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COMMISSION STAFF WORKING PAPER

Strengthening the Competitiveness of the EU Publishing Sector

The role of media policy

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Strengthening the Competitiveness of the EU Publishing Sector

This paper is a working document of the services of the European Commission and has not been adopted by the Commission. It therefore does not formally propose any new Commission policies nor does it represent the position of the Commission. The paper is intended as a contribution to the debate about the competitiveness of EU publishing.

Please note that a first draft of this working document was prepared by DG Enterprise before the current Commission took office in November 2004. DG Information Society and Media has now taken responsibility for the relations with the EU publishing sector, under the aegis of media policy. Publishing is a priority for this Directorate-General's newly-created task force on co-ordination of media affairs. The competitiveness of EU publishing will remain a strategic media policy objective.

EXECUTIVE SUMMARY

This Commission services staff working paper surveys the competitiveness of the EU publishing sector within the framework of media policy. It describes the various sub-sectors that make up EU publishing and elaborates some criteria for assessing competitiveness. The paper also identifies some potential policy strands for the future and its final section contains a set of questions intended to launch a consultation. Given the focus of the document on competitiveness, these questions are primarily intended for the sector, but may also trigger responses from civil society and individual citizens.

In general, European publishing is competitive and well-placed to contribute towards the development of an Information Society based on knowledge, in line with the revised Lisbon agenda. According to the most recent official statistics (2001), the sector accounts for some 0.5 % of gross domestic product across the EU25 Member States, with output valued at over €121 billion, and value-added amounting to €43 billion in the pre-1 May 2004 European Union, consisting of 15 Member States. Publishing now provides nearly 750,000 jobs, in 64,000 companies across today's 25 Member State Union. The sector is dominated by small and medium sized enterprises, although 0.8% of companies that employ more than 250 people account for more than half the total revenue of the sector. Some 50,000 small companies contribute the rest, evidence of high diversity. Newspapers are the largest sub-sector (36.8% of output) followed by journals and periodicals (32%) and books (24.6%).

The lag in the availability of official statistics - together with the industry's development beyond the traditional statistical template based on print - mean that all judgements based on statistics need to be nuanced with a reserve. However, the analysis cited in this paper suggests that European publishing is internationally competitive and scores well against various metrics. The ratio between production and consumption suggests that a number of Member States have positive trade balances. Commonly used languages like French, Spanish, English and German constitute a competitive advantage in this respect. In general, publishing is not heavily exposed to international competition, as suggested by low scores for trade openness (exports + imports/production), except in smaller Member States that are net importers, notably Ireland, Belgium and Austria. EU exports amounted to over €5 billion in 2002, some five times more than the USA.

The paper's consideration of factors underlying competitiveness suggests that the following will remain relevant for the next few years. Paper will remain a significant cost, especially for newspapers. Content and acquisition costs vary across the different sub-sectors, high in newspapers and much lower in book publishing. Fixed distribution costs are also higher for newspapers and periodicals. Efficient postal services remain essential still, given the importance of the subscription model for periodicals especially, accounting for 90% of their sales. Although publishing has a greater than average take-up of ICT inside companies, electronic delivery is still in the early stages of experimentation. No definitive business models exist for on-line distribution yet in the principal publishing sub-sectors.

Turning to revenues, newspapers depend on advertising for between 50-60% of their revenues, with directories deriving 67% of their revenues from this source. These sub-sectors are therefore very sensitive to advertising restrictions and public authorities need to assess with great care the impact of any proposed restrictions that could affect advertising revenues. A supportive copyright regime in the digital age is also essential, with the industry now taking

a strong interest in digital rights management (DRM) technologies. DRM is also an enabler for the on-line business models which publishers strive to develop.

Publishers face significant structural change. There has been a continuous circulation decline for newspapers in particular owing to new consumption patterns and shifting demographics. The 45+ age group is the core newspaper readership, consisting of over 180 million people across the EU25. Even if this group will sustain newspaper publishing for some years, younger readers' preference for other media is already clear. Newspaper advertising revenue is in slow decline, with some segments like recruitment advertising moving rapidly to the internet.

The time devoted by consumer to consuming media is not increasing and the proportion devoted to different media is changing. TV and radio account for nearly 70% of consumption time, but internet shows the fastest growth, having captured a 10% share already. Publishers have not yet been able to build the business models necessary to exploit on-line distribution; their web sites are frequently cross-subsidised by print revenues. The traditional model of vertically-integrated content, production and distribution is already being challenged by new models. New media redefine the role of earlier media even if they do not replace them.

In terms of a future policy framework, it is important that European and national public authorities conduct impact assessments of any regulatory proposals that might affect the economy of publishing. One future topic could be an examination in greater depth of the potential impacts of new technology on the sector. Publishers tend to be good at incremental innovation, but less adept at responding to more radical change. In order to migrate fully and successfully to new media the sector faces a challenge that is comparable in scale to the earlier one which enabled modern publishing, the shift from monkish manuscripts to the Gutenberg press. Other areas that could be explored include access to finance - generally more difficult for SMEs - and the role of corporate social responsibility, which can both reduce risk and stimulate innovation. The paper's detailed recommendations include follow-up studies on competitiveness, innovation, effective use of intellectual property rights and more timely statistics.

In summary, the future role of public policy is to create favourable conditions for the industry and support a posture of vigilance and innovation into the future. This will help European publishing to realise its full potential in the digital economy, by maintaining and enhancing its competitiveness. Maximising the potential of publishing will also promote the diversity of opinion and culture that the peoples of Europe need in order to derive the richest benefits from the information society.

Consultation – questions for the sector, civil society and public authorities

This staff working paper

- (1) Does this paper accurately describe the main indicators for competitiveness across different publishing segments?
- (2) Are there any further issues you would add in respect of publishing, notably with regard to the policy approaches set out in the Commission's recent i2010 communication?

- (3) Are current industry structures across all segments likely to survive the transition to electronic value chains? What are the major barriers and threats to publishers during the transition? What are the opportunities for publishers arising from new information and communications technologies?
- (4) How will business models evolve and how far will Digital Rights Management systems be essential for their successful implementation?

