



January 2010

**IMPALA comments on the consultation on the future “EU2020” strategy**

**ABOUT IMPALA**

On behalf of over 4,000 independent music companies and national associations across Europe<sup>1</sup>, representing 99% of music actors in Europe which are micro, small and medium sized enterprises, IMPALA thanks the Commission for the opportunity to submit comments on the consultation on the future “EU 2020” strategy.

As far as we know, IMPALA is the only organisation in Brussels dedicated to representing cultural and creative SMEs and which promotes their expansion and competitiveness, in the interests of entrepreneurial and cultural diversity. Known as the “independents”, these music SMEs are world leaders in terms of innovation and discovering new music and artists - they produce more than 80% of all new releases. SMEs produce over 80% of Europe’s jobs. IMPALA plays a proactive role in participating in different forums at the European level to put the emphasis on the huge potential of cultural SMEs for Europe in terms of growth, job creation and innovation.

Europe’s leaders officially recognise that cultural and creative SMEs are drivers of “growth, job creation and innovation”<sup>2</sup>. The same leaders also acknowledge that these SMEs need specific support measures. Unlocking their potential is a pre-requisite to maximising Europe’s creative content and building a successful single market. This is particularly important in the context of Europe’s wider creativity and innovation. We now have new evidence of the power of cultural SMEs outside their own sector. The EC’s study on Culture and Creativity found that culture based creativity makes Europe a more creative and innovative place generally. This will be the prize of Europe’s 2020 Strategy, if properly configured to maximise the economic, social and cultural potential of the sector’s most innovative players - SMEs.

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<sup>1</sup> IMPALA has over 4000 members including the top independents: !K7 (Germany), Anaconda Productions (Poland), Beggars Group (UK), Bonnier Amigo (Sweden), CLS Music (Hungary), CNR (NL), Cooking Vinyl (UK), Edel (Germany), Epitaph (US/NL), Gazell (Sweden), Menart doo (Slovenia), Musicvertrieb (Switzerland), Naïve (France), PIAS Group (Belgium), Playground (Sweden), Red Bullet (NL), Soyuz Music (Russia), Wagram (France), as well as national trade associations from the UK (AIM), Finland (Indieco), France (UPFI), Germany (VUT), Spain (UFI), Italy (PMI), Belgium (BIMA), Denmark (DUP), Norway (FONO), Israel (PIL), Sweden (SOM) and the Catalanian association APECAT.

<sup>2</sup> Conclusions of the main EC Council (meetings between the Heads of State of all EC members), as well as Culture Council, of March, May and December 2007.

## **IMPALA COMMENTS**

Beyond the Lisbon Strategy, there was a need for the EU to implement reform to draw Europe's future. The EU 2020 strategy needs to be designed to tackle these new challenges and achieve a modern and dynamic Europe with a leading role worldwide. Based on EU achievements made so far and the economic and social circumstances surrounding the crisis, the strategy must shape a new set of public policies to unlock the growth and employment potential of Europe. This new strategy also has to address major societal challenges to improve the conditions of all EU citizens.

As described in the consultation paper, the key factor of a new sustainable economy will be knowledge. The future EU 2020 strategy will drive the transition towards a knowledge-based economy, which has a huge potential with new sources of growth and high opportunities for employment. In this context, IMPALA agrees on the fact that creativity and innovation are key drivers for a prosperous future and cultural and creative industries (and their associated SMEs in particular) have a crucial role to play in the new vision for Europe.

SMEs are the cornerstone of Europe's future. It is obvious that they need to be taken into account in view of the recent efforts made at EU level to put them at the forefront of the decision making process. In line with the Small Business Act for SMEs and other SME initiatives, the strategy should ensure better conditions for entrepreneurs and protect the micro, small and medium-sized economic operators that will favour the European growth of tomorrow.

Cultural and creative SMEs deserve specific consideration from decision makers at local, regional, national and European level due to their enormous potential for the European economy and because they have numerous advantages and assets that need to be taken into account in the context of the future EU 2020 strategy.

