

# **CREATING A NEW WORLD VIEW**

**Priorities for the UK's creative industries following  
the decision to leave the EU**

**A paper for Government by the Creative Industries Council**

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## 1) EXECUTIVE SUMMARY

The creative industries are critical to the UK's economy and the lives of its communities. They drive the digital economy and are an engine of economic growth, generating over 5% of UK GVA (£87bn in 2015)<sup>1</sup>. They play a key role in shaping the UK's international reputation and influence. They have shown one of the fastest growth rates of any industrial sector – three times as fast as the wider economy<sup>2</sup> - and their value spreads well beyond these industries into the wider economy. The creative industries are thus vital to the UK's industrial strategy, and to its future growth and competitiveness.

In July 2016, the Creative Industries Council (CIC) published “Create Together”, which set out a shared vision for the future growth of the industries, based on collaboration between industry and government. Following the June referendum, the CIC was asked by the Government to identify the creative industries' key priorities for the UK's future relationship with the EU, and to make recommendations on how the Government can address the key risks and opportunities for this key sector arising from the decision to leave. This paper has been developed in working groups chaired on behalf of the Council by John McVay of PACT and Harriet Finney of the Creative Industries Federation, and has involved widespread consultation with the creative industries including, among others, with companies and associations that are members of organisations directly represented on the CIC.

Our creative industries operate in a highly competitive global environment. The rapid growth of the digital economy around the globe has transformed business models and created unprecedented opportunities for international trade, inward investment and exports of our creative product across the world, as well as leading to increased competition for talent and consumers. The creative industries are already responsible for nearly a tenth of total UK service exports and have been growing their exports rapidly in recent years<sup>3</sup>. In the future, the EU will continue to be a key market for the creative industries, but with some 57.5% of our service exports already going to non-EU countries<sup>4</sup>, we also see major opportunities to expand our trade across the globe.

Productivity in the UK's creative industries is better than the EU average and has been growing in recent years. We see opportunities to improve further the productivity of our industries over the coming years: many of the issues covered in this paper have a direct bearing on the key drivers for achieving this.<sup>5</sup>

Beyond their economic impact, our creative industries also play a powerful role in bringing people together, and building connections within and between communities. Their products are valued by people of every age, from all walks of life and from all parts of the UK. Many of our best creative works tell stories which reflect and resonate with the desires and concerns of people from an extraordinarily diverse range of backgrounds and perspectives. They help to generate a shared bond of enjoyment and understanding, fostering a greater sense of trust, inclusiveness and common interest across different parts of society.

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<sup>1</sup> DCMS Sectors Economic Estimates, August 2016

<sup>2</sup> *ibid.*

<sup>3</sup> *ibid.*

<sup>4</sup> *ibid.*

<sup>5</sup> see, for example, Understanding the Future of Productivity in the Creative Industries, SQW, April 2016

We have the opportunity over the next few years to consolidate and grow the UK's position as a truly global centre for the creative industries, at the heart of the world's digital economy. We aim to go from strength to strength, extending our reach into new markets with world-class creative content, services and talent. With the right approach, we can lay the foundations for continued sustainable growth and improved productivity in the UK, further increasing the contribution of our sector to the domestic economy and strengthening the UK's image abroad.

With the right policies in place, our industries will not only continue to grow, but will be further strengthened by having greater social and geographic diversity. This will bring benefits to individuals and communities across all of the nations of the UK. In particular, it will mean ever greater opportunities for people from all backgrounds who want to develop their creativity, skills, and their artistic and cultural talent, to find work in our sectors which is both emotionally and materially rewarding, and enables them to fulfill their potential.

In order to achieve this vision, action is needed in order to:

- secure continued access on favourable terms to EU markets, so that the UK can sustain and build on its success as a hub for Europe's creative industries,
- secure the supply of skills and talent, both through effective domestic investment and a reformed migration system which enables the UK to attract and retain key talent from around the world,
- support the domestic growth and productivity of our industries and the opening up of wider international markets, to provide a platform for future success on the global stage,
- ensure that the current benefits of EU funding to the creative and cultural sectors are at least maintained,
- place the creative industries firmly at the heart of the industrial strategy for the UK and each of its nations.

The decision to leave the EU will inevitably bring significant change to our relationships with the rest of Europe and the world. There are certainly risks to this: without concerted action, the UK's position as an international centre for the creative industries could be seriously undermined, with businesses seeking to locate elsewhere, and key skills shortages and gaps becoming harder to fill, leading to significant losses of revenue and jobs. However there are also clear opportunities: we firmly believe that, if the recommendations in this paper are followed, our creative industries are well placed to make a major contribution to the future growth of the UK economy and to take advantage of new relationships with both Europe and the rest of the world, to the benefit of people and businesses throughout the UK.

Achieving these goals will require Government and industry to work closely together. All parts of the creative industries look forward to working in partnership with Government, in order to secure the right outcomes for our sectors, the wider economy, and the British public.

## *Note on data*

The official definition of the creative industries has been established by Government in consultation with industry, based on Standard Industrial Classification Codes, and is used in Official Statistics published by DCMS<sup>6</sup>. However the use of this definition is not currently consistent across Government. In order to ensure that we have the clearest possible evidence base on the impact of the issues and measures set out in this report, it is important that all sector-based datasets published across Government include breakdowns for the creative industries as officially defined.

## *Summary of Recommendations*

This paper contains a series of recommendations for focused action in a number of key areas to address both the risks and opportunities presented by the UK's decision to leave the EU. These include key issues for Government to prioritise in negotiating the UK's future relationship with the EU; proposals for building access to, and trade with, non-EU markets; and priorities for action within the UK to enable the future growth of our industries.

Action in all of the areas below should be started immediately. However timeframes for completion will vary. Some are particularly urgent and could have an impact over the next few months; others should be taken forward as part of, or alongside, negotiations on the UK's future relationship with the EU; and a third group are for work towards implementation after the UK has left.

In summary, the key proposals are:

### ***Short term – urgent actions with early impact***

- **We should immediately establish a Government-industry partnership to tackle trade barriers and open up access to priority markets outside the EU.** While full trade agreements are likely to take some years to conclude, it should be possible to start making progress through international dialogue and cooperation in the short term. We should commit to making strong protection of IP rights a red line in future bilateral trade agreements, and ensure that we retain scope for continued public support for media and creative sectors
- **The UK should engage proactively with ongoing negotiations on the Digital Single Market,** a series of proposals on copyright, media regulation, data and other issues which will have a major impact on the future prospects for our industries in Europe
- **The Government should confirm as a matter of priority that EU nationals currently employed in the UK will be able to stay.**
- **The Government should affirm its commitment to:**

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<sup>6</sup> see Economic Estimates of DCMS Sectors Methodology, DCMS, August 2016

- **maintaining creative industry tax reliefs, at least at current levels, while considering the case for expansion where supported by evidence, and**
- **maintaining the strength of the core intellectual property regime currently in force, and to securing industry cooperation to reduce online copyright infringement**
- **Government and industry should develop a joint action plan for an education and careers system that provides an urgent focus on the fusing of science (including computer science) and creative teaching in schools through STEAM (Science, Technology, Engineering, Arts and Maths), increasing uptake of creative courses and universal access to high quality careers information and guidance.**
- **The Government should take steps to ensure that the new apprenticeship and technical education policies work to increase and broaden opportunities in the creative industries, and should remove disincentives to investment in the training of freelancers.**
- **The Government should continue to strengthen the links between higher education and creative industry employers, particularly in areas of practice-based education that are specific to occupations in our industries, including through making the new Teaching Excellence Framework and its measurement more relevant for courses linked to the creative industries.**

***Medium term – to start work now, for resolution before the UK’s exit takes effect***

- **The UK should ensure that access to the EU market for the creative industries in respect of services is retained without the imposition of non-tariff barriers.** As a key part of this, the UK should look to maintain inclusion in the EU “country of origin” framework for regulation of audiovisual media services – while protecting the territoriality of IP rights for the UK - and ensure continued free flow of data with EU countries. It is also important that the current definition of European Works is retained in EU law, ensuring that UK-originated content continues to count towards broadcasting and video-on-demand quotas.
- **The UK should secure reciprocal retention of freedom to invest in, and secure investment from, EU businesses** to enable the UK’s continued growth as a centre from which to build international businesses in the media and other creative industry sectors.
- **The Government should commit to future UK/EU cooperation on intellectual property issues, particularly on action to reduce online infringement and the proliferation of counterfeit goods.**
- **The UK should secure continued ease of movement between UK and EU countries for time-limited activities, such as concert tours and film production.**
- **The UK should retain tariff-free access to the EU market for goods.**