The nature of the link between diversity of ownership and diversity of content

- (5) How far is there tension between the need for open outcomes in economic terms at a time of rapid technological change and the political desire to support democratic values including diversity?
- (6) How far is diversity of content and ownership likely to be self-sustaining in fully electronic markets, given for instance lower entry barriers to citizens' direct participation (eg blogs)?
- (7) In converging markets, from the perspective of publishing, what approaches would you suggest for co-existence between the two different traditions of regulated, licensed broadcast media and unlicensed press?

Advertising; integrated media policy

- (8) In relation to advertising regulation, what are your reasoned preferences in relation to the different instruments available, voluntary self-regulation, co-regulation and statute law?
- (9) From the perspective of publishing, what are the main issues that an integrated media policy - i.e one that covers all media sectors - should address?

1. INTRODUCTION

With the enlargement of the European Union to 25 Members States in May 2004, the publishing industries constitute an important economic sector employing 750.000 people in almost 64.000 companies. As a knowledge-based industry, publishing has the potential to contribute to the new Lisbon agenda in which growth and jobs take centre stage.¹

The publishing sector is relatively strong and contributes to European competitiveness. Whereas the widening productivity gap between the EU and the US is for many sectors a matter of concern, this does not apply to the publishing industry. In fact, one source even suggests that EU publishing has been outperforming its US counterpart for more than ten years.

However, such international comparisons are not very relevant for EU publishing, which is only in direct competition with the US in a few market segments. Furthermore, the concept of competitiveness is much broader and should not be limited to such peer reviews. Defined as the capacity of an economy or sector to create wealth, there is always room for further improving competitiveness.

Based on the main principles of European Industrial Policy, as further described in the Communication on Industrial Policy in an Enlarged Europe,² this Commission Staff Working Paper aims to:

- describe the economic profile of the EU publishing sector, by providing a definition of this sector as well as the related statistical picture;
- analyse the competitiveness of the EU publishing, as measured in terms of productivity, specialisation and openness;
- analyse further the drivers of competitiveness, which have an impact on the costs and revenues of this sector as well as on structural change;
- set out a media policy agenda for sustaining the competitiveness of EU publishing, by applying elements, such as innovation, better regulation and sustainable development to this specific sector.

It is not the ambition of this document to address all issues, which may be of particular interest and relevance for the EU publishing sector. Its main focus lies on competitiveness aspects and how media policy may address them. This is not to say that other issues, such as the role of publishing as a watchdog of democracy and freedom of opinion and information as well as cultural diversity (Article 151 (4) of the Treaty and Article 11 of the EU Charter of Fundamental Rights) and the role of EU competition policy are of secondary importance. Media policy in support of competitiveness needs to take full account of these and other

¹ Working together for growth and jobs - A new start for the Lisbon Strategy, Communication to the Spring European Council – COM(2005) 24, available at: http://europa.eu.int/growthandjobs/key/index_en.htm

² Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions. COM(2002) 714 Final – available at: http://europa.eu.int/comm/enterprise/enterprise_policy/industry/doc/com714-2002_en.pdf.

important aspects of publishing; however they do not constitute the focus of this working paper.

2. THE EUROPEAN PUBLISHING SECTOR: THE STATISTICAL PICTURE

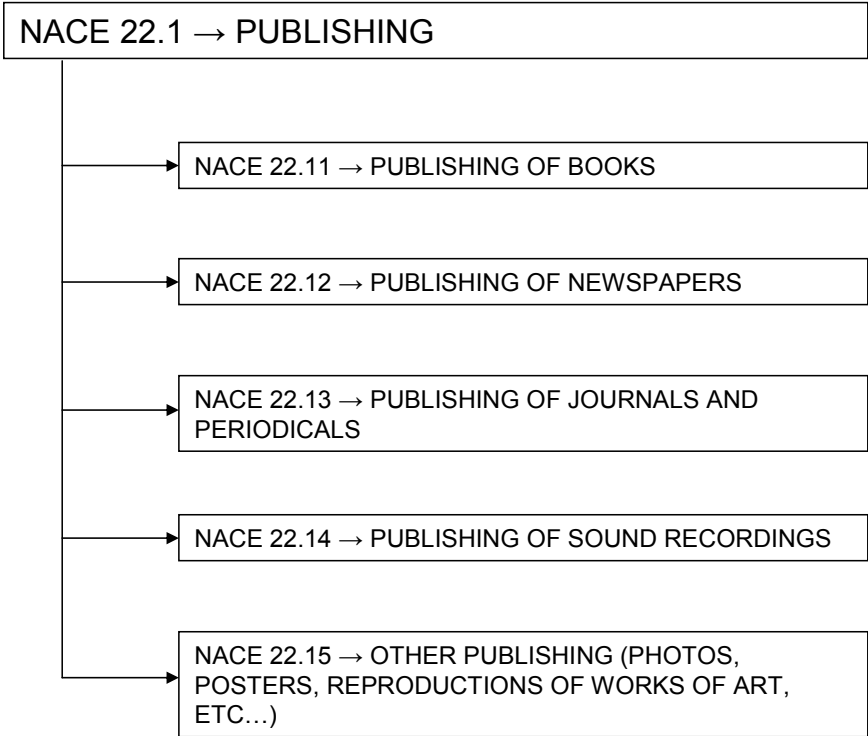
The publishing industries are characterised by different types of activities, covering both content production as well as industrial manufacturing. In this sense, the publishing industries are a “hybrid” between the old and the “new” digital economy. This clearly limits the possibility to draw definitive conclusions from the aggregated data and statistics currently available. Nevertheless, it seems necessary to define this sector and to present some key statistical indicators before further discussing the driving factors of competitiveness and how supporting media policy initiatives can affect them. This is the purpose of the present chapter.

2.1. The definition of the publishing sector

Following usual statistical conventions, as defined in section 22.1 of the classification of economic activities in the European Union (NACE), “publishing” includes the publishing of books, newspapers, magazines and journals, sound recordings as well as other publishing, such as photos, timetables, posters, etc. (see figure 1). For the practical purposes of this paper, the sub-sector publishing of sound recordings (NACE 22.14) is excluded from the economic analysis and policy related considerations.

There are also some interesting borderline cases. For example, individual authors working freelance are not considered as part of publishing and are included in NACE category 92.31 rather than in category 22.1.

