EXECUTIVE SUMMARY – March 2010

BUILDING A DIGITAL ECONOMY: THE IMPORTANCE OF SAVING JOBS IN THE EU'S CREATIVE INDUSTRIES

TERA Consultants – The study was conducted by TERA Consultants, an independent Paris-based consultancy
International Chamber of Commerce/BASCAP – The study was commissioned by the International Chamber of Commerce's BASCAP initiative

EXECUTIVE SUMMARY

Building a Digital Economy : The Importance of Saving Jobs in the EU's Creative Industries

1. OBJECTIVES OF THE STUDY

The production and distribution of works by creative industries, including movies, music, television programmes and software, has been recognised as having a positive effect on economic growth and the creation of jobs. Unfortunately, over the last decade digital piracy (copyright infringement of digital media) has increasingly threatened the economic performance of the industries responsible for these creative works.

For this reason, stemming the rising tide of digital piracy should be at the top of the agenda of policymakers in the European Union and elsewhere. But to make well-informed decisions in this area, policymakers would benefit from understanding the extent of the economic contributions of these industries and of the losses resulting from digital piracy.

In the European Union, previous studies have attempted to define the scope of the creative sector and to measure its economic contributions. Building a Digital Economy : The Importance of Saving Jobs in the EU's Creative Industries, however, is the first EU-based study to measure both the economic contributions of the creative industries and the economic losses due to piracy, primarily digital piracy. This study also differs from earlier research by using a more accurate and comprehensive definition of Europe's creative industries, one that expands the EU definition of core creative industries and also encompasses the economic contributions of non-core creative industries. These non-core creative industries are suppliers to and customers of the core creative industries, and their economic strength is heavily dependent upon the core industries. The study focuses primarily on the effects of digital piracy, which refers to various forms of online piracy, including file-sharing via peer-to-peer (P2P) networks. Digital piracy is growing rapidly and accounts for the majority of economic losses to the creative industries.

2. FINDINGS OF THE STUDY

The study focuses on three questions :

1) What is the contribution of the creative industries to the European economy in terms of GDP and jobs ?
2) What are the consequences of piracy on retail revenue and jobs ?
3) If current policies do not change in the EU, what will these losses be by 2015 ?

The analysis determined the following :

- In 2008 the European Union's creative industries, based on the more accurate and comprehensive definition, contributed 6.9%, or approximately €860 billion, to total European GDP, and represented 6.5% of the total workforce, or approximately 14 million workers.

- In 2008 the European Union's creative industries most impacted by piracy (film, TV series, recorded music and software) experienced retail revenue losses of €10 billion and losses of more than 185 000 jobs due to piracy, largely digital piracy.

- Based on current projections and assuming no significant policy changes, the European Union's creative industries could expect to see cumulative retail revenue losses of as much as €240 billion by 2015, resulting in 1.2 million jobs lost by 2015.

3. METHODOLOGY

This study by TERA Consultants builds upon a wide variety of prior studies and survey results. To measure the economic contributions of the creative industries to the EU economy, the study considers research and statistical data developed or sponsored by EU member nations, by the European Commission and by the World Intellectual Property Organisation (WIPO).

To estimate the impact of piracy in creative industries most at risk (recorded music, film, TV series and software), the study analyses and integrates country-specific and industry-specific survey results in Europe's five largest markets (the UK, France, Germany, Italy and Spain). In gathering the data for this study, the authors relied largely on data relating to digital piracy. In the case of markets in which the transition to digital entertainment is less advanced, the data also reflects residual physical piracy. This study does not quantify direct losses affecting all creative industries. For example, the loss estimates reported here omit the total piracy losses experienced by TV sports broadcasters and sports interests throughout the EU.

To estimate the future effects of digital piracy in Europe, the study analyses industry forecasts of broadband penetration and Cisco System's forecasts of Internet traffic in Europe. These forecasts are combined with TERA's own estimates of the current effects of piracy.

CHAPTER 1

The Contribution of the Creative Industries to the European Economy

The economic contributions of the creative industries are measured by value added to Gross Domestic Product (GDP) and by number of employees.

Differing from previous research in this field, this study combines an expanded, comprehensive definition of "core creative industries" and adds "non-core creative industries" to form a more complete picture of Europe's creative industries:

- The core creative industries have been identified in prior studies prepared on behalf of the European Commission. These core industries manufacture and distribute creative products, including film, television, music, publishing and advertising. The more comprehensive definition used in this study includes relevant sectors such as software and online distribution of content.

- The non-core creative industries convey creative goods and services to consumers and produce products that are consumed interdependently with creative goods. These industries include activities such as the manufacture and sale of hardware (TVs, music-playing devices, etc.) and non-dedicated industries such as transport.

As shown in Tables A and B, the core creative industries in the 27 countries of the European Union were estimated to generate almost €560 billion in value added to GDP in 2008. This contribution was approximately 4.5% of total European GDP in the same year. The value added by the total creative industries (core creative industries plus non-core creative industries), also shown in Tables A and B, was approximately €860 billion in 2008, representing an estimated 6.9% share of GDP.

The creative industries also account for a significant number of jobs throughout Europe. As shown in Table A, employment in the core creative industries in the 27 countries of the EU was approximately 8.5 million in 2008, or 3.8% of total European workforce. Employment in the total creative industries (core creative industries plus non-core creative industries) was approximately 14 million, or 6.5% of the total EU workforce.