- **The Government should enhance bespoke support for creative industries exports**, ensuring that it is firmly industry-led.
- **The Government should quantify the total benefits to the creative and cultural sectors from EU funding sources and ensure that these are at least maintained following the UK's exit.**
- **Government should work with industry to develop focused business and investment support programmes, which are sensitive to the specific needs and growth potential of creative businesses across the UK.** In particular, we recommend that Government should look to establish a new access-to-finance support scheme for investment in growth of creative industry SMEs.
- **The Government should ensure that public interventions support the widespread availability of affordable, high-speed broadband networks, which are especially critical for creative and tech businesses, particularly in areas where those businesses cluster.**
- **The UK should commit to further “cities of culture” initiatives.**

***Long term – preparation now for full implementation after the UK's exit from the EU***

- **The Government should reform the migration system to enable easy access to critical skills and talent from both EU and non-EU countries**, including a review of the shortage occupation list in the light of our exit from the EU.
- **The Government should commit to continued funding for R&D post-exit, with a focus on high-innovation sectors and continued scope for domestic and transnational partnerships, preferably including a continued association with Horizon 2020.**
- **The UK should look to maintain participation in Creative Europe, alongside other non-EU partners** given its effectiveness, particularly for cultural exports, to the UK as a net beneficiary. If this is not possible, equivalent funding should be redirected for similar purposes within the UK.
- **Once the terms of exit are clear, following the repeal of the European Communities Act, the Government should conduct a systematic review of EU-based regulation with a view to reducing or improving regulation where possible, in the interests of businesses and consumers**, and we should take the opportunity to strengthen the UK's voice and influence in international forums such as the World Intellectual Property Organisation.
- **The Government should explore the scope to improve the impact of creative sector tax incentives.**

## 2) CONTEXT: THE IMPORTANCE OF THE CREATIVE INDUSTRIES

The creative industries encompass a diverse range of sectors, from fashion and design to TV and film; from music and the performing arts to advertising, publishing and games. The publicly supported arts are also a key part of the creative industries and help to underpin the wider creative economy. Structural and economic conditions, consumer relationships and career paths vary across these sectors. However they share a number of important characteristics, which means that there is a large degree of common interest in the future direction of the UK's relationship with the EU and the rest of the world:

- their business models are fundamentally based on the creation and monetisation of intellectual property, particularly creative works covered by copyright
- they are highly dependent for success on skilled creative talent, for which there is increasingly strong global competition. Over half of those employed in the creative industries are in creative occupations: 25 times more, proportionately, than in the rest of the economy<sup>7</sup>.
- they include a very high proportion of small businesses. In 2014, nearly 90% of businesses in the creative industries had fewer than 5 employees.<sup>8</sup>
- the activities and creative works which they produce are of major cultural and social, as well as economic, importance

### *Economic contribution*

The creative industries are a vital and growing sector of the UK's economy. They play a major role in people's lives across the country, and are at the heart of our relationship with the rest of the world. In an increasingly competitive global environment, our creative industries are seen as a worldwide centre of excellence and we are therefore well placed to take advantage of the opportunities offered by international markets, within the EU and beyond.

The creative industries together make a substantial contribution to the UK economy, with proven growth potential. In 2015 they contributed over £87 billion to the UK economy – 5.3% of total UK GVA, employing some 2m people. This represents 7% growth since 2014, compared to 2.3% for the economy as a whole. Indeed, since 2010, the creative industries have grown at twice the rate of the economy overall.<sup>9</sup>

UK creative businesses are major exporters to both EU and non-EU countries, responsible for £19.8bn of service exports in 2014, or 9% of the UK's total - an 11% increase on 2013, compared to 2% growth for the whole economy. Overall 57.5% of exports from these sectors went to countries outside the EU (compared to 49.1% for the economy as a whole). In the same year, UK creative industries received around £8.7 billion in imports, 44.5% of which came from within the EU (compared to 47.8% of all UK service imports)<sup>10</sup>.

The UK is seen as a European, and indeed global, hub for many of the creative sectors, and is therefore well placed to grow trade with, and attract investment from, countries both

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<sup>7</sup> A Dynamic Mapping of the UK's Creative Industries, Nesta, January 2013

<sup>8</sup> DCMS Sectors Economic Estimates, August 2016

<sup>9</sup> *ibid.*

<sup>10</sup> *ibid.*



within and outside the EU. The UK is one of the top two destinations for media and entertainment investment in the world<sup>11</sup>, with many multinational players choosing to base their European headquarters here. We are one of the world's major centres for TV and film production and for advertising, and are home to the second largest design sector in the world. We have a globally successful games industry, with almost 2000 companies based around the country, responsible for developing some of the world's best sellers including Grand Theft Auto and the Lego series, and we employ more people in the mobile games sector than any other European country<sup>12</sup>. In 2015, one in six music albums sold across the world were by British artists and five of the top ten global recording artists were British<sup>13</sup>. In 2015, films made substantially in the UK grossed \$9.4 billion worldwide.<sup>14</sup>

The UK's track record of investment in the publicly supported arts, through both grant-in-aid and the National Lottery, has played a crucial role in underpinning the wider creative economy, among many other social and cultural benefits. Publicly funded organisations offer important training opportunities, nurture talent and build audiences for creative work. This investment acts as a seedbed for creative talent, whether that is the Scottish Arts Council funding that enabled JK Rowling to write Harry Potter, or the funding of our national museums and galleries which inspire up-and-coming artists and keep the UK at the centre of the world art market.<sup>15</sup>

Our creative industries therefore start from a strong base, with a successful track record of growth and international trade over recent years. They show a substantial balance-of-trade surplus. The EU is, and will remain, a crucial market for our creative sectors but they already do a greater proportion of their trade with non-EU countries than do other sectors of the economy. Nevertheless, in a global market estimated to be worth well in excess of \$2 trillion annually – surpassing the entire GDP of India - and employing over 30 million people<sup>16</sup>, there are significant opportunities for further growth over the coming years.

### *Importance to people's lives*

Our creative industries also play a vital role in the wider life of the nation and its people. Creative works, from music to film, TV, radio, fashion, arts and crafts, enrich people's lives in many different ways, and can reflect and resonate with peoples' experiences of life in all parts of the UK and its diverse communities. Creative works of all kinds are central to our children's education, and our design and architecture shape the physical environment in which people live.

The creative sectors provide many opportunities for people to develop talent and skills, whether as local role models or world stars. They have a huge role to play in promoting diversity, both through the direct opportunities they offer to people to develop their talents, and through the role they can play in bringing people together and making connections

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<sup>11</sup> Media and Entertainment Capital Confidence Barometer, Ernst and Young, May 2016

<sup>12</sup> Mobile Games in Europe, Deloitte, September 2015

<sup>13</sup> Measuring Music 2016, UK Music, September 2016 and BPI

<sup>14</sup> BFI figures, published March 2016

<sup>15</sup> How Public Investment in Arts Contribute to Growth in the Creative Industries, Creative Industries Federation, July 2015

<sup>16</sup> Cultural Times, The First Global Map of the Creative and Cultural Industries, Ernst and Young, December 2015 (figures are for a smaller group of industries than UK definition – does not include software or design).

between communities. “Create Together” set out a number of concrete commitments from the industry to further develop diversity and open up opportunities across the industry, which we are now pursuing.

### *Image of UK abroad*

Our creative industries also play a key role in shaping the UK’s image and reputation abroad. Our creative products are acclaimed and celebrated across the world, from iconic architecture such as the London 2012 Aquatics Centre, the Eden Project in Cornwall and the restoration of the Reichstag in Berlin, to major films such as Paddington and Star Wars, TV dramas – Downton Abbey, Sherlock, the Night Manager - global music stars such as Ed Sheeran, Coldplay and Adele and our ground-breaking advertising which has won more European (Cannes Lions) awards than any other European country. The content, designs and products which our industries create, shape the UK’s image abroad fueling the visitor economy and business investment. This has been recognised in the Government’s GREAT Campaign, which has been successful in promoting Britain as a destination and trade partner and is built around the successes and icons of the creative sectors – as well as itself being a product of them.