Figure 1: Publishing in the NACE industrial classification



The increased use of digital technologies is having a profound impact on the definition of the publishing industries, which are characterised by the creation, aggregation and distribution of content. The goods and services delivered by publishers are increasingly subject to full digitisation and can therefore be decoupled from traditional delivery mechanisms; boundaries between different types of content providers are blurred. Content may these days be “wrapped” in different ways and distributed through different channels, such as the Internet or mobile telephone networks. Large media companies may also be present in the new distribution channels; however in statistical terms this may not be considered and measured as part of the publishing sector.

2.2. The publishing sector in figures

Following the NACE industrial classification, statistical data on the publishing sector is systematically published by Eurostat, with input from the National Statistical Bodies and based on Council Regulation 58/97, concerning structural business statistics. Therefore, the economic activities of this sector are generally well documented in statistical terms, however with the usual time-lags.

In the year 2001, the publishing sector (EU-15) generated output of some €117 billion, with a value added of more than €43 billion, as measured in factor cost. This represents 0.49% of the total Gross Domestic Product (GDP) of the EU, however with great regional differences. While the publishing sector represents 0.29% of the economy in countries like Ireland and Italy, in the United Kingdom this sector has the highest relative weight in the economy, with 0.82% of the total GDP. With a relative weight of 0.48% (EU average), Germany could be considered a country with a publishing sector representative of the EU in terms of relative economic weight.

Publishing output in the ten new Member States amounted to around €4.5 billion in the year 2001, equivalent to the production of Sweden in the same period. The share of value added in publishing compared with the total GDP is similar in the ten new Member States to that of the EU-15, with an average of 0.54%. Poland is the new Member State where publishing has a higher relative importance in terms of added value, with 0.77% of the GDP. On the other hand, publishing in Cyprus represents only 0.17% of the total economic weight of the country.

In the years 1999-2000, the production value of publishing in the EU-15 grew by 6%, whereas it fell by 1% in the years 2000-2001. In terms of added value, the added value for the sector grew 5.2% in the period 1999-2000 and fell by 2.6% in the period 2000-2001. Given that publishing goods and services tend to have high income elasticity (>1), this drop in production value and added value in the year 2001 (when some of the big countries in the EU were close to recession) could indicate some degree of dependence by publishing on the business cycle, but the available data is not conclusive.

In the year 2001, the publishing sector in the EU-25 employed nearly 750,000 people, in almost 64,000 companies. With an average size of 12 employees, the publishing sector is dominated by small enterprises. However, the average size ranged from 6 employees in Sweden to almost 40 in Ireland. In the 10 new Member States the publishing sector comprises altogether 9,900 companies, employing about 75,000 people.

Small and medium sized enterprises (1-49 employees) represent 97% of all publishing companies in EU-15 (see figure 2). However, it is worth noting that the 0.8% of companies that employ more than 250 people accounts for more than half of the total turnover of the

sector. The other half of the revenue is generated by the more than 50.000 companies smaller than 250 employees across the EU, which indicates the high degree of diversity of the European publishing industries.

Figure 2: Size class distribution of the publishing sector in the EU-15 for the year 2001

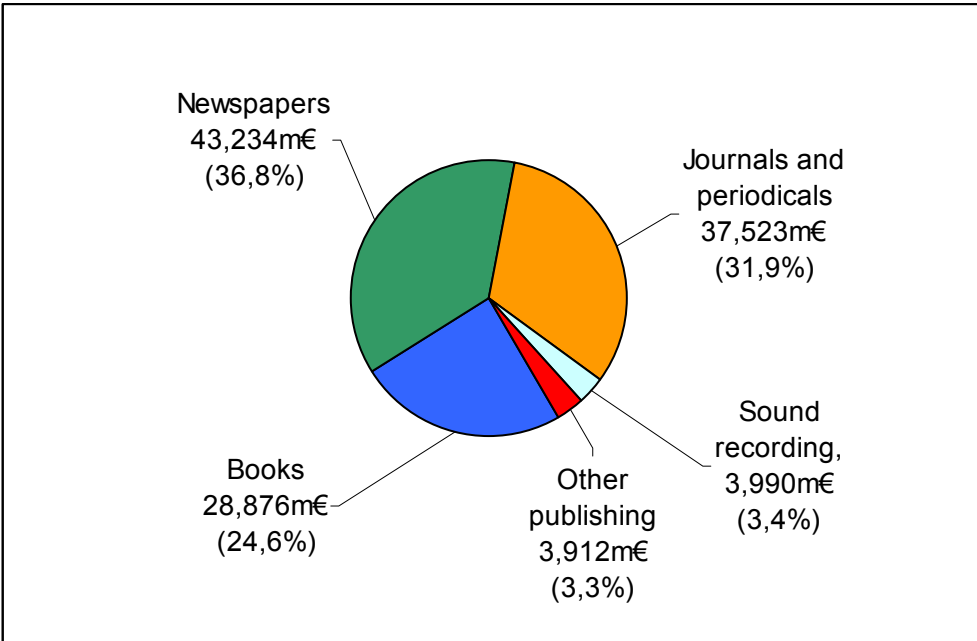
| NACE 22.1 Publishing | Number of employees | | |
|--------------------------------|---------------------|-----------|-------|
| | 1 to 49 | 50 to 249 | > 250 |
| Number of enterprises (%) | 97,0% | 2,2% | 0,8% |
| Turnover (%) | 27,4% | 21,7% | 51,0% |
| Number of persons employed (%) | 31,4% | 22,5% | 46,1% |

Source: Eurostat, New Cronos 2004

Within publishing, newspapers are the most important sub-sector, with 36,8% of production value in the year 2001, followed by journals and periodicals with 32% and books with 24,6% (see figure 3). Publishing is thus a very heterogeneous sector, and although book and newspaper publishing may have a lot in common, their cost and revenue structures are quite different. For instance, while advertising is the main revenue source for most newspapers, it is only of little importance for books. This has implications for the driving factors of competitiveness in each sub-sector.

A table with some of the main economic figures (production value, value added, number of enterprises and number of employees) for the publishing industries in the 25 Member States is presented in the Annex A.

Figure 3: Relative importance of publishing sub-sectors (in production value 2001)



Source: Eurostat, New Cronos 2004

The continuous and timely availability of statistical data on the key economic indicators of the sector is important for the assessment of the performance and competitiveness of the European publishing industries. In general, the current statistical situation offers reasonable if

imperfect coverage, even for the ten new Member States. However, it has to be noted that most of the statistical data is only available with a time lag of two to three years, which limits the usefulness of the data when assessing current trends and problems. Furthermore, for some countries the data is almost systematically not available or is even more outdated.

