Ministry of Education, Culture and Science (**Netherlands**)
- Silje THINGSTAD, Senior Adviser, Royal Ministry of Cultural Affairs (**Norway**)
- Lidia WILCZYNSKA, Specialist in Cultural Affairs, Ministry of Culture and National Heritage (**Poland**)
- Maria de Lourdes LIMA SANTOS, President, Observatory of Cultural Activities (**Portugal**)
- Delia MUCICA, Secretary General, Ministry of Culture and Religious Affairs (**Romania**)
- Ladislav SIMKO, General Director of the International Affairs Department, Ministry of Culture (**Slovak Republic**)
- Vesna COPIC, Head of the Cultural Policy Department, Ministry of Culture (**Slovenia**)
- Fernando GOMEZ RIESCO, Deputy Director of the General Directorate of Cultural Cooperation and Communication, Ministry of Culture (**Spain**)
- Björn CAPPELIN, Desk Officer of the Cultural Division, Ministry of Education, Research and Culture (**Sweden**)

-Paula CROFTS, Chief Economist of the Evidence and Analysis Unit Creative Industries Economic Estimates,  
DCMS (**United Kingdom**)



## **Annex 10.**

### **List of professional organisations, industry professionals, and academics consulted<sup>167</sup>**

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#### **VISUAL ARTS**

- European Visual Artists (EVA): Carola Streul (Secretary General)

#### **PERFORMING ARTS**

- Association of European Performers' Organisations (AEPO-ARTIS): Xavier Blanc (Secretary General), Guenaëlle Collet (Head of Office)
- Performing Arts Employers Associations League Europe (PEARLE): Anita Debaere (Director),
- International Federation of Actors (FIA): Bianca Busuioc (Deputy Secretary General)
- Union of Europe's Theatres (UTE): Pierre Bachelier (Production Manager)

#### **FILM, VIDEO, VIDEO GAMES**

- European Coordinator of Independent Producers (CEPI): Bruno Alves (General Secretary)
- European Coordination of Film Festivals (ECFF): Marie-José Carta (Executive Secretary)
- Eurocinema: Yvon Thiec (General Delegate), Fabienne Burton
- Interactive Software Federation of Europe (ISFE): Patrice Chazerand (Secretary General), Jürgen Bäscher (Communication Officer)
- European Games Developers Association (EGDF): Malte Behrmann (Managing Director)
- Motion Picture Association of America (MPAA): Chris Marcich (Senior Vice President and Managing Director of the MPA's European Office)
- Walt Disney Company: Patrick Gruter (Vice President, Government Relations, Europe)
- European Producers Club: Anne Appathurai (Head of Project)

#### **RADIO AND TELEVISION**

- European Broadcasting Union (EBU): Nicola Frank (Deputy Head of the Brussels Office)
- BBC: Matteo Maggiore (Head of European Affairs)
- Association of European Radios (AER): Vincent Sneed (Intern)

#### **MUSIC**

- International Music Managers Forum (IMMF): Peter Jenner (Chairman)

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<sup>167</sup> Including during the working session organised by the European Commission on 19 July 2006

- International Federation of the Phonographic Industry (IFPI): Francine Cunningham (Head of Communications, Europe)
- European Music Office (EMO): Jean-François Michel (Secretary General), Judith Merkies (Executive Manager)
- Independent Music Companies Association (IMPALA)
- European Grouping of Societies for Authors and Composers (GESAC): Martine Rezzi (Senior Legal Advisor)
- International Confederation of Music Publishers (ICMP/CIEM): Jenny Vacher (General Counsel)

## **ADVERTISING**

- European Advertising Standard Alliance (EASA): Oliver Gray (Director General), Katie Carroll (Promotion & Communications Manager)
- European Association of Communications Agencies (EACA): Dominic Lyle (Director General)
- European Group of Television Advertising (EGTA): Bertrand Cazes (European Affairs Adviser)
- World Federation of Advertisers (WFA): Malte Lohan (Public Affairs Manager)

## **BOOK AND PRESS PUBLISHING**

- European Federation of Publishers (FEP): Anne Bergman Tahon (Director), Céline D'Ambrosio (Policy Adviser)
- European Federation of Magazines Publishers (FAEP): David Mahon (Secretary General), Max v. Abendroth (Director of communications and sustainability), Ingrid de Ribaucourt (EU Affairs Manager)
- European Newspaper Publishers' Association (ENPA): Sophie Scrive (Deputy Director)
- Lagardère: Ann Becker (Permanent Representative)
- European Writers Congress (EWC): Myriam Díaz-Diocaretz (Secretary General)
- European Publishers Council: Nicole Schulze (EU Policy Adviser)

## **HERITAGE**

- Europa Nostra: Eleonore de Merode (Heritage Awards Co-ordinator)
- European Forum for the Arts and Heritage (EFAH): Sabine Frank (Deputy Secretary-General)

## **OTHER (other associations, institutions, academics)**

- Marta Beck-Domzalska, Eurostat, Culture Department
- Marianne Berendse (Director), Kunst en Zaken, The Netherlands
- Siobhan Broughan (Director), Business2Arts, Ireland