### *Integral to the wider economy*

The creative industries are also important to the wider economy. Many other sectors either have a direct dependence on creative businesses through their supply chains or draw heavily on the creative skills and talent which they develop.<sup>17</sup> For example, industries such as automotive and defence have a high reliance on design and STEAM skills; the construction industry is clearly dependent on architects, and advertising is a core activity for almost every sector. In addition, the digital distribution of cultural and creative content is a major driver for sales of consumer electronics and communication devices, from connected TVs and DVD players to smartphones, games consoles, tablets and e-readers, and for the take-up of broadband and other distribution technologies.

The wider creative economy – the creative industries plus those in creative occupations in other sectors – is responsible for over 8% of total UK GVA, and has grown at twice the rate of the economy overall (2014 figures)<sup>18</sup>.

A healthy future for the creative industries is therefore a critical factor in securing the future health and development of the UK economy as a whole.

### *Productivity as well as growth*

There is a high correlation between the issues identified in this paper and the drivers of improved productivity within the creative industries. Current productivity in the creative industries is around average for the UK economy, and better than the EU average, and has been growing in recent years. The structure of the sector, with a high proportion of small firms and project-based work presents particular challenges: support for innovation,

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<sup>17</sup> see, for example: Creating Innovation, Nesta, February 2008; Creative Credits, Nesta, June 2013

<sup>18</sup> Creative Industries Economic Estimates, DCMS, January 2016

access to finance, and a strategic, coordinated approach to skills and training are all key factors for improving future productivity, alongside headline growth in the industry<sup>19</sup>.

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<sup>19</sup> see, for example, Understanding the Future of Productivity in the Creative Industries, SQW, April 2016

### 3) PRIORITY AREAS

#### i) **Maintaining and building access to international markets**

The CIC urges Government to seize the opportunity to place the creative sector at the forefront of its global trade policy.

The UK is already a major international centre for the Creative industries. We are market leaders in many areas: for example the UK is the second largest exporter of TV material in the world, after the USA, with annual exports of £1.2 billion<sup>20</sup>. Our balance-of-trade surplus for the advertising industry is the biggest in Europe, with annual exports worth over £4 billion.<sup>21</sup> The video game Grand Theft Auto V, developed in Scotland, is the largest entertainment franchise of any medium, generating \$1 billion in global revenues in just three days following its release<sup>22</sup>. The UK is also an inward investment hub for Europe (see separate section below).

#### *The EU is a key market*

As outlined above, the EU is a key market for our creative industries, responsible for some 42% of their service exports (£8.4 billion) in 2014. It is also a major destination for goods – for example some 70% of textile and apparel exports go to Europe (£5.8 billion in 2014) and Europe remains the most important export market for physical publications.

The UK is Europe's most successful centre for the media, audiovisual, advertising, architecture and games industries. An unrivalled number of multinational broadcasters base their global operations here. A large number of US media and film businesses have chosen to establish their European (or EMEA) headquarters in the UK. Many multinational advertising agencies create European campaigns from their bases in London and we are home to the European HQs of global video games publishers such as Sega and Activision. At the same time, UK players are themselves building global businesses of scale out of bases in the UK. This is increasingly critical as scale and global reach become more important for businesses competing in a globalising sector. For example, in the broadcasting sector, Sky is rapidly expanding its pay TV business in the EU with major acquisitions of Sky Deutschland and Sky Italia; and ITV has been expanding in content production in both the US and continental Europe – most recently via the acquisition of Talpa in Holland, owners of the Voice entertainment format.

This investment and expansion by major players brings benefits across other parts of the creative industries, helping businesses to build critical mass by increasing opportunities for film and TV production companies, performing arts, studios and advertising companies among others.

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<sup>20</sup> UK Television Exports, FY 2014/2015, TRP Research, 2015

<sup>21</sup> Advertising Pays 4: Export Value and Global Impact, Advertising Association/Credos, April 2016

<sup>22</sup> news release, Take Two Interactive Software, September 2013

## *Growth potential in global markets*

The creative industries are well placed to take advantage of opportunities in markets beyond the EU. We have a strong base on which to build, with 57.5% (or £11.4 billion) of our service exports already going to countries outside the EU<sup>23</sup>. Underpinning the economic strength of our industries are a number of inherent, resilient advantages including our language, culture, technical and craft skills, world-class specialist educational institutions, and well-established business of all sizes. These combine to make the UK industry and its products highly marketable abroad.

There are substantial further growth opportunities across the world, particularly in China and elsewhere in Asia and Latin America, where audiences are increasingly engaging with UK-produced creative works. For example, the Chinese consumer market for audiovisual content is forecast to grow by more than £13.5 billion between 2015 and 2020, outpacing both the UK and the US.<sup>24</sup>

The UK's strong global position has been founded in part on our membership of the EU single market, which has enabled companies to use the UK as a base for growth across Europe and beyond. Continued ease of access to the EU market is critical for the sustainability of our international position and future growth of our industries. Any significant restrictions would risk major revenue loss and investment flight abroad to other territories within the EU.

In 2014, the CBI recommended that the UK should aim to be a leading exporter across all areas of creative content by 2025 and called on Government to “be prepared to use its influence to push for measures in foreign markets that make them receptive to British content.”<sup>25</sup> However, we now no longer have either the need or the luxury of treating creative sector trade as a matter of long-term vision. We should act now to put in place a trade agenda explicitly aimed at sustaining and growing creative sector trade and investment.

The UK's exit from the EU thus offers an opportunity to build on our success to date if we can use it to both:

- retain access to EU markets on favourable terms, securing the UK's position as an international hub; and
- enhance our access to wider global markets, through opening up trade with priority third countries.

## **Priorities for action**

### *Future relationship with the EU*

#### ***Retain access to the EU market for the creative industries in respect of services, without the imposition of non-tariff barriers***

The EU has historically excluded the audiovisual and wider cultural sectors from trade negotiations with third countries. It is critical that reciprocal access to these markets is not

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<sup>23</sup> DCMS Sectors Economic Estimates, August 2016

<sup>24</sup> IHS Markit forecast (includes cinema, home entertainment, online movies, online and pay TV)

<sup>25</sup> The Creative Nation, CBI, January 2014

excluded from the UK's relationship with the EU post-exit, as it would be for example if we were simply to end up trading with the EU under the default WTO rules. The EU would then be able to impose discriminatory provisions on the UK, particularly with regards to the audiovisual sector, under the exemptions it has carved out for these areas from the "Most Favoured Nation" requirements. Non-tariff barriers, which can encompass discriminatory requirements, professional licensing restrictions (for example affecting architects) or legislation of all sorts which inhibit or restrict market access, are a particular issue for most of the creative sectors which predominantly trade services rather than goods. This could be a particular challenge for the UK because of our substantial surplus in creative industry exports (unlike in many areas of goods). Given the EU's policy approach to the creative industries, continuing to trade without non-tariff barriers would not pose a threat to the unique combination of commercial and public intervention which underpins the UK's creative industries and the benefits they provide for British consumers.

### **Secure reciprocal retention of freedom to invest in, and secure investment from, EU businesses.**

This is vital to enable the UK's continued growth as a centre from which to build international businesses, we should agree to For example, in a media market that is globalising fast, it is important for major UK businesses to be able to continue to buy businesses across Europe and more widely without restriction or disadvantage (and vice versa).

### ***Retain tariff-free access to the EU market for goods***

Many creative businesses export substantial amounts of goods to the EU. For example, physical sales of books to Europe accounted for some 36% of the £1.2 billion worldwide total in 2015<sup>26</sup>. Imports of goods are also important: for example most film and music DVDs and CDs are manufactured elsewhere within the EU. Any new tariff barriers would therefore increase costs for businesses and prices for consumers.

### ***Maintain inclusion in EU "country of origin" framework for audiovisual media services licensed in the UK***

The EU's "country of origin" regime for audiovisual media services is critical to the UK's status as Europe's media hub, since it allows media companies operating across the EU to be regulated in just one member state. According to Ofcom, of all the broadcasting licences granted to channels across the European Union, more than half (1,100) are granted by Ofcom in the UK, and half of these (650) are for "non-domestic channels" that are broadcast from the UK to other countries. This is a critical factor in the development of the £10bn UK media sector, and drives investment in other areas: for example investment in first-run UK content by the "multichannel" broadcasters (ie. beyond the main public service broadcasters) has grown by 50% over five years to over £600m per annum.<sup>27</sup> There are also a number of channels – believed to be over 60 – which broadcast into the UK from other EU countries, including France, Germany and the Netherlands, and depend on the UK's recognition of their home market licences.