2.3. Towards a new definition of the publishing

It is widely recognised that the current NACE industrial classification, which dates from 1990, does not adequately reflect anymore the economic situation of the publishing sector. As a first step, the classification scheme was updated, with some small changes, with effect of the 1 January 2003.

The next change is planned for 2007, when all three major activity classifications, the ISIC Rev3.1 (United Nations Statistical Division), the NACE Rev.1 and the NAICS (North American Industrial Classification System) will be revised and converged. This revision process of the NACE industrial classification will also have some important implications for the publishing sector.

The key objective for the 2007 revision is the development of a modern classification system, which will better reflect economic reality. For this purpose, Eurostat consulted the National Statistical Offices as well as the user community on their needs and expectations. This open consultation was concluded at the end of 2003 and it reached broad consensus about the proposed changes. In 2008, national statistical offices will start to collect data using the new classification system, with publication foreseen in 2010. The European publishing sector was fully associated with this process and actively contributed, with the support of Directorate General Enterprise.

Most notably, the current proposal for the revision of the NACE classification includes the creation of a new “Information Sector”, which will bundle the publishing industries with a number of other related sectors (see figure 4). This new sector represents one of the most fundamental changes proposed to the NACE classification and would separate the content acquisition and modification processes from the manufacturing process of printing.

Figure 4: The new NACE industrial classification and publishing

| Current NACE classification | NACE after 2007 |
|--|--|
| (22) Publishing and Printing | <u>(58) Publishing activities</u> |
| (22.01) Publishing | <u>(58.1) Publishing of books, periodicals and other publishing activities</u> |
| (22.11) Publishing of books (22.12) Publishing of newspapers (22.13) Journals and periodicals (22.14) Sound Recording (22.15) Other publishing (22.02) Printing and service activities related to printing | <u>(58.11) Book publishing</u> <u>(58.12) Publishing of directories and mailing lists</u> <u>(58.13) Publishing of newspapers</u> <u>(58.14) Publishing of journals and periodicals</u> <u>(58.19) Other publishing activities</u> <u>(58.2) Software publishing</u> <u>(58.20) Software publishing</u> <u>(59) Motion picture, video and television programme production, sound recording</u> <u>(59.1) Motion picture, video and television programme activities</u> <u>(59.11) Motion picture, video and television programme production activities</u> <u>(59.12) Motion picture, video and television programme post-production activities</u> <u>(59.13) Motion picture, video and television programme distribution activities</u> <u>(59.14) Motion picture projection activities</u> <u>(59.2) Sound recording and music publishing activities</u> <u>(59.20) Sound recording and music publishing activities</u> |

A full discussion of this revision is beyond the scope of this paper; however, it is worth signalling several other major changes. The directory and database sub-sectors will be included in the new proposed Information Sector, contrary to the current NACE classification. This is an improvement. Taking into account the different nature of sound recording from other publishing sectors, it is also planned to form a specific group “Sound recording activities” under a division which will explicitly cover “Motion picture and sound recording activities”. Therefore, this industry is out of the scope of this working document.

Improved statistical coverage with timely availability of data is a pre-requisite for effective policy analysis and monitoring. The new NACE classifications will contribute to solid foundations for policy development. However, Member States should consider allocating higher priority to more timely collection and processing of data on the publishing industries at

national level. This paper – prepared in 2004 – could only draw on official statistics from 2001.

3. THE COMPETITIVENESS OF EU PUBLISHING: SOME KEY CONCEPTS

The concept of competitiveness has different meanings in different contexts in respect of the publishing industries. There is often confusion between the competitiveness of individual firms and competitiveness at macro-economic level, referring to the totality of an industrial sector or a country, which are, in turn, different concepts. From a macro-economic point of view, competitiveness is not a zero-sum game, with winners and losers. In a modern understanding of the concept, competitiveness also includes the sustainability aspect. In this sense, the Commission's Communication on Industrial Policy³ defines competitiveness as the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis.

This chapter analyses the competitiveness of the European publishing industries, based on commonly used indicators, such as labour productivity, specialisation index and trade openness. Taking into account the diversity of the sector, it has to be admitted that the results of such an analysis are not easily interpreted. Therefore, further competitiveness factors behind these indicators will be considered in the next chapter in order to better understand the competitive strengths and weaknesses of the European publishing sector.

3.1. Labour productivity

The most common approach for measuring the competitiveness of a country or a sector is based on labour productivity and labour productivity growth over time. The relevant figures on the recent development of labour productivity in the publishing industries, together with other related indicators such as the simple wage adjusted labour productivity and the labour cost per employee, are summarised in Annex A. It should however be noted that direct comparisons of the figures on labour productivity across countries do not capture the differences in relative producer prices and are, therefore, of limited value. To establish more meaningful comparisons across countries, the data needs to be adjusted in order to reflect the "Purchasing Power Parities" between different countries.

One source consulted by the Commission services for preparing this paper suggests that publishing is one sector where labour productivity in the EU is higher than the US (see figure 5). According to this source, the publishing sector has displayed higher labour productivity growth within the EU-15 than in the US consistently since 1979. It is claimed that levels of productivity growth in printing and publishing have experienced a remarkable progression in the EU over the period 1979-2001. The Commission services have been unable to validate this analysis independently; however, if one accepts this assessment, some part of the productivity improvement can be attributed to efficiencies gained through investment in ICT.

³ cited in footnote 2 above

Figure 5. Labour productivity levels in EU manufacturing industries relative to the US (US=100)

| | 1979-81 | 1994-96 | 1999-01 |
|---------------------------|---------|---------|---------|
| Printing and publishing | 67 | 120.3 | 134.5 |
| EU-14 (all manufacturing) | 84.6 | 88 | 80.3 |
| US | 100 | 100 | 100 |

Source: EU Productivity and competitiveness: An industry perspective, M. O'Mahony and B. Van Ark, 2003

In any case, productivity figures are generally difficult to interpret and further analysis may be needed to explain the differences in labour productivity amongst Member States, before any policy conclusions are drawn. As shown in figure 6, there are large differences in productivity amongst different Member States, with Austria recently experiencing the highest growth rates. Altogether, the development of productivity in publishing is above the average manufacturing industry in the EU; this may indicate a relative strength of the sector.