Table A – Economic weight of the creative industries in EU27 (2008)

	VALUE ADDED		EMPLOYMENT	
Creative Industries	**VA 2008 (billion €)**	**% of EU VA**	**Jobs (million)**	**% of EU employment**
Core	558	4.5%	8.5	3.8%
Non Core: Interdependent	213	1.7%	4.2	1.9%
Non Core: Non dedicated support	90	0.7%	1.7	0.8%
TOTAL creative industries	**862**	**6.9%**	**14.4**	**6.5%**

Source — *TERA Consultants analysis*

Table B – Economic weight of the creative industries in the main European markets (2008)

	VALUE ADDED (BILLION €)		EMPLOYMENT (MILLION)	
Creative Industries	**Core**	**Total**	**Core**	**Total**
Total EU 27	**558**	**862**	**8.5**	**14.4**
UK	113	175	1.6	2.7
France	95	142	1.0	1.6
Germany	105	162	1.6	2.7
Italy	60	93	0.8	1.4
Spain	40	62	0.7	1.2

Source — *TERA Consultants analysis. Note : 'total' includes core and non-core creative industries*

CHAPTER 2

The Impact of Piracy on the Most Affected European Creative Industries

A principal goal of the study is to evaluate the economic consequences of piracy, primarily digital piracy, on the creative industries.

This study concentrates on retail revenue and job losses experienced by the creative industries that are most impacted by piracy, namely those that produce and distribute films, TV series, recorded music and software. The study also measures retail and job losses in the five largest EU markets (the UK, France, Germany, Italy and Spain), which collectively represent approximately 75% of European GDP. In gathering the data for this study, the authors relied largely on data relating to digital piracy. In the case of markets in which the transition to digital entertainment is less advanced, the data also reflects residual physical piracy.
Table C shows that approximately €10 billion and more than 185 000 jobs were lost in Europe in the selected creative industries due to piracy in 2008.

Table C – Piracy-driven losses in Europe to creative industries (2008)[1]

	Retail losses (billion €)	Job losses
Total EU 27	**9.9**	**186 400**
UK	1.4	39 000
France	1.7	31 400
Germany	1.2	34 000
Italy	1.4	22 400
Spain	1.7	13 200

Source — *TERA Consultants analysis*

[1] **Losses refer to recorded music, movie, TV and software industries.**
For the TV industry, the assessment is limited to TV series.

CHAPTER 3

The Economic Impact of Piracy in Europe by 2015

In coming years, growth in broadband penetration and the ongoing digitalisation of creative industry products will accelerate, while physical piracy will represent an increasingly smaller share of overall piracy.

Without sustained and effective action, these trends will facilitate the continued expansion of digital piracy in Europe. This study provides two scenarios of estimated piracy-driven losses looking forward to 2015, both based on Cisco System's Internet traffic forecasts and assuming that no measures are taken to address piracy.

In Scenario 1, the assumption is made that digital piracy activity will grow in line with file-sharing traffic, thus providing a conservative estimate of losses. From 2008 to 2015, file-sharing traffic in Europe is expected to grow at an annual rate in excess of 18%. If the losses from digital piracy were to grow at this rate, the result would be revenue losses in recorded music, film, TV series and software of approximately €32 billion in 2015 (Table D). Absent significant changes in government policies, and given the rise in piracy losses year on year, this means jobs lost in one year are not expected to return, thus resulting in incremental job losses in the sector. This will mean job losses in the EU will reach approximately 610 000 by 2015, up from slightly more than 185 000 in 2008.

Table D – Piracy losses in Europe, 2008 to 2015 – "File sharing" trend scenario

	2008	2009	2010	2011	2012	2013	2014	2015
Retail losses (billion €)	10	12	15	19	22	26	30	32
Cumulative job losses	186 600	227 500	276 900	351 500	422 400	491 800	555 700	611 300

Source — *TERA Consultants analysis*

In Scenario 2, the assumption is made that digital piracy growth will follow global consumer IP traffic trends in Europe (i.e., communications made via the Internet Protocol). This scenario includes online streaming activity as well as file-sharing, thus providing an upper limit of the impact of digital piracy.

From 2008 to 2015, consumer IP traffic is expected to grow at a rate in excess of 24%. If digital piracy in Europe were to mirror this rate of growth, the result would be losses in the recorded music, film, TV series and software industries of €56 billion in 2015, up from approximately €10 billion in 2008. Absent significant changes in government policies, and given the rise in piracy losses year on year, this means jobs lost in one year are not expected to return, thus resulting in incremental job losses in the sector. This will mean job losses in the EU will reach 1.2 million by 2015, up from slightly more than 185 000 in 2008 (Table E).

Table E – Piracy losses in Europe, 2008 to 2015 – "Consumer IP traffic" trend scenario

	2008	2009	2010	2011	2012	2013	2014	2015
Retail losses (billion €)	10	13	17	24	32	40	48	56
Cumulative job losses	186 600	253 800	345 000	490 200	655 100	834 800	1 027 000	1 216 800

Source — *TERA Consultants analysis*

About TERA Consultants

The "Building a Digital Economy : The Importance of Saving Jobs in the EU's Creative Industries" study was conducted by TERA Consultants. TERA Consultants is an independent consultancy firm providing services in the field of ICT and combining the expertise of economists and engineers. Patrice Geoffron, Professor of Economics at Paris-Dauphine University, has been the director of the study.

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About International Chamber of Commerce/BASCAP

Recognising that the protection of intellectual property rights is vital to sound economies, the International Chamber of Commerce (ICC) established BASCAP - Business Action to Stop Counterfeiting and Piracy - to increase awareness of counterfeiting and piracy activities and the associated economic and social harm and call for greater commitments by governments in the enforcement and protection of IPR. The study was commissioned by BASCAP initiative with the aim to advance the development of methodologies to better understand the vitality of Europe's creative industries – and what is at risk.

www.iccwbo.org/bascap

An ICC initiative
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