Retention of the "country of origin" principle should be a critical priority for the UK. This is likely to mean continued compliance with EU minimum standards for media regulation, including on provisions for European works, protection of minors and advertising. However these are already incorporated into UK law and the cost is small compared to the risks of losing our guarantee of access to the EU market. The alternative of relying on the

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<sup>26</sup> PA Statistics Yearbook 2015, Publishers' Association, May 2016

<sup>27</sup> COBA 2014 Census, Oliver & Ohlbaum Associates Ltd, June 2014

Council of Europe's Transfrontier Television Convention would provide some assurance of access to some, but not all, parts of the EU market and only for a more narrowly defined range of services focused on broadcast TV.

### ***Engage actively with ongoing negotiations on the Digital Single Market***

The creative industries are increasingly operating in and reliant on the digital world, in all parts of the value chain from distribution, development and production techniques to data, skills and innovation in business models. Broadcasting has been wholly digital for several years now. Video on demand and music streaming services are steadily reaching more and more consumers. The worldwide games market already reaches 1.6 billion consumers worldwide and is expected grow by 8% annually over the next five years.<sup>28</sup>

The EU is currently considering a range of proposals aimed at developing the Digital Single Market (DSM). The outcome of these negotiations will be critical for the UK and its future trading relationship with Europe, whether or not individual proposals apply directly to us after we have left. The UK has been a supporter in principle of the DSM, which could bring significant benefits to UK-based creative businesses. However, without active UK involvement, there is a risk that new legislation could have a detrimental impact on the UK's interests and future trade with EU countries. We therefore urge the Government to continue its proactive engagement with key dossiers under live negotiation, while the UK is still at the table. Specific current priorities are:

*Revised Audiovisual Media Services Directive:* As well as confirming the future of the "country of origin" regulatory principle, it is critical that the current definition of "European Works" – which covers programmes made in all Transfrontier TV Convention countries – is retained. This will mean that UK-originated content will continue to count towards broadcasting and video-on-demand quotas when exported to the EU, avoiding a potentially damaging non-tariff barrier.

*Draft Directive on Online Sale of Digital Content:* The UK has been a pioneer in providing consumers with specific rights in relation to the purchase of online content. The EU proposal is an attempt to harmonise rules in this area. However the proposals risk working against consumers' interests through excessive restrictions, for example in relation to free content, which would inhibit innovation and result in increased costs and reduced quality of experience. As a centre for innovation, the UK's continuing influence in negotiations will be crucial.

*New Copyright legislation:* This will be important in shaping future international cooperation on the protection of intellectual property and determining whether we can preserve the freedom to optimise distribution of UK works by continuing to be able to license them on a country-by-country basis. See separate section below.

### ***Maintain free flow of data between UK and EU***

Data is of fundamental importance to the creative industries operating in a digital economy, particularly as they rely increasingly on digital distribution and online relationships with and between consumers. The ability to collect data in a responsible and legally compliant way, and use it to develop new business models and continuously enhance consumers' experiences is a key driver of innovation, growth and competitiveness in the creative sectors. For example, data flows between players, games companies and platforms are intrinsic to the operation of games as a service and the

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<sup>28</sup> Video Games and Brexit negotiations, Ukie, September 2016

provision of the diverse kinds of experiences which players demand. The success of games companies and other creative businesses has relied on the ability to move data responsibly across national borders, particularly within the EU.

The UK's exit from the EU may well offer the opportunity for the Government to consider whether domestic data protection laws should be modified. However, for the UK's digital, creative content and service businesses to remain competitive, it is important that we retain the ability to exchange data with European countries responsibly and without onerous restrictions as part of our new relationship with the EU.

### *Future relationship with rest of world*

#### ***Establish a Government-industry partnership to tackle trade barriers and open up access to priority markets***

We should establish a joint strategy to identify, and minimize or remove, key barriers to trade beyond the EU. There may be opportunities to put action in hand now to improve access to China and other priority markets, through international dialogue and cooperation ahead of full bilateral trade agreements, which are likely to take some years to negotiate. We recommend that the overall strategy should be industry-driven.

Key areas to be addressed will include:

- Non-tariff barriers, including excessive discrimination against, or even censorship of, foreign works in domestic distribution channels; potential discrimination against foreign online content and services; burdensome establishment requirements making it particularly difficult for small businesses wishing to supply services across borders; and insufficiently strong intellectual property protection.
- Tariff and goods barriers, including maintaining and extending coverage of zero tariffs on carrier media such as CDs, DVDs and digital cinema packages; preserving the ability to use encryption technologies to protect creative works against theft; and reducing complexity, bureaucracy and cost associated with moving goods through customs.

Our July strategy recommended that China and Brazil should be the top priorities for “alliance” work, establishing forums for business and policy-makers to address obstacles to trade together. China, in particular has a huge and fast-growing potential audience for UK creative sector exports (as noted above) but also significant issues to be addressed in order to enable the opportunities to be realised. These include the need for greater fairness and transparency in the regulatory environment, for greater disciplines on state-owned enterprises, and particular concerns around copyright protection and enforcement. There is also a need for better local market intelligence for UK creative SMEs.<sup>29</sup>

Other countries which the Council has identified as “tier two” priorities are: South Korea, Russia, India, UAE and Japan, with an additional focus on building up clusters of UK creative firms in EU and US hub locations. Latin America is also a fast growing market – particularly Mexico – and therefore worth pursuing in addition to these countries.

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<sup>29</sup> Crossing the River by Feeling for Stones, Nesta, June 2012



The Government, working with industry, should use a range of trade policy tools to promote creative sector interests, including trade agreement requirements, bilateral/regional dialogue and cooperation, issue-specific intervention with trading partners and capacity-building programs. The Government could look to work with the US (and other countries) on key issues where there are shared interests.

The Creative Industries' Council's International Working Group has set up project groups to look in more detail at international policy and accelerating SME exports and we look forward to working further with Government on these issues over the coming months.

***Retain scope for continued public support for media and creative sectors within new trade deals***

As noted above, large parts of the creative industries have historically tended to be excluded from EU trade negotiations. While countries other than the UK have been particularly active in advocating this “cultural exception”, there have also been some key benefits to the UK. For example, it enables the public policy interventions that support our highly successful public service broadcasting system, which is the envy of the world. It also enables a range of other interventions to support UK creativity, arts organisations and creative businesses. As described above, we are keen that that the UK pursues action to open up access to non-EU markets for our sectors. Nevertheless it is important that any future trade deals do not erode our ability to maintain the unique combination of commercial and public intervention which underpins the creative, economic and cultural value of our industries and the choice they offer to UK consumers.

*Within the UK*

***Enhance bespoke support for creative industries exports***

The Government should prioritise export support for the creative industries, building on the joint strategy published in 2014.<sup>30</sup> Government support is vital in helping businesses, particularly smaller businesses, to build connections with, and profile in, overseas markets. However Government's role should be in facilitating rather than delivering services directly. There is scope to place industry more firmly in the lead of the export drive through greater delegation to industry bodies with sector-specific expertise, giving them flexibility to focus activities where they will have most impact, within a clear framework of targets and accountability.

Current EU rules place limits on direct export support, for example for some trade fairs, which can act as a brake on opportunities to promote UK brands and businesses. The Government should consider the scope for improving the breadth and level of activities which can be supported, once the terms of the UK's exit are clearer.

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<sup>30</sup> UK Creative Industries International Strategy, UK Trade and Investment, June 2014

## ii) Securing talent and skills

The creative industries are major employers, accounting for some 2 million jobs in 2015, nearly 6% of all jobs in the UK. These are spread across all parts of the UK, although the largest proportion (46%) are based in London and the South East. Although patterns of employment vary between the sub-sectors, they tend to involve a high proportion of freelance employment and a significant reliance on project-based, mobile working.

The success and productivity of the UK's industry relies critically on our ability to attract, retain and develop creative talent and highly specialized skills. However, the atypical structures of the creative industries can raise challenges for both employers and employees in securing access to training, and in engaging with Government schemes which are geared towards more traditional industrial employment patterns and practices. Cross-industry coordination and tailored, collaborative approaches are required to ensure that skills shortages can be identified and addressed, and that our industries can recruit, train and retain talent from the widest possible pool so that they reflect the diversity of the population. As noted in section 2, the creative industries also play an important role in developing skills and talent for creative occupations in the wider economy.

Around 6% of jobs in the creative industries are currently filled by European migrants, and around another 5% from outside the EEA. This is a little higher than in the wider economy.<sup>31</sup> However, there are a number of areas in which there is a particularly high reliance on highly specialized skills and talent, for which there is global competition. These include areas that are particularly reliant on digital skills in Visual Effects, Computer Games and Animation, where skills shortages are consistently identified. For example, an estimated 25% of the UK's current VFX workforce is from elsewhere within the EU (and 12% from non-EU countries)<sup>32</sup>, as is, on average, 20-30% of games companies' staff<sup>33</sup>. We also have a strong track record of attracting world-leading artistic and creative talent to work in and with our institutions and businesses.