Figure 6. Annual productivity growth in publishing over the period 1979-2001

| Country | 1979-90 | 1990-95 | 1995-01 |
|--------------------|------------|----------|------------|
| Belgium | 4 | 6.9 | 0.9 |
| Denmark | -0.1 | -0.8 | 1 |
| Germany | 1.2 | 2.6 | 2.3 |
| Greece | 1.5 | 0.7 | 4.5 |
| Spain | 6.1 | -1 | 0.9 |
| France | 1.7 | 0.7 | 0.7 |
| Ireland | 7 | 4.7 | -1.5 |
| Italy | 0.9 | 4.4 | 0.8 |
| Luxembourg | 4 | -0.1 | -3.2 |
| Netherlands | 2.7 | 3.5 | 2.7 |
| Austria | 5.4 | 0.8 | 6.7 |
| Portugal | 0 | 2.2 | 3.5 |
| Finland | 3.8 | 3.9 | 2.5 |
| Sweden | 0.5 | 9.8 | 2.1 |
| United Kingdom | 2.4 | 1.7 | 0.4 |
| Total EU-15 | 2.3 | 2 | 1.9 |
| US | -1.4 | -2.9 | -0.5 |

Source: EU Productivity and competitiveness: An industry perspective, M. O'Mahony and B. Van Ark, 2003

3.2. Specialisation index

Another indicator to measure the relative competitive positions of industries in different countries is the specialisation index, defined as the ratio between production and consumption. A value greater than 1 indicates, in principle, a high performance, suggesting that a country is a net exporter in a specific sector. This index is an alternative expression of the trade balance (exports minus imports).

Figure 7. Specialisation index for the publishing industries in 13 EU member states*

| | Publishing | Books | Newspapers, magazines and Journals |
|----------------|------------|-------|--|
| Austria | 0.85 | 0.52 | 0.95 |
| Belgium | 1.07 | 0.96 | 0.91 |
| Denmark | 0.98 | n/a | n/a |
| Finland | 1.05 | 1.01 | 1.03 |
| France | 1.0 | 1.0 | 1.0 |
| Germany | 1.07 | 1.06 | 1.02 |
| Ireland | 0.86 | 0.53 | 0.87 |
| Italy | 1.08 | 1.09 | 1.01 |
| Netherlands | 1.02 | 0.98 | 1.01 |
| Portugal | 0.88 | 0.96 | 0.91 |
| Spain | 1.26 | 1.19 | 1.01 |
| Sweden | 0.97 | 0.91 | 0.87 |
| United Kingdom | 1.03 | 1.14 | 1.02 |

Source: The EU publishing industry: an assessment of competitiveness, March 2003

* EU prior to 1 May 2004 adhesions; no figures available for Greece or Luxembourg

Following the results of the Pira study on the competitiveness of the EU publishing industries of 2003⁴, as presented in figure 7, publishing in Spain is characterised by the highest degree of specialisation. This is mainly due to book exports to a growing Spanish speaking market, and in particular, to South America. On the other hand, publishing in Austria, Ireland and Sweden present some of the lowest values for this index. This may be explained in terms of high levels of imports, as many business and individuals in these countries rely on information from abroad, mainly in English.

The usefulness of the specialisation index seems however rather limited when measuring the competitiveness of the publishing industries. The main lesson to be learned from this index is that commonly used languages, like French, Spanish, English or German, constitute a competitive advantage for the publishing industries in these countries as this contributes to larger relevant markets.

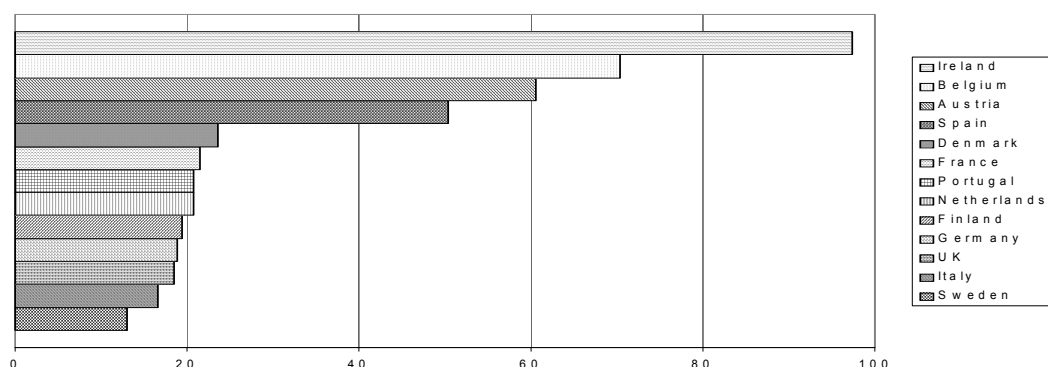
⁴ The EU publishing industry: an assessment of competitiveness, March 2003 - http://europa.eu.int/comm/enterprise/ict/policy/doc/pira_2003_1046_en.pdf

3.3. Trade openness

With a few exceptions, the national publishing industries in the EU are not very exposed to competition from abroad, nor are they strongly export-oriented. This is reflected by the trade openness index, which is defined as (exports + imports) / production.

As shown in figure 8, the countries with the highest trade openness index in publishing are Ireland, Belgium and Austria. These countries are characterised by high levels of imports from neighbouring countries with common languages. Spain also shows a high degree of trade openness, however mainly due to high exports.

Figure 8. Trade openness for the publishing industries in the EU



Source: The EU publishing industry: an assessment of competitiveness, March 2003

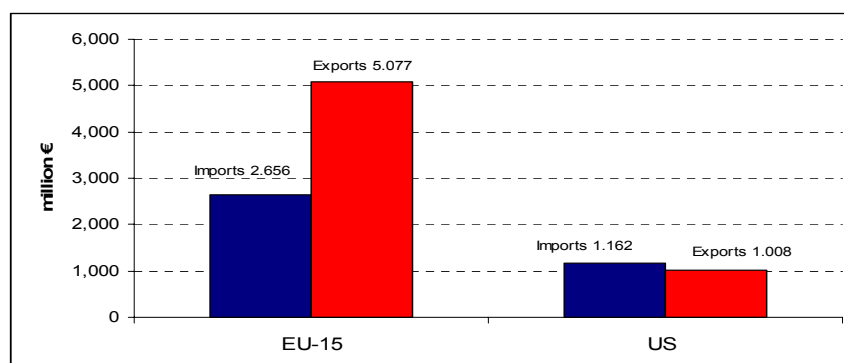
In other large economies, like the UK, Germany and Italy, the trade openness is much lower despite high levels of imports and exports. Nevertheless, in comparison with their domestic production, their trade relations with other countries are of relatively low importance.