- Janine Cardona, Département des Etudes de la Prospective et des Statistiques, French Ministry of Culture and Communication – Eurostat Task Force 2 on cultural employment
- Danièle Cliché (Research Manager), European Institute for Comparative Cultural Research (Ericarts)
- Gianna Lia Cogliandro (Executive Director), European Network of Cultural Administration Training Centres (ENCATC):
- Luc Delany (Director), Digital Media Association (Edima)
- Andy Finch, (International Relations), American for the Arts, Washington, USA
  
- Professor Gerd-Michael Hellstern, Kassel University, Germany
- Andrea Hartman (Coordinator Project Muzone), Popakademie, Mannheim, Germany
- Alan Hewson (Director), Aberystwyth Arts Center, UK
- Joël Houzet (Responsible for culture, Paris 19<sup>th</sup> Arrondissement – *City Hall*), France
- Lambert Kleinmann, (General officer), EURES Network
- Ewald Kutzenberger, (General Director), Statistics Austria
- Theike Muss (Marketing Manager), BBW Berlin, Germany
- Daniel O' Donnell, Deutsches Statistisches Bundesamt / Eurostat
- Jacqueline Pacaud, Dir. C Unit C1, Directorate General Education, European Commission, (responsible European Capitals of Culture)
- Chantal Pirlot (General Secretary), Diana Pana (Coordinator), European Committee for Business, Arts and Culture (CEREC)
- Nathalie Sauvanet (Deputy General Delegate), Association pour le Développement du Mécénat Industriel et Commercial (ADMICAL), France
- Isabelle Schwarz (Cultural Policies Development Manager), European Cultural Foundation
- Peter Sinclair (Director), Creative London, UK
- Eulynn Shiu (Researcher Coordinator), American for the Arts, Washington, USA
- Philippe Spedding (Senior Programme Manager - Maecenas Initiative and A&B World), Arts&Business, UK
- Michael Söndermann (President of the Working Group on Cultural Statistics), Germany
- Professor Andreas Johannes Wiesand (Executive Director), European Institute for Comparative Cultural Research (Ericarts)
- Sandra Wilgenbusch (Adviser), Arbeitskreis Kultursponsoring (AKS), Germany

**Annex 11.**  
**Working Meeting of 19.7.2006,**  
**organised by the European Commission**  
**List of attendees**

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<i>Invited Association/Grouping</i>	<i>Answer</i>	<i>Contact Person</i>	<i>Attendance</i>
<i>Union des théâtres de l'Europe</i>	Yes	<i>Pierre Bachelier</i>	OK
<i>RESEO</i>		<i>Isabelle Joly</i>	
<i>European Visual Artists</i>	Yes	<i>Carola Streul</i>	OK
<i>Europa Nostra</i>	Yes	<i>Eleonore de Merode</i>	OK
<i>Congrès des écrivains européens (EWC)</i>	Yes	<i>Myriam Diocaretz</i>	Ok
<i>ENCATC</i>	Yes	<i>GiannaLia Cogliandro</i>	OK
<i>European Cultural Foundation (ECF)</i>		<i>eurocult@eurocult.org</i>	
<i>Ligue européenne des instituts des arts (ELIA)</i>		<i>elia@elia.artschools.org</i>	
<i>EFAH</i>	Yes	<i>Sabine Frank</i>	OK
<i>Performing Arts Employers Associations League Europe (PEARLE)</i>	Yes	<i>Liesbeth Dejonghe</i>	OK
<i>Euro-MEI</i>			
<i>Eurocinema</i>	Yes	<i>Fabienne Burton</i>	
<i>European Producers Club</i>	Yes	<i>Anne Appathurai</i>	OK
<i>Association of Commercial Televisions in Europe (ACTE)</i>	Yes	<i>Julia Vallelunga</i>	OK
<i>International Federation of the Phonographic Industry (IFPI)</i>	Yes	<i>F. Cunningham</i>	OK
<i>European Music Office</i>	Yes	<i>Judith Merkies Jean-François Michel</i>	OK OK
<i>European Advertising Standard Alliance (EASA)</i>	Yes	<i>Katie Carroll</i>	OK
<i>European Federation of Publishers (FEP)</i>	Yes	<i>Céline D'Ambrosio</i>	OK
<i>European Federation of Magazines Publishers (FAEP)</i>	Yes	<i>Max v. Abendroth</i>	
<i>European Newspaper Publishers' Association (ENPA)</i>	Yes	<i>Sophie Scrive</i>	OK
<i>European Publishers Council</i>	Yes	<i>Nicole Schulze</i>	OK
<i>Interactive Software Federation of Europe</i>	Yes	<i>Patrice Chazerand</i>	OK

<i>(ISFE)</i>			
<i>Creative Media Business Alliance (CMBA)</i>	Yes	<i>Voir IFPI</i>	
<i>European Grouping of Societies for Authors and Composers (GESAC)</i>	Yes	<i>Martine Rezzi</i>	OK

<i>CEPI</i>	Yes	<i>Bruno Alves</i>	
<i>European Festival Association (EFA)</i>	No		
<i>Association of European Radios (AER)</i>	Yes	<i>Vincent Sneed</i>	OK
<i>Association Européenne des Entreprises de Restauration du Patrimoine Architectural (AEERPA)</i>	Yes		
<i>ICMP CIEM</i>	Yes	<i>Jenny Vacher</i>	OK

## **Annex 12.**

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The bibliography is a complement to the various sources presented in the study.

Due to the amount of literature available at international, Community, national, regional, trade association and professional organisation level, it is limited.

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