The role of the education system is also crucial. Employers feel that, overall, the UK's general education system is not as well equipped as those of some other EU countries to meet their needs for people with a fusion of strong technical and creative capabilities. The current emphasis on STEM (Science, Technology, Engineering and Maths), as opposed to STEAM (Science, Technology, Engineering, Arts and Maths), subjects, unless addressed, will have an increasingly negative impact on the economy as a whole, as well as on the creative industries themselves.

The UK is home to a number of world class creative higher education institutions, which have been instrumental in attracting students from the EU, not only to pursue their studies, but also in many cases to stay in the UK in order to launch their professional careers. For example, award-winning fashion designer Maria Katrantzou, a Greek national, launched her successful business in London after graduating from Central St Martin's MA programme. We need to ensure however, that more of our further and higher education courses, and off-the-job apprenticeship training, deliver excellence and are recognisable for doing so.

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<sup>31</sup> Skilled Migration and the UK's Creative Industries, NESTA, August 2016

<sup>32</sup> figures from UK Screen

<sup>33</sup> figures from Ukie

It is vital, particularly in the short-to-medium term, to take the opportunity to ensure that our creative sectors are able easily to recruit people with key skills from all parts of the world, including – but not only - the EU, and that we can continue to offer opportunities to budding creative entrepreneurs, and to attract the very best creative talent, from abroad. Alongside this, we need to ensure that industries and Government together build an approach to training and education within the UK which will improve our ability over time to meet future critical skills needs domestically. In order to achieve this we need to invest further in providing quality careers advice, education, training and development that meets the needs of employers and provides opportunities for people from all communities to achieve success.

### *Temporary mobility*

Several creative sectors are heavily reliant on being able to move people easily between countries to work for temporary periods. For example, concert tours are vital to the music industry, both as an important source of revenue in their own right, and as a way for acts to build their fanbases and brands internationally. International TV and film productions need to move crews, talent and production staff swiftly and seamlessly between different locations. And for many performing arts companies, revenues from EU tours make a vital contribution to sustaining their domestic operations. At recent discussions convened by the Creative Industries Federation, some have reported that they would be unable to continue without this income. Similar issues can affect others too, for example architects and designers who need to set up temporary offices on site for construction projects.

The cost of touring and levels of bureaucracy (including obtaining visas and managing tax implications) currently rises significantly outside the EU, which can act as a major barrier to filming or touring in other locations.

Retaining ease of mobility between the UK and the EU markets for touring and production purposes, and avoiding the imposition of new costs and administrative barriers should therefore be a key priority. There may also be opportunities to pursue reciprocal agreements on reducing barriers to temporary mobility as part of our dialogues with other countries following exit.

### **Priorities for action**

#### *Future relationship with the EU*

#### ***Confirm as a matter of priority that EU nationals currently employed in the UK will be able to stay***

Early confirmation would provide important reassurance to key employees and reduce the risk that they will look for work elsewhere in the EU in advance of the UK's exit.

#### ***Secure continued ease of movement between UK and EU for time-limited activities***

Enabling reciprocal ease of movement for temporary purposes is critical for the future of our music, production and performance-based industries, and for the UK's continued status as a prime location for foreign productions and tours.

## *Future relationship worldwide*

### ***Ensure that any future migration system allows for easy access to critical skills and talent from both EU and non-EU countries***

Our exit from the EU offers the opportunity to adapt our migration controls and visa systems to ensure that those with key skills and talents which are required for the creative industries (and other sectors) can easily come to work in the UK from anywhere else in the world. Access to key skills from abroad is critical in order to ensure that the needs of our industries can be met and secure our future competitiveness. In addition, as UK firms look to build their presence in new markets, access to staff with knowledge of local customs, practices and languages is vital. Mutual recognition of key professional qualifications, such as architecture, is also an important element. As part of its reform, the Government should review the shortage occupation list to ensure that it includes key skills which have previously been sourced from the EU as well as elsewhere and that the costs associated with bringing in people with key skills are minimised. It should also ensure that we can continue to welcome the world's best creative and artistic talent to work in the UK.

## *Within the UK*

The next three recommendations below address the specifics of Government policy on training and education in England. Skills and education are devolved matters: we envisage that the principles which underpin these recommendations should inform similar discussions with the devolved administrations in order to support the development of skills for the creative industries each of the nations.

### ***Develop a joint Government/industry action plan for an education and careers system that provides an urgent focus on the fusing of science (including computer science) and creative teaching in schools, increasing uptake of creative courses and universal access to high quality careers information and guidance***

There is an opportunity to achieve a step change. We call for the establishment of a joint commission involving the Creative Industries Council and Department for Education, to develop a joined-up strategy – linking national and local, digital and face-to-face – aimed at agreeing action to:

- strengthen support and encouragement for the teaching of creative subjects in the school curriculum and promote the teaching of science and arts subjects together, in order to deliver the STEAM generation which will be key to our 21st Century creative economy
- develop an all-age careers advice and guidance service for the creative industries building on work already begun with the Careers and Enterprise Company and the National Careers Service

### ***Continue to strengthen the links between higher education and creative industry employers, particularly in areas of practice-based education that are specific to occupations in our industries***

The majority of those entering our industries do so from higher education. The Government is delivering its new Teaching Excellence Framework, designed to assess the teaching quality of universities in a way which is more closely linked than before to associated employment prospects. There is an opportunity to make this much more relevant for courses linked to the creative industries, by prioritising course accreditation over institutional recognition and ensuring that it builds in strong links with existing

employer-led accreditation schemes such as the Creative Skillset Tick and the National Council for the Training of Journalists. In addition, the assessment of longitudinal education outcomes (LEOs) should take account of the atypical employment patterns and career paths which are widespread in the creative industries, to avoid data giving a misleading impression of employment prospects linked to creative subjects.

***Ensure that the Government's new apprenticeship and technical education policies work to increase and broaden opportunities in the creative industries***

The Government's new approach to apprenticeships and technical education could help to increase apprenticeship take up by the creative industries, and to develop technical education routes to support fair access. The current CIC and DfE working group is working to achieve that aim. However if it is to be successful then the Government must recognise that one size cannot fit all and that the creative industries' particular structures, employment patterns and needs must be taken into account when implementing the levy. Without this, the new measures are likely to lead to a transfer of significant value out of our industries and a reduction in opportunities for new entrants. In particular we call for:

- the development of standards, including for degree apprenticeships, to be supported by levy investment;
- significantly increased scope for employers to pool vouchers or transfer them to Apprenticeship Training Agencies operating on their behalf; and
- for the industry to be directly involved in identifying high quality training delivery which meets its needs.
- implementation to align with the current voluntary levies in the screen industries to avoid displacing vital investment in growth of the skills and talent base.

***Remove disincentives to invest in training of freelancers***

The provision of training is currently one of the criteria used by HMRC in distinguishing between permanent employees and freelancers for tax purposes. This acts as a disincentive to employers who want to provide freelancers with access to training, for example to update their skills in using expensive technical equipment, even at little or no cost. We therefore ask the Government to remove this criterion from HMRC's assessment of employment status, which has unintended negative consequences for training investment.

### iii) Protecting intellectual property

Intellectual property (IP) is the lifeblood of the creative industries. Our success is overwhelmingly built on the creation and commercial exploitation of IP. The health of our industries therefore depends heavily on strong protection for the IP rights which enable our creative businesses to realise the value of their products. Copyright in particular is of fundamental importance to many creative industry sectors. It enables creators to derive a financial return for their work and provides an incentive for businesses to invest in creative content.

The UK currently provides a high level of protection for copyright works. UK creative businesses and individual creators have been successfully operating under the existing national copyright regime, based on the Copyright, Designs and Patents Act 1988 (and subsequent amendments). However, while the basic concepts of copyright have been agreed at a global level, particularly via the Berne Convention, TRIPS<sup>34</sup> and the WIPO<sup>35</sup> Internet Treaties, many provisions of UK copyright are derived from European Union Directives.

There is clearly some uncertainty over the future status of those elements of UK legislation which are derived from EU law. However any limitation or reduction in protection would put UK businesses at a competitive disadvantage relative to European competitors and risk transferring investment to other countries. The Creative Industries Council would therefore welcome early reassurance from the Government that the current standards of copyright protection will not be reduced following the UK's exit.