In 2002 the EU exported publishing goods worth €5.077 million, which is five times more than the US. At the same time, the EU imported publishing goods worth €2.656 million, which is two and a half times more than the US. These figures would indicate a strong outside demand for European publishing products, but at the same time, that the EU is the world's most important market for the consumption of print products.

These figures for import-export are aggregate and a number of important considerations must be made. It is likely that this export performance is closely related to academic journals, in which Europe is a strong global player. Second, the export figure is likely not being spread evenly across publishing sub-sectors. Third, a distinction should be drawn between export of actual publications and export of rights, although this cannot be inferred from the available Eurostat data.

Finally, a related competitiveness factor which should be further explored is the importance of Foreign Direct Investment and production by foreign affiliates. For example, if the Financial Times that is printed in Germany counts as German, then there is an underestimate of the competitiveness of UK publishing.

Figure 9. Exports and imports in publishing in the EU-15 and the US for the year 2002



Source: Eurostat, COMEXT, 2004

4. FACTORS BEHIND COMPETITIVENESS: COSTS, REVENUES AND CHANGE

In general, previous analysis draws a positive picture of the competitiveness of the European publishing industries. In terms of labour productivity, publishing ranks amongst the better-performing industrial sectors in Europe. Furthermore, the specialisation index shows that publishing in the bigger EU markets (United Kingdom, Spain, France and Germany) benefits from having common languages with other European countries and other regions of the world.

However, it has to be noted that this kind of statistical analysis does not tell that much about the driving forces of competitiveness. To complement the picture obtained from the indicators discussed above, it seems useful to further analyse the most important determining factors of competitiveness, which can be grouped around the driving forces of cost, revenues and structural change.

4.1. The main cost factors

As demonstrated in figure 10, the cost structures of European publishing industries vary considerably between different countries and different sectors within publishing. Paper still represents an important variable cost, linked to the number of copies produced and the type of paper used. Newspapers, because of their periodic nature, consume the greatest amount using relatively inexpensive paper. On the other hand, directories have relatively low paper costs because of the frequency, long shelf-life and lower paper quality. Also in future, paper cost will constitute an important cost factor for the publishing industries. No real fall in paper requirements is expected in the short future, except for journals and directories.

Figure 10. Cost as a percentage of total cost

| Country | Sector | Paper and printing | Content (acquisition and editing) | Distribution | Marketing and administration |
|----------------|--------------------|--------------------|-----------------------------------|--------------|------------------------------|
| Austria | Consumer magazines | 45 | 25 | 15 | 15 |
| | Newspapers | 30 | 20 | 20 | 30 |
| | Business magazines | 25 | 25 | 35 | 5 |
| Finland | Newspapers | 28 | 26 | 21 | 26 |
| Ireland | Newspapers | 30 | 45 | 9 | 16 |
| Italy | Newspapers | 40 | 40 | 10 | 10 |
| | Magazines | 30 | 13 | 12 | 45 |
| Luxembourg | Newspapers | 28 | 40 | 5 | 27 |
| Spain | Newspapers | 35 | | 25 | |
| Sweden | Magazines | 15 | 20 | 30 | 40 |
| United Kingdom | Newspapers | 28 | 10 | 12 | 20 |
| | Magazines | 25 | 15 | 17 | 23 |

Source: Pira International, UK, 2003, Part 2, p.27

The results of the e-Business W@tch survey show that current participation in e-marketplaces in the media and printing sectors, as well as future usage expectations, is in line with the average for all sectors. In areas like directory publishing, the development of online business-to-business directories has become a core component of its business strategy.

In general, the most important activities on e-marketplaces in publishing are catalogue-based buying or selling, which indicates a continuation of traditional forms of trading. The second most important activity on e-marketplaces is participation in calls for tender from governments and big companies. Figure 11 summarises the main activities in e-marketplaces declared by companies.

Figure 11. Activity in e-marketplaces

| Activity on e-marketplaces | All sectors | Media and printing |
|----------------------------|-------------|--------------------|
| Catalogue-based offering | 41 | 45 |
| Catalogue-based purchasing | 36 | 43 |
| Selling on auctions | 16 | 20 |
| Bidding on auctions | 18 | |
| Launching calls for tender | 15 | 20 |
| Answering calls for tender | 24 | 45 |

Base: EU-4 (D, F, I, UK) for "all sectors", EU-7 for media and printing, enterprises participating in e-marketplaces. N=33 (for media and printing sector), N=290 (for all sectors). In % of enterprises. Reporting period: June/July 2002.

Source: e-business Watch Function, Sector Impact Study No. 08-II: ICT & e-business in the Media and Printing Sector, March 2003

Printing costs are another important cost factor for publishing. However, digital forms of production may offer cost savings in the future as well efficiency gains resulting from business process automation. In this respect, it seems worthwhile to analyse further the take-up of e-business by the publishing sector. A first analysis was provided by an e-Business W@tch sectoral report⁵ on media and printing. Amongst other findings discussed in this report, the publishing sector shows a considerable advantage over the average of other sectors in the use of online technologies for internal business processes (see Figure 12). However, as in many other industries, the existence of a clear ROI (Return-On-Investment) case in ICT is difficult to prove for many publishing companies.

Figure 12. Use of online ICT technologies in media and printing

| Online technologies used | All sectors ° | Media and printing | | | |
|---|---------------|--------------------|------------|--------------|------------|
| | | All enterpr. ° | 0-49 empl. | 50-249 empl. | 250+ empl. |
| To share documents/ to perform collaborative work | 46 | 55 | 40 | 50 | 85 |
| To automate travel reimbursement of employees | 12 | 10 | 4 | 8 | 23 |
| To track working hours and production time | 26 | 21 | 11 | 33 | 34 |
| To support human resources management | 23 | 21 | 9 | 21 | 39 |
| For e-learning | 19 | 23 | 12 | 27 | 42 |

Base: EU-4 (D, F, I, UK), all enterprises (N=404). Figures in % of companies, except °: Figures weighted by employment ("enterprises comprising ...% of employees")

Source: e-business Watch Function, Sector Impact Study No. 08-II: ICT & e-business in the Media and Printing Sector, March 2003

In any case, such further analysis would only make sense if the results were intensively discussed with the publishing sector; agreement has in the past been difficult to achieve.

