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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Strengths, innovation potential and global competitiveness of the European cultural, creative and audiovisual industries - *Policy debate* *(Public debate in accordance with Article 8(2) of the Council's Rules of Procedure)* *[proposed by the Presidency]*

Following consultation of the Audiovisual Working Party, the Presidency has prepared the attached discussion paper, which is submitted as the basis for the policy debate to take place at the Education, Youth, Culture and Sport Council meeting on 21-22 November 2019.

ANNEX

Strengths, innovation potential and global competitiveness of the European cultural, creative and audiovisual industries

- Presidency discussion paper for the policy debate -

The Digital Single Market strategy aims to create opportunities for both people and business, and to enhance Europe's position as a world leader in the digital economy. The cultural and creative industries (CCIs) and audiovisual industries, in particular, are at the core of the Digital Single Market. The competition context currently faced by these industries is a race with global players, in a landscape that is in constant evolution.

CCIs play a crucial role in the discussions on sustainable competitiveness and innovation potential in Europe. As highlighted by the Council[1], the content-producing and content-distributing sectors, which include content and works from the media (with audiovisual, print and online content) as well as from other cultural and creative sectors, are essential to Europe's social and economic development. Given that they draw on cultural values and cultural diversity - as well as on individual and collective creativity, skills and talent - the cultural, creative and audiovisual industries have immense potential. These industries can generate innovation, wealth and jobs, in particular because they generate non-material value. Cultural, creative and audiovisual sectors build bridges between art, culture, business and technology. They help develop critical thinking and problem-solving skills as well as the ability to take a creative approach towards problems, which are key competences in tomorrow's society.

At the same time, cultural, creative and audiovisual industries are indispensable to a free, democratic European society. They represent a crucial foundation for our democratic system as they do not only provide a stage to express culture, views and ideas, but also access to information and a wide variety of content. Furthermore, they are a vital part of our shared heritage, preserve and promote our cultural diversity, and encourage an appreciation of our common values and identity.

[1] Council conclusions on the strengthening of European content in the digital economy (OJ C 457, 9.12.2018, p. 2).

Currently, audiovisual content is created, distributed and consumed in a way that is increasingly different from the traditional business model that is based on linear consumption. The roles of creator, distributor and consumer have become less distinct and this has led to changes across the whole value chain. The digital shift has seen the rise of new powerful media content players (Internet and mobile platforms, Internet service providers, and more generally, the big tech companies) established outside the EU. From a position of economic and financial strength, these have started to define the rules of the game within the EU market.

The change in market structure is accelerating as the VOD sector, which is dominated by a few global players that are mostly non-European, has been growing at over 40% per year. Given the global scale on which major online platforms operate, this has made it increasingly difficult for content from small markets to be discoverable and to make an impact not only globally but also locally.

In an interconnected world in which interactivity plays a key role in content production, we have seen a **rising demand for new immersive AV experiences, the rapid growth of gaming content, new opportunities for European audiovisual heritage through technology and an increasing role of artificial intelligence in targeting audiences.**

As stated in the new *Strategic Agenda 2019-2024*, 'A strong economic base is of key importance for Europe's competitiveness, prosperity and role on the global stage and for the creation of jobs, and we need to renew the basis for long-term sustainable and inclusive growth and strengthen cohesion in the EU.'

It is essential to discuss how the competitiveness, visibility and innovation capacity of the European CCIs and the audiovisual sector, in particular, can be improved. We need to make sure that we reap the full benefits of their potential for sustainable growth, which is fundamental for the strong economic base that the EU needs. The European Union must be able to shape its own digital future. At the same time, we should be outward looking and aim to increase Europe's presence at a global level. To this end we need to further promote our cultural cooperation, increase our market share and promote Europe's values.

Challenges in the CCIs

The European cultural and creative industries (CCIs) employ 12 million people and create around 5.3 % of total EU Gross Value Added. The CCIs' economic weight is comparable to that of the ICT and the accommodation and food services sectors, yielding over 4 % of EU GDP. Furthermore, the surplus in the EU trade balance for cultural goods indicates an increased demand for EU cultural goods[2].