Intellectual property theft, particularly through piracy and counterfeiting, continues to be a significant concern in the UK and internationally. For example, in the second quarter of 2016 alone, some 78 million music tracks and 51 million pieces of film and TV content were accessed illegally online<sup>36</sup>. The industry is expending significant resources on tackling this, but there is an opportunity for Government to encourage closer cooperation between rights holders and online platforms such as search engines and social media. There are also significant problems with counterfeit physical goods, including design and fashion brands, which are largely imported from overseas. This is an area where cooperation could be strengthened in the course of building new trading relationships with non-EU countries, alongside continued cooperation with European and international enforcement agencies.

The EU plans further legislative action on copyright under the banner of the Digital Single Market. This could have a significant impact on UK companies' future prospects, whether or not the resulting legislation applies in this country. In some areas this may result in further strengthening of protection and improvements in enforcement. But there are also serious concerns: in particular, any move to curtail the territorial selling of rights could seriously undermine creative industry business models and harm consumer interests. It will be important for the UK Government to continue engaging proactively in EU discussions in the immediate term.

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<sup>34</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, under the World Trade Organisation

<sup>35</sup> World Intellectual Property Organisation

<sup>36</sup> Online Copyright Infringement Tracker, Intellectual Property Office, June 2016

Many creative businesses also rely on other forms of intellectual property rights some of which, such as trademarks and design rights, have EU-wide registration and protection schemes. For example many fashion designers rely on the protection currently offered at EU level for both registered and unregistered designs. It will be important to ensure that there is no reduction in levels of protection for such rights following UK's exit and we welcome the Intellectual Property Office's commitment to consult designers and other stakeholders on the way forward.

## **Priorities for action**

### *Future relationship with the EU*

#### ***Commit to continued UK/EU cooperation on intellectual property issues, particularly on action to reduce infringement and the proliferation of counterfeit goods***

By their nature, IP infringement activities operate across national borders, whether via online communications or physical transport of goods. It will be important to maintain cooperation with Europol and other European law enforcement agencies in order to share intelligence and tackle counterfeiting and piracy collaboratively.

#### ***Engage proactively in negotiations on new EU copyright proposals***

As noted above, new EU legislation is likely to have a significant impact on the interests of UK businesses and their future position in relation to EU markets. The Government should also seek to ensure the anticipated new enforcement package protects the UK creative industries, especially in dealing with online piracy by ensuring that rights holders are able to better remove infringing content, and links to that content on websites, search engines and social media platforms. The UK should support Commission proposals to clarify the copyright-related responsibilities of online platforms, ensuring fairer licensing deals for creative content. There is also an opportunity to promote cooperation on the development of "follow the money initiatives" to reduce the profitability of infringing sites.

### *Future relationship with the rest of the world*

#### ***Commit to making strong protection of IP rights a red line in future bilateral trade agreements***

The development of new trading relationships with key international partners offers the opportunity to strengthen cooperation on IP protection worldwide. The Government should make it a priority to ensure that copyright works enjoy robust and properly enforced legal protection in international markets. Strong protection for copyright should be incorporated as a key principle into any new trade agreements to provide certainty for UK creators, publishers, performers and rights holders and ensure that we can maximize the opportunities to build our presence in new markets over the coming years. Alongside this, the UK could further develop its network of dedicated IP attaches in priority countries, to continue fostering close cooperation in this area.

One goal of future trade-related efforts should be to export UK best practice for enforcement against internet piracy. The Government should encourage adoption of a UK-style approach to injunctive relief against infringing sites, as well as encouraging specialized law enforcement units modelled on the PIPCU unit of the City of London Police. More broadly UK trade policy should seek to promote responsibility of all actors in

the online ecosystem to fight piracy, including rights holders, ISPs, search, advertisers, and payment processors.

### ***Strengthen the UK's voice in international forums***

The UK should take the opportunity to reassert its presence in relevant international organizations dealing with IP-related matters. This includes most obviously the World Intellectual Property Organisation (WIPO), where the reinforcement of a distinct UK pro-copyright voice could be an important influence on the balance of discussion. It also includes trade forums, notably the WTO TRIPS Council, as well as UN bodies where IP matters come up from time to time, such as UNESCO.

### *Within the UK*

### ***Commit to maintaining the strength of the core intellectual property regime currently in force***

A clear early signal that the current UK protections for copyright and other key intellectual property rights, many of which are based on EU law, will be maintained would be widely welcomed.

### ***Secure industry cooperation to reduce online infringement***

We welcome the Government's manifesto commitment to "work to ensure that search engines do not link to the worst offending sites", and its engagement with industry to date on this issue. There is an opportunity for the UK to show leadership internationally, through securing a code of conduct which will reduce the volume of links to infringing content on search engines and support the ongoing development of legal content services. There may be a need for some legislative underpinning to ensure that a code is agreed and adhered to. This would work alongside continuing support for education initiatives such as the Get It Right From a Genuine Site campaign.

### ***Protect territoriality of rights for the UK, irrespective of developments in rest of EU***

The ability of our creative businesses to sell rights on a territorially exclusive basis is critical as it enables business models to reflect the varying economic and cultural values of particular rights across different territories. Losing this ability would be damaging to cultural diversity and consumer choice. At the very least, our exit from the EU offers the opportunity to protect territorial selling of rights as far as the UK is concerned, even if the basis for exporting rights to and within EU member states changes in the future.



#### iv) Stimulating investment

Many parts of the creative industries have been extremely successful in attracting inward investment, growing the sector and adding value to the economy. We are a European market leader and many of the biggest multinational operators have their European HQs in this country. There is a risk that, following exit from the EU, some of that investment could go elsewhere in Europe. So it is vital that Government takes opportunities to ensure that the UK investment environment is as attractive as possible.

The Government's renewed focus on industrial strategy has been warmly welcomed by business generally, and by creative industry businesses specifically. It is seen as an opportunity to help boost consistent and sustained capital investment and sizeable equity investment across the creative economy. It could include measures to drive the urgently needed finance to stimulate and support SME growth in the sector, which offers the UK huge potential for future economic growth but which can be inhibited by challenges in raising finance and a perceived reluctance by the UK's private finance community to invest in creative businesses. This would be particularly beneficial in the regions outside London, which could lose European Structural Funds support. The growth potential of the creative industries justifies their inclusion as a clear priority within any new industrial strategy and we urge Government to ensure that this happens.

The sector-specific Creative Sector Tax Reliefs, developed within EU State aid rules, have played a crucial role for key sectors both in attracting inward investment and growing the UK industry, with benefits to all parts of the UK. Since its introduction in 2007, the tax relief for film production has supported over £8 billion of UK expenditure across 1800 films. The new reliefs for high-end television, animation (both introduced in 2013) and video games (2014) have already supported some £1.5 billion of additional spending, across nearly 350 projects.<sup>37</sup> A relief for children's television was introduced in 2015.

These tax reliefs have helped to cement the UK's position as a vibrant creative centre for the worldwide industry, driving major investments such as Warner Bros' purchase and redevelopment of Leavesden studios in Hertfordshire, and Disney's decision to invest over £1 billion in making six Star Wars films at Pinewood Studios. In high-end television, HBO's investment in infrastructure and skills through Games of Thrones in Northern Ireland and Sony/Starz's investment through Outlander in Scotland have boosted growth in both of those nations. Alongside this, hubs for the games sector have continued to develop in places as varied as Dundee, Liverpool and York.

Alongside the sector-specific reliefs, creative businesses have benefited extensively from wider tax relief schemes designed to encourage investment in start-up and small businesses, notably the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS). Most creative businesses are SMEs, and the risk profile of IP-based businesses can make it particularly challenging to secure the investment needed to grow sustainably. These reliefs can play a key role in reducing the barriers to investment by helping to mitigate those risks.

The creative industries have benefited from targeted EU funding particularly through Creative Europe, as well as from cross-sectoral funds such as Horizon 2020, as well as EU structural funds (see above). Funding provides useful support but also facilitates cross-border partnerships. For example, support from Creative Europe for the circulation

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<sup>37</sup> Creative Industries Statistics, HM Revenue and Customs, July 2016

of European works has been a critical factor in the ability of many UK creative and cultural organisations to sell their products into Europe.