Newspapers and magazines normally have high content acquisition and processing costs. The adoption of ICT may render the content acquisition process more flexible and efficient, but it might also raise entry barriers because of the need to invest in ICT. Newspapers have the highest labour requirements amongst the publishing industries and can also incur significant expenditures if they buy syndicated editorial content from external sources, both national and international.

By contrast, book publishers usually only maintain a small number of editorial staff who evaluate manuscripts and then purchase the rights to them from authors. As most compensation is based on sales levels, content acquisition represents a relatively lower cost.

Distribution costs can be both fixed and variable costs, depending on whether special distribution systems exist or not. The costs are higher for newspapers and magazines than for

⁵ e-business w@tch function - Sector Impact Study No. 08-II: ICT & e-business in the Media and Printing Sector, March 2003, www.ebusiness-watch.org

books and directories. The data available is patchy, but it can be estimated that distribution costs represent, on average, around 15 to 20% of total costs, although with a considerable dispersion from this average.

Electronic distribution of content can extend physical distribution by facilitating special print editions and by reaching niche markets (expatriates, travellers). It is worth noting that ICT-enabled print-on-demand can reduce unsold print copies and therefore help maximise profits. Electronic delivery channels introduce an important change in cost structure, as distribution costs are near-zero.

For newspapers, magazines, and increasingly books, the quality and cost of postal services is of critical importance. Only 10% of consumer magazines are supplied internationally via retail outlets⁶, with the remaining 90% relying on quality postal services. The further liberalisation of postal services in the EU may result in a reduction of distribution costs for print products. On the other hand, maintaining the obligation of universal postal services remains a matter of concern for publishers.

An additional question of concern to publishing companies in consumer books, magazines, newspapers and other sectors is the issue of discounting, whereby all give away some of their margin to various players in the distribution channel. The exercise of market power by distribution players may have a considerable impact on the economic sustainability of the sector.

In conclusion, it can be said that the competitiveness of the publishing industries strongly depends on the prices of raw material (paper) and distribution costs, which may amount to up to 40% to 50% of total costs in many cases. From this point of view, publishing represents a rather traditional industry.

4.2. The main revenue factors

The revenues of some sub-sectors of publishing are heavily dependent on advertising. In most EU countries newspapers depend on advertising for between 50% and 60% of their revenues, in the case of Luxembourg it is even 80%⁷. For directories, 67,5% of revenues resulted from advertising in 2003⁸. Only for book publishing is advertising of relatively low importance.

As a result, the decline of advertising revenue in recent years has affected the profitability of many publishing companies. The strong dependency on advertising revenue makes the publishing sector very sensitive to advertising restrictions. These may have a considerable impact on the revenue base of the sector and this should therefore be carefully assessed before any restrictions are imposed.

Another critical factor of competitiveness of publishing companies is the extension of an adequate copyright protection regime to digital content, as foreseen by Directive 2001/29⁹. Piracy is a risk for content providers when considering digital distribution of their premium

⁶ Federation of Periodical Press, FIPP, 2000

⁷ Publishing Watch Function, Newspaper sectoral report 2004, <http://www.publishing-watch.org>

⁸ European Association of Directory and Database Publishers, Annual Report 2003

⁹ Directive 2001/29/EC of the European Parliament and the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ L 167, 22.6.2001, p. 10 - http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_167/l_16720010622en00100019.pdf

products and services. On the other hand, multi-channel distribution of content may offer new business opportunities. The potential revenue loss derived from piracy should therefore not only be analysed in static terms.

Publishers are not immune to the effects of piracy, neither in traditional printing nor for digital products (i.e. eBooks). Technological protection measures, also known as Digital Rights Management (DRM) systems, are emerging, which attempt to provide a secure environment for the distribution and consumption of digital content by consumers. These technological protection measures are supported by Directive 2001/29 on the harmonisation of copyright and related rights in the Information Society. However, widespread acceptance by consumers is still lacking.

The DRM debate is currently led by the audio-visual and software industries. Publishers, given the perishable nature of most of the information they publish and the different requirements of their customers, have particular needs for DRM systems and applications and these should be addressed by DRM solution providers. Publishers regard DRM as an enabling technology that can facilitate the development of new business models, with increased control over content and more precise definitions of the rights associated to the assets they commercialise. In any case, the consolidation of these DRM systems follows a market-driven approach, where public authorities just play a facilitating role for the moment.

However, it needs to be pointed out that copyright protection alone may not be sufficient to maintain the revenue bases, taking into account emerging technological developments and the shifts in consumer preferences. Legal protection needs therefore to be complemented by new business models that maximise revenues from content in the digital environment.

An important element to take into account when considering the competitiveness of individual publishing companies is related to copyright; this is the value of back catalogues. However, such data tends not to be publicly available, and a full discussion of this subject is beyond the scope of this paper. Suffice it to say that this is a tool used often to calculate company valuations.

4.3. Structural change as a permanent challenge

The sustainability aspect of competitiveness refers to the need to continuously adapt to a changing environment. The publishing industries are in particular exposed to structural changes, resulting from new technologies and changing consumption patterns.

Based on further sectoral analysis, notably the MUDIA report “The European Multimedia News Landscape”¹⁰ and the Publishing Watch Function¹¹, the following main drivers of structural change have been identified for the publishing industries:

- a continuous decline in circulation for newspapers and magazines due to new consumer patterns and changing demographics;
- a loss of revenues, mainly from advertising, and new cross-media competition;

¹⁰ MUDIA, The European Multimedia News Landscape, September 2002, www.mudia.org

¹¹ The European Newspaper Sector, Publishing Watch Function, March 2004, www.publishing-watch.org

- disruptive technologies offering alternative delivery channels for content distribution and alternative platforms for content consumption.