The digital media sector[3] is a critical component of the growing CCIs in Europe. Digital media is one of the fastest growing sectors in the world[4]. It is estimated[5] that total entertainment and media spending will rise at a compound annual growth rate (CAGR) of 4.4 % by 2022, the strongest segment being e-sports and video games[6].

Despite their growing importance for the European economy and competitiveness in the digital single market, the CCIs and the audiovisual industry face major challenges such as access to funding for R&I and market uptake initiatives[7]. R&I is key to CCIs' ability to create value, while it is by nature the riskiest form of investment.

[2] https://www.eif.org/what_we_do/guarantees/cultural_creative_sectors_guarantee_facility/ccs-market-analysis-europe.pdf

[3] Digital media (DM) sector is a sector that includes all activities linked to cinema, television, news and information, production, distribution and storage of content and video games. (KEA European Affairs: *Towards an integrated vision for the European Digital Media Sector. Mapping of other existing EU programmes targeting Creative and Cultural Sectors in the Audiovisual field,* 31.10.2018).

[4] It is estimated that overall global media spending will rise from $1.6 trillion in 2015 to $2.1 trillion in 2020. Digital spending is expected to account for more than 50 % of overall media spending by 2019, fuelled by the expansion of mobile telephony and the improved ICT infrastructures (*idem*).

[5] https://www.pwc.com/outlook

[6] The video games sub-sector is predicted to be the fastest growing segment of digital media industries, rising from $85.154 million in 2015 to $132.425 million in 2020 (9.2% CAGR). Source: McKinsey & Co, Global Media Report 2016.

[7] KEA European Affairs: *Towards an integrated vision for the European Digital Media Sector. Mapping of other existing EU programmes targeting Creative and Cultural Sectors in the Audiovisual field,* 31.10.2018.

This limit to CCIs' access to funding is compounded by the traditional perception of CCIs as distinct economic sectors that are not interconnected. This "silos" perception locks down investment resources and is limited in terms of sustainability. It does not pool risks and profits for the benefit of the whole CCI sector. This is especially true for the audiovisual and content industries.

Other **gaps that hinder competitiveness in CCIs** include:

- Insufficient knowledge and uptake of technology, which weakens the capacity of the sector to embrace the digital shift and exploit new forms of content creation, promotion and distribution;
- Limited access to data, which are largely owned by major global content platforms, and a lack of transparency with regard to the criteria used by these platforms to classify and promote content;
- Limited scale and capacity to operate across borders, which can translate into weak market share of European content in the international market;
- Insufficient focus on the industry's demands in the arts and higher education;
- Insufficient grasp of new consumption patterns and trends especially among young audiences;
- Lack of investment in developing ambitious production and distribution initiatives with worldwide potential capable of branding European players as a source of quality content;
- The weak market share of European content in international markets.

While some of these problems are sector-specific, many of them also apply to other sectors of European policy. The need to speed up and catch up with global competition is felt in many fields, such as research and innovation, higher education and trade. Even with challenges ahead, Europe can and should adopt a proactive mindset in promoting its competitiveness comprehensively across different sectors.

To promote the competitiveness and cultural and linguistic diversity of the audiovisual industry, the EU has used several instruments, combining legislation, policy support and

funding. In addition to the revised Audiovisual Media Services Directive[8], the legal framework has been modernised by Directive (EU) 2019/789[9], which has also strengthened the promotion of European audiovisual content, as well as by the Copyright Directive[10], which ensures a fair remuneration of rights holders for any use of their works online, without overlooking users' freedom of expression. These three legal acts represent a major step forward in the promotion of cultural content in response to the challenges related to fair remuneration of rights holders, transparency, access to content and the promotion of cultural diversity in the digital environment.

Regulation is important and necessary in order to secure a level playing field. There is a need for a regulatory framework that encourages investment and allows European operators, and in particular through independent European companies, to be able to generate the revenue needed to fund content creation and distribution, in particular through increased transparency on the data owned by major platforms. To remain competitive, European media and audiovisual companies must be able to adopt innovative business models.