Cultural and creative SMEs are playing an increasing role in the innovation process. They have always been recognised as risk takers that are extremely innovative and early adopters in the field of culture, producing for example 80% of all new releases in the music sector. Today, the cultural aspect has a wider impact, influencing different sectors in other industries.

A recent EC study on "the impact of culture on creativity"<sup>3</sup> underlined the role of culture-based creativity as an underestimated element of innovation which makes Europe a more creative and innovative place generally. This means it helps to drive various businesses and produce more innovative products and services. Innovation plays a key role in developing new business models to answer the increasing demand for cultural and creative content online. Culture is at the heart of the daily life of all EU citizens and even more so with new technologies. This innovative potential should allow cultural and creative SMEs to fully contribute to the development of the

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<sup>3</sup> EC study on the Impact of Culture on Creativity published in June 2009.

knowledge-based economy and make European industries more creative in the global marketplace.

In this regard, it is now vital for the EC to place cultural and creative industries - and in particular SMEs who are constantly fostering innovation and creativity - at the centre of a new innovation policy for Europe. Unleashing the innovative potential of cultural and creative SMEs would ensure a wide return for the European economy. Investing in the cultural and creative sector would have a multiplier effect in terms of long-term growth, and employment.

It is significant to underline that the economic, social and cultural contribution of cultural and creative SMEs goes beyond the sector itself. Cultural and creative SMEs allow individuals to have a better understanding of each others' culture, by favouring indirect cultural exchanges across Europe. They have an effect on other major challenges such as combating social exclusion, creating more (and better) jobs, guaranteeing low carbon standards, as well as ensuring access to culture for all citizens as a vital part of high living standards.

They also play a crucial role in stimulating innovation through culture-based creativity and at the same time strengthening diversity of entrepreneurship, cultural diversity, choice for consumers and social integration. They have also proven to be a vital tool of social and economic re-generation. They create numerous job opportunities leading to high quality jobs and because they have an important impact at regional level in supporting local economies and maintaining local identities, they improve territorial cohesion and create better quality of life as well as foster social inclusiveness and social cohesion. Not only do they ensure cultural diversity, they are also represented at all territorial levels - from local to European markets - and ensure better mobility across Europe.

Cultural and creative SMEs are key actors in the future EU 2020 strategy and specific policies should be developed to support them. Several issues should be examined to fully unlock this huge potential for the European economy:

### **Market Access**

The new technological developments have created a lot of opportunities for cultural and creative SMEs but market access for all actors regardless of their size is the essential precursor to growing the digital market. This is the key factor in allowing true competition online and countering excessive market concentration. Competitiveness of SMEs is crucial to fully tap the potential of the digital economy and give a real boost to the online market. As underlined in the Small Business Act, facilitating SMEs' access to the market is one of the main priorities of the EU. It is vital to make sure that all cultural and creative operators can compete on their own merits to stimulate their ability to create growth and jobs as well as driving creativity and innovation in the sector and beyond.

A specific environment for SMEs is essential in the interests of fairness as well as cultural and economic diversity and innovation. This is vital because cultural markets have their own ecosystems which rely on economic diversity which means big, small and micro operators are all crucial. Since the absorption of the medium sized companies through a series of acquisitions over the last twenty years, the ecosystem is in danger and the SMEs who are the key to renewal, innovation and discovering new talent and trends must not be weakened any more. It needs a series of measures to boost the SMEs, help them grow and above all, put them on a level playing field with the multinationals<sup>4</sup>.

Under the UNESCO Convention on the protection and promotion of the diversity of cultural expressions, the EC also has to deliver an environment in which the access to, the creation and the distribution of cultural expressions is a real possibility for European citizens.