In its first two years (to 2015), Creative Europe has provided some £40m in grants, supporting some 230 different UK cultural and creative organisations and the distribution of 84 UK films abroad, against a notional UK contribution of around £30m over this period<sup>38</sup>. The fund has invested in a wide range of projects including: artistic collaborations; literary translations; the production, international distribution and exhibition of UK films and television programmes; development of video games; and training and educational initiatives. Plans are in hand to include music industry start-ups as a priority for future support from the fund.

The Horizon 2020 programme is a key source of support specifically in research and innovation activities. Future access to such investment is also important for our industries – covered in more detail in the innovation section below.

## ***Priorities for Action***

### *Relationship with EU*

#### ***Maintain participation in Creative Europe, alongside other non-EU partners***

Participation in Creative Europe already includes a number of countries outside the EU (and EEA). We see strong advantages in continued participation, either as a full member or through some form of association agreement. As outlined above, performance to date suggests that the UK will benefit disproportionately. Moreover, the programme by its nature facilitates cooperation and distribution across national borders. This aspect is particularly valuable in helping to build audiences and markets for our sectors across the EU: it helps industry professionals to develop their skills and capacity for working internationally, and to find partners and financiers outside the UK.

If for any reason continued participation in Creative Europe is not feasible, we ask the Government to commit to redirecting equivalent funding domestically for similar purposes within the UK, so that there is no loss of investment in our sectors. The Creative Industries Council would stand ready to work with Government in designing a UK scheme which maximizes cultural and economic return on investment, and continues to encourage the building of partnerships and audiences across national boundaries.

### *Within the UK and relationship with the rest of the world*

#### **Affirm commitment to maintain Creative Sector Tax Reliefs, at least at current levels**

The tax reliefs are of critical importance to both inward investment and the development of our domestic industry. An early confirmation from Government that the current tax reliefs will continue for the foreseeable future would help to underpin business confidence, by giving a clear indication that the UK is committed to maintaining a favourable investment

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<sup>38</sup> Based on a 10.7% overall UK contribution to the EU budget, as assessed in Financing the EU Budget by G Cipriani, Centre for Policy Studies, 2014

climate for the creative industries. We welcome the Government's recent assurance that these reliefs "will not be adversely affected by Brexit".<sup>39</sup>

***Explore scope to improve the impact of tax reliefs***

In the medium term, there may be scope to strengthen the effectiveness of the current relief schemes, for example by enhancing their focus on UK-centred investment. We would like to consider this further with Government once the terms of the UK's exit – and in particular the extent of ongoing State aid constraints – are clearer. In the meantime, we encourage the Government to consider extending the current reliefs to other parts of the creative industries where supported by evidence that this would address market failure and support growth, in line with its manifesto commitment to "expand them when possible".

***Establish a new support scheme for investment in growth creative industry SMEs***

We set out in our July 2016 strategy a number of proposed activities to strengthen links between the creative industries and the investment community. However the decision to leave the EU increases the risks to the industry from loss of funding and the potential drying up of an already fragile investment pipeline. It also offers opportunities through a renewed industrial strategy and greater control over Government support for business and exports. We propose that Government should establish a new funded access-to-finance scheme to help companies grow by investing in the development of new IP; specialised innovation and help with access to new markets. Such a scheme, developed at a strategic national level, would work to deliver a healthy supply of high growth creative content businesses, able to generate jobs, raise significant UK tax revenues and export internationally. It would build confidence in the sector, attracting back nervous private sector investors and build towards our future using one of the nation's greatest natural assets, our creativity.

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<sup>39</sup> Speech to the creative industries by The Rt Hon Matt Hancock MP, Minister for Digital, Culture and Creative Industries, 9 September 2016

## v) Supporting innovation – R&D

Innovation is a key driver of creative industries' growth. It takes many forms, from the use of puppetry in *War Horse*, the development of new games technologies and virtual reality, to the ever-evolving digital distribution models for creative content. Creative and technical innovation are the core elements which make creative products successful, and there is a need for regular innovation in services and business models in order to stay competitive.

Research by Nesta indicates that “the creative industries are more innovative than many other high-innovation sectors” and that they “provide a disproportionate number of the innovative businesses in most parts of the country.”<sup>40</sup>

Innovation does not happen in a vacuum. Innovation of all sorts requires investment to afford experimentation, as well as expertise, skills and partnerships. It benefits from many different types of infrastructural support, and particularly from talent flow. Many of the factors which drive innovation are closely linked to the areas covered in this report, such as education and training, intellectual property protection, cluster development and communications infrastructure<sup>41</sup>.

Investment in research and development (R&D) is a vital driver of innovation for all creative and high-tech businesses. Public funding, particularly via partnerships involving business and higher education is a key element of this. The EU has been an important source of funding for such activity, particularly through its Horizon 2020 programme which has an €80 billion budget to 2020 for investment in research and innovation projects across various economic sectors, including the creative industries – including €3 billion of bespoke support for SMEs.

EU funding streams, including Horizon 2020, place a strong emphasis on fostering partnerships between organisations. Such international working is vital for today's R&D: the standards for consumer platforms and devices are international. Partnership working can add significant value to innovation: the level of expertise available to any one project is multiplied as more partners become involved, and the different backgrounds and experiences of participants is more likely to lead to new ideas, including those which have international appeal.

The ERDF has also supported innovation projects such as the Fashion Innovation Agency which helps designer fashion SMEs to develop new business models working across wholesale, e-commerce and consultancy, collaborations and licensing; the STEAMhouse project in Birmingham, a new innovation centre for the creative industries expected to create up to 10,000 jobs; and Broadway's Digital Innovation and Creative Enterprise project in Lincolnshire which provides support for growing companies from conception to final product.

The UK's creative businesses have benefited significantly from EU funding for research and innovation and the international partnerships driven through the Horizon 2020 programme. R&D tax credits have also been vital in encouraging and enabling ongoing investment by UK-based creative businesses. Nevertheless, overall R&D intensity in the UK is below the EU average. The UK's exit from the EU offers an opportunity to review

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<sup>40</sup> Creative Clusters and Innovation, Nesta, November 2010

<sup>41</sup> see, for example, Mapping Local Comparative Advantages in Innovation, BIS, July 2015

support for R&D in the UK, with the aim of making it more effective for sectors, such as ours, with a high reliance on innovation for growth.

### ***Priorities for action***

#### *Future relationship with the EU*

#### ***Commit to continued funding for R&D post-exit, with a focus on high-innovation sectors and continued scope for domestic and transnational partnerships, preferably including a continued association with Horizon 2020***

It is vital that future R&D support should continue to encourage partnerships, across business sectors, between business and educational institutions, and across national borders. We encourage the Government to pursue an agreement with the EU, allowing the UK to remain associated with Horizon 2020 (and/or a successor programme) following exit, alongside the fifteen existing Associated Countries. This would ensure that the UK's creative industries can continue to benefit from international partnership which the programme enables.

But whether or not the UK remains a participant in EU research and innovation funding schemes, the Government should commit to ensuring that funding levels for domestic R&D activities are at least maintained in the future, taking the opportunity to review the scope of current support in order to improve its effectiveness. This should include a specific focus on driving R&D investment in the creative industries, as a high-innovation sector with proven growth potential, and on ensuring that funding schemes are accessible to micro-businesses as well as larger companies.

The UK's exit from the EU may also offer an opportunity to review the definitions of qualifying expenditure for R&D tax relief, so that it can more effectively incentivise R&D across the creative industries as well as in science and technology.

## vi) Developing the economies of the nations and regions

Although London is a major global hub, the creative industries also have a key role in the development of the UK economy outside the M25. The Creative Industries Council believes it is essential that we continue to build on this, so that our sectors can help to ensure that the benefits of future economic growth are felt across the UK.

Thriving creative businesses make a direct contribution to the development of regional and national economies within the UK. These include the regional press, which play a key role in communities throughout the country. A recent study identified 47 distinct creative industry clusters around the UK, and noted that the numbers of local business and jobs in the creative sectors grew significantly faster than the average for all sectors in 90% of UK metropolitan areas.<sup>42</sup> While the largest clusters are in London and the South East, there are creative industry clusters in all parts of the UK – notably in Manchester, Edinburgh, Cardiff and Bristol and 20% of the total are in the North of England. They vary in profile but tend to include businesses from a range of different creative industry sub-sectors. Creative clusters can help to drive wider economic and social benefits, attracting other businesses to an area, and acting as catalysts for regeneration and innovation which spill over into the wider economy.