However, it is equally essential to investigate and enhance other means of boosting competitiveness and innovation in the European audiovisual sector. In this regard, the Commission has put forward ambitious proposals for the future generation of funding programmes such as Creative Europe, InvestEU and Horizon Europe. These programmes will fund specific support measures to help industry to adapt and seize the opportunities of the new audiovisual landscape. The synergies between the EU Programmes should be further developed, in particular to promote collaboration between content and tech communities.

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[8]Directive (EU) 2018/1808 of the European Parliament and of the Council of 14 November 2018 amending Directive 2010/13/EU on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services (Audiovisual Media Services Directive) in view of changing market realities, OJ L 303, 28.11.2018, p. 69.

[9]Directive (EU) 2019/789 of the European Parliament and of the Council of 17 April 2019 laying down rules on the exercise of copyright and related rights applicable to certain online transmissions of broadcasting organisations and retransmissions of television and radio programmes, and amending Council Directive 93/83/EEC, OJ L 130, 17.5.2019, p. 82.

[10]Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC, OJ L 130, 17.5.2019, p. 92.

Based on recent observations[11], the Presidency believes that solutions at the European level could be found by **enhancing Europe's innovation potential and by promoting cooperation and partnerships**. Creativity is a prerequisite for innovation. To enhance the innovation potential of Europe, creativity could be promoted by investing in skills development and competence building, as well as through cross-innovation and creative ecosystems to attract talent to Europe and retain it. It should be possible for players active in the creative and audiovisual industries to engage in new forms of consolidation, cooperation and alliances in order to address the competitive challenges that Europe is facing.

Creative Europe MEDIA will focus on promoting co-creation, co-distribution and co-promotion in order to help industry to scale up at the European level. In this respect, the Council also recognised the importance of co-productions in promoting Europe's cultural and linguistic diversity.[12]

Research and innovation cut across our whole society, and across different players, sectors and policies. In order to promote innovation across the EU, it is necessary to bring together the drivers of innovation, including the creative industries. It is also important to help dismantle silos between sectors in the interests of benefiting from market developments.

[11] Outcomes of the Conference *Creation, Innovation, Promotion – Competitiveness of the European Audiovisual Industry*, 10–11 September 2019, Helsinki, Finland.
[12] Council conclusions on improving the cross-border circulation of European audiovisual works, with an emphasis on co-productions (OJ C 192, 7.6.2019, p. 11).

The Commission's proposal for a new Knowledge and Innovation Community at the European Institute of Innovation and Technology, dedicated to the Cultural and Creative Industries[13], is an excellent example of promoting cross-sectoral approaches to innovation. Equally, the Creative Innovation Lab under the future Creative Europe programme will support projects drawing on different cultural and creative sectors, which in turn will promote innovative cross-sectoral approaches and tools to facilitate new forms of content, access, distribution, promotion and the monetisation of culture and creativity.

A genuine European strategy for cultural and creative industries needs to span across sectors and be geared towards impact and sustainability so that the sectors can expand together and can make our culture more available worldwide. In addition, a greater cooperation and interconnection between sectors enables stakeholders to benefit more from investment and growth.

In the current phase of institutional transition and in the context of the forthcoming preparation of the comprehensive long-term strategy for Europe's industrial future, the Presidency would like to submit the following questions in view of the ministerial policy debate which will take place on 21 November:

[13] Proposal for a Decision of the European Parliament and of the Council on the Strategic Innovation Agenda of the European Institute of Innovation and Technology (EIT) 2021-2027: Boosting the Innovation Talent and capacity of Europe, COM (2019) 330 final.

- *Which challenges facing the CCIs and more specifically the audiovisual industry do you consider to be the most urgent at both national and European level? What do you consider to be the most important strengths of these industries?*

- *Which actions and policy measures should the EU take as a matter of priority to strengthen its global competitiveness in a sustainable way in the field of audiovisual content creation and distribution?*

In order to give everyone the opportunity to take the floor within the available time, Ministers will be invited to limit their interventions to a maximum of three minutes.