Finally, market access issues also have an economic dimension, as recently underlined in the EC study “Impact of Culture on Creativity”: *securing access to cultural products and services in the market place will be a crucial political task in the years because of the value of culture as a means of stimulating creativity. In this context, the importance of competition rules as a tool to promote a diverse offering should be stressed as diversity is a catalyst of creativity.*

### **Intellectual Property**

The consultation document also underlines the key role of intellectual property rights saying that “a well-functioning system of intellectual property rights” plays an important role in the development of a knowledge-based economy. IMPALA agrees that an innovative digital market requires a strong enforcement of intellectual property rights. The EU needs to provide favourable conditions for the development of innovation as well as continuing to foster creativity. A strong framework of IPRs would also have the effect of encouraging entrepreneurship and the capacity to innovate, developing risk-taking and investment to stimulate the economy.

### **Valuing intangible assets**

In this regard, there is one issue that needs to be adjusted to give cultural and creative SMEs a better ability to grow and develop their activities. The problem of valuing intangible assets remains a complex barrier as they are regularly not capitalised in the balance sheet. Financial providers find it difficult to measure the effective value of untraditional businesses assets like copyright, licenses and royalties. It is essential to reflect the capitalisation of internally generated intangible assets that also correspond to innovation potential. The value of intangible assets from the traditional knowledge economy like patents and R&D are recognised in the guidelines

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<sup>4</sup> New competition guidelines are another support measure needed to set out an approach which is better adapted to the cultural and creative sectors with respect to cultural economics, mergers, merger remedies, state aid, dominance and anti-competitive agreements.

established by the International Accounting Standard Board (IASB). The same should apply for intangible assets of cultural and creative SMEs which should, at least, be recognised as R&D.

### **Access to finance**

Access to finance is another issue that needs to be adjusted to give cultural and creative SMEs the opportunity to maximise their potential.

For this to happen, it would be necessary to improve the understanding between financiers and cultural and creative SMEs. There is a negative perception of the sector due to the lack of knowledge of the real nature of the risk associated with these SMEs. There is also a need for more expertise to better understand how cultural and creative SMEs work in terms of finance. The development of such an expertise would ensure that financial intermediaries are becoming used to dealing with cultural and creative SMEs applications and projects.

In line with the “think small first” principle, it is necessary to maximise the funds unlocked by the EIB as well as tailored financial instruments set up under the European Investment Fund (EIF) to facilitate cultural SMEs access to finance.

It would also prove very useful to assess the possibility of establishing a “creative industries bank” to help cultural SMEs to invest in new talents, new trends and new aesthetics. This would give a boost to the creative and innovative capacity of cultural and creative industries and strengthen the cultural aspect of the innovation process in the long term.

National models such as IFCIC in France, CultuurInvest in Belgium and ICO/ICEX in Spain, which provide SME-friendly growth finance, loan guarantees and venture capital for cultural and creative SMEs should be encouraged.

Other issues should also be considered in favour of SMEs, such as cutting red tape, finding solutions for the issues of withholding tax and double taxation or providing reduced VAT rates for cultural products and services, both online and offline.

### **Conclusion**

The future EU 2020 strategy should put the emphasis on cultural and creative SMEs with specific measures that should be implemented at all levels. The strategy should encourage an approach which fosters coordination between member states and the EU to ensure that all existing instruments and programmes correspond to the needs of SMEs. The challenge of becoming a social market economy involves the need to create public policies ensuring inclusiveness and participation of the small operators which represent the real sustainable potential of the future European economy.

Bearing in mind that the Lisbon Strategy was an action and development plan for the EU, aimed at marketing the EU as the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, it is, today more than ever, necessary to make sure that the EU2020 strategy will continue to move forward towards markets where all economic actors, and in particular SMEs, receive the legislative attention - both at EU and national levels - they deserve. It is therefore necessary, as stated in the consultation document, to create the best environment with well-adapted public policies, to ensure that the enormous potential of European SMEs is fully unlocked to build a modern and dynamic Europe that plays a leadership role worldwide.

*End*