There are correlations between locations of creative businesses and those of other high-tech industries. More widely, thriving cultural and creative organisations are important factors in making locations attractive to people as places to live and work<sup>43</sup>. A strong cultural infrastructure is important for the local economy: there is evidence, for example, that skilled workers will sacrifice higher wages to locate in areas with strong cultural clustering.<sup>44</sup>

A geographically diverse sector spreads employment opportunities and helps to ensure that the UK's creative output reflects talent from across its nations and regions.

Creative business outside London have benefited (directly and indirectly) from EU funding, especially through European Regional Development Fund (ERDF), focused on building capacity in priority areas for regeneration. For example, much of the cultural infrastructure in the Midlands and North of England is underpinned by EU regional funding, including Ikon in Birmingham, Sage Gateshead, Manchester's HOME and the Birmingham Hippodrome – the UK's largest commercial theatre. The ERDF has also financed a number of specific schemes to support creative businesses in less developed and transitional regions, including a number of regional production funds such as the Yorkshire Content Fund and the North West Creative Fund which provides seed capital investment and business support.

The European Capital of Culture (ECoC) scheme has played an important role in kickstarting local economies. Liverpool's year as ECoC generated over £750m for its economy and saw 9.7m people visiting the city, with associated investment and increase in profile providing a basis for a lasting impact.<sup>45</sup> Similar effects to ECoC can be seen in

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<sup>42</sup> The Geography of Creativity in the UK, Nesta/Creative England, July 2016

<sup>43</sup> See, for example, Creative Clusters and Innovation, Nesta, November 2010; Impact Assessment of Creative Industries, South East LEP/Shared Intelligence, 2016

<sup>44</sup> Capital of Culture? An econometric analysis of the relationship between arts and cultural clusters, wages and the creative economy in English Cities, Nesta, 2015

<sup>45</sup> Impacts 08, University of Liverpool, March 2010

the UK's counterpart – the UK City of Culture. Derry/Londonderry saw its visitor numbers grow by 1 million in 2013.<sup>46</sup> Plans for Hull's 2017 term have been developed as part of a 10 year City Plan, which aims to create 7500 jobs by making Hull a hub for renewable energy industries and a world class visitor destination.

The Creative Industries Council's July strategy made a number of recommendations aimed at developing the regional creative economy. Many of the specific issues identified elsewhere in this paper, including securing the skills pipeline, supporting innovation and developing business and investment support, are key to ensuring thriving creative clusters around the UK. They should be implemented in a way which recognizes the particular needs and characteristics of each nation and region.

Creative businesses tend to be particularly dependent on reliable high quality digital communications infrastructure in their day-to-day operations. The availability and affordability of high performing and reliably fast broadband is a critical factor in where creative businesses choose to locate. It is therefore key to the growth of successful creative clusters and will remain a vital issue as we leave the EU. We welcome the progress which has been made to date in rolling out superfast broadband and 4G networks across the country. However, as our July 2016 strategy made clear, there is further to go, in order to ensure that the connectivity needs of our businesses, particularly small and micro-businesses, can be met in all key locations across the UK.

The UK's exit from the EU offers further opportunities to strengthen commitment to, and investment in, a geographically diverse creative economy.

## **Priorities for action**

### ***The Government should quantify the total benefits to the creative and cultural sectors from EU funding sources and ensure that these are at least maintained following the UK's exit***

As outlined above, and elsewhere in this paper, our industries have benefited significantly from a range of EU funding sources. The withdrawal of such support without replacement would have a damaging impact, both on creative and cultural organisations directly and on the economic and social benefits they deliver. Where UK participation in EU funding schemes ceases, it is important that the creative industries continue to benefit proportionately from the use of any repatriated UK contributions.

### ***Develop focused business and investment support programmes, which are sensitive to the specific needs and growth potential of creative businesses across the UK***

The likely withdrawal from EU structural funding offers an opportunity to develop replacement schemes within the UK, which are better focused on the particular needs of our local creative economies; foster the growth of clusters outside London through support for innovation, collaboration and productivity improvement, and incentivise the development of affordable high-speed broadband networks which are particularly critical for creative and tech businesses.

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<sup>46</sup> UK City of Culture Consultation Document, DCMS, December 2014

**Ensure that public interventions support the widespread availability of affordable, high-speed broadband networks, which are especially critical for creative and tech businesses, particularly in areas where those businesses cluster**

As recommended in July, this should include specific requirements for digital connectivity in new workspace build rules and National Planning Guidance. We also encourage LEPs and local authorities to ensure that the importance of digital connectivity for businesses is recognised in their economic strategies

***Commit to further “cities of culture” initiatives***

Given the significant benefits for local economies, culture and regeneration, a long-term commitment to continue with the designation of cities of culture is highly desirable. Outside the EU, the UK Cities of Culture scheme offers a key ongoing opportunity to give our cities showcase on the world stage. There may also be scope for continued participation in the EU scheme, which is already open to candidate countries and is likely to be extended to EEA/EFTA.

The UK is due to host the European Capital of Culture again in 2023: Dundee, Leeds and Milton Keynes are known to be preparing bids. Given the many years of preparation involved, and the potential benefits, it would be desirable if possible to maintain this hosting commitment, whether or not the UK continues to participate in the scheme thereafter.



## **vii) Promoting effective regulation**

Maintaining proportionate, effective regulation is clearly critical to business success. As far as regulation specific to the creative industries is concerned, the UK's overall track record has generally been a good one, involving a mix of relatively flexible statutory regulation, particularly in broadcasting, and a welcome emphasis on effective self- and co-regulatory mechanisms in areas such as advertising, games and content classification.

There are a number of areas in which the EU regulatory framework has provided important protections which we would hope to maintain, such as intellectual property. Moreover, as outlined above, we recognise that continued access to EU markets is likely to mean that the UK will continue to be bound by some EU-based requirements, particularly in relation to audiovisual media services.

The UK has been influential in shaping the regulatory framework affecting the creative industries at EU level and has had significant success in securing positive conditions for cross-border trade, benefiting consumers and businesses, while reducing the potential cost and burden of new regulations.

The UK's exit from the EU is likely, in the medium term, to offer opportunities for improving the regulatory environment for creative businesses in the UK, further enhancing our competitive position. This could be achieved following enactment of the planned Repeal Bill. At the same time, action is needed to guard against the risk that the EU environment develops in a way which is harmful to UK interests.

### ***Priorities for action***

#### ***Future relationship with the EU***

#### ***It is vital that the UK continues to exert its influence in the negotiation of new EU legislation, while still a member***

A number of key legislative instruments stand to be negotiated and adopted in the period before the UK's exit is formalised. For example, as outlined earlier in this paper, the Commission is pressing ahead with its action plan to complete the Digital Single Market, which includes a number of important dossiers, including on copyright, digital content, media regulation and e-privacy. New legislation in these and related areas could have a profound impact on the future development of our creative industries and their trading prospects with Europe, irrespective of whether individual elements of the *aquis* continue to apply to the UK.

Overall, it is vital for the future strength of the UK's creative industries that we continue to play an active role the negotiation process while still a member of the EU, particularly in areas which will continue to affect UK businesses significantly post-exit. Alongside the Government's efforts, we will continue to engage proactively with our counterparts across the EU to ensure that the views of industry are strongly communicated.

*Within the UK*

***Once the terms of exit are clear, following repeal of the European Communities Act, the Government should conduct a systematic review of EU-based regulation with a view to reducing or improving regulation where possible, in the interests of businesses and consumers***

The CIC is clear that the top priority for the UK's future relationship with the EU should be to maintain unrestricted access to EU markets for the digital and creative sectors. That may mean a continued commitment to meeting harmonised or minimum requirements set by the EU in specific areas. However the UK's exit will offer an important opportunity for the UK to improve the domestic regulatory environment in those areas where EU rules no longer apply.

This is a medium-term objective and the scope of potential benefits will depend on the precise shape of the future EU relationship. It will also be important to focus the review so as to target areas of real benefit for businesses and consumers, and avoid undue disruption and uncertainty. Hence our proposal for a systematic review in due course. The creative industries are likely to have a number of different as well as shared priorities for such a review: to take just one example, the radio sector has long had concerns about over-regulation of financial services advertising as a result of EU legislation, which has cut off a key revenue stream for an important and valued part of the UK's media industry.

#### **4) CONCLUSION**

The UK's exit from the EU undoubtedly carries significant risks for the future of our creative industries. However, as this paper outlines, there is also an opportunity to put in place conditions which will provide a platform for future growth and enable the creative industries to go from strength to strength as a truly global success story.

We urge the Government to build the priorities set out here into its strategy for the UK's exit from the EU and its wider industrial strategy, and look forward to continued close working with ministers on these issues over the coming months and years.