The decline in newspaper circulation in Europe has been ongoing for two decades, with little sign of recovery. Evidence from research suggests that the decline is general across all age groups. Taking into account that circulation has also been falling in the US and Japan, it seems reasonable to assume that this decline is of a structural nature.

An important reason for the decline in circulation appears to be the increased competition for “media time consumption” from other media, such as television and the internet. The internet now takes up to 10% of the available media time in Europe, compared with 13% devoted to reading newspapers and 8% to magazines (see Figure 13).

Figure 13: Allocation of media time (in %) by European consumers

| Media | Percentage of media time |
|------------|--------------------------|
| TV | 41% |
| Radio | 28% |
| Newspapers | 13% |
| Internet | 10% |
| Magazines | 8% |

Source: European Interactive Advertising Association, November 2003

Readership of newspapers is dominated by the 45+ years age group. This age group will actually grow over the next few years to well over 180 million people in the EU-25, representing potential loyal readers with substantial purchasing power, potentially attractive for advertisers. On the other hand, the fact that the current young readers are attracted increasingly by other media including free dailies, may contribute to a later erosion of readership.

It is not yet clear to which extent the loss of advertising revenue in newspapers in recent years may be attributed to structural or cyclical reasons. Global shares of advertising revenues commanded by newspapers fell from 32.1% in 2000 to 30.8% in 2002¹². However, taking into account the much stronger decline in publications’ circulation in this period, the relative importance of advertising revenues has even increased.

It has to be noted that other media have also suffered from loss of advertising spend. Advertisers are demanding greater accountability and effectiveness from their advertising spend and are adopting a more media-neutral strategy in their campaigns. Therefore, there is a growing need for neutral statistical information about effective circulation and media use. The publishing and advertising industries are best placed to agree on common standards and metrics for the measurement of media usage.

The loss of advertising is nowhere as clear as in the case of recruitment advertising. Internet-based services are capturing an increasing share of the available recruitment advertising revenue, in an already stagnant market, due to the general economic situation. Public sector recruitment advertising is being shifted to online platforms in some Member States, which is

¹² source: World Association of Newspapers, <http://www.wan-press.org/>

further eroding the revenue base of some long established publications. This shift in advertising has to be accepted as part of structural change towards the “digital economy”, which affects publishing more than other industries.

Recent years have been marked by the emergence of a number of disruptive digital technologies, such as the internet, mobile and wireless communication, print-on-demand, etc, which have all opened up innovative new ways of delivering content to customers. Such technologies have the potential to allow newcomers to enter into publishing thus challenging existing distribution channels and business models. However, it is still an open question, how digital content can best be turned into revenue.

The economics of digital goods, as described by near-zero marginal costs and network effects, pose an unprecedented challenge to publishing, as well as to potential newcomers in this area. Traditional roles in value and network chains are being re-examined and value creation is migrating within delivery chains. The traditional model of vertically integrated content production and distribution is giving way to a new media model, which is characterised by the emergence of new intermediaries rather than by the removal of existing intermediaries. The availability of new online publishing techniques, such as web logs, community-based sites, printing on demand, etc., suggest that entry barriers to publishing will decrease. However, as illustrated by the MUDIA research project,¹³ the fact that everyone can potentially become a content provider is not considered anymore as one of the main drivers of industry change. Rather, established publishing companies seem to be best positioned to take advantage of the digitisation of content, due to their trusted brands and their strong customer base.

A threat to current major media enterprise and traditional business models may come from fragmentation of reader attention. This threat is intimately connected with the disruption to the value chain caused by digitisation.

So far, very few content companies – either new entrants or established players - have managed to build sustainable online business models for their products and services. Many online business operations are in fact being “cross-financed” by their offline profitable siblings. This is confirmed by the fact that the same MUDIA project identified “finding a revenue model” as the main driver for industry change.

5. TOWARDS A MEDIA POLICY FRAMEWORK IN SUPPORT OF EUROPEAN PUBLISHING

Although European publishing firms compete in an increasingly global economy, the business conditions they face in the internal market are key determinants of their competitiveness, growth and employment performance. These “framework conditions” within which businesses operate may be fixed by the European Institutions and/or national governments or may depend on private or semi-private structures.

The Commission Communication on Industrial Policy¹⁴ takes stock of the situation of framework conditions in the internal market and suggests a more systematic EU approach for improving them. The EU has striven to develop new approaches to regulation that aim to

¹³ MUDIA – The future of news media industries – Validated scenarios for 2005 and beyond, December 2001, www.mudia.org

¹⁴ Communication “Industrial Policy in an enlarged Europe COM(2002) 714 final – available at http://europa.eu.int/comm/enterprise/enterprise_policy/industry/doc/com714-2002_en.pdf

make it less burdensome for businesses, including the Action Plan on “simplifying and improving the regulatory environment”.¹⁵

Industrial competitiveness also depends on policies such as competition, the internal market, research and development, taxation, education, trade and sustainable development. In this chapter a number of these key factors for industrial competitiveness are reviewed in the context of the publishing sector.

5.1. Achieving better regulation

The publishing sector is affected by many different types of European legislation, ranging from advertising restrictions to the protection of intellectual property rights. Consequently, the European publishing associations are very active in protecting their sectoral interests. A good example of this was the Publishers’ Resolution¹⁶ issued in March 2002, with the occasion of the Publishers’ Forum “Publishing in the Digital Age”, which called upon the European Institutions “to implement positive policies for European publishing, promoting the competitiveness of European publishing and Europe’s cultural identity by ensuring by every means possible the widest availability of all kinds of publications”.

Enterprise policy and media policy aim at helping European companies in their efforts to stay competitive. However, at the same time other legitimate interests, such as the protection of consumers, must be respected as well as calling for a balanced approach between different policy objectives.

The European Commission bears a responsibility to ensure the quality and coherence of its proposed legislation. In its Communication on Impact Assessment of June 2002¹⁷, the Commission expressed the intention “to launch impact assessment as a tool to improve the quality and coherence of the policy development process. Impact Assessment identifies the positive and negative impacts of proposed policy actions, enabling informed political judgements to be made about the proposal and identify trade-offs in achieving competing objectives. It also permits to complete the application of the subsidiarity and proportionality protocol annexed to the Amsterdam Treaty.” This concept is of critical importance to ensure a fair trade-off between different and sometimes competing policy objectives.

The Commission is committed to implementing the concept of impact assessment as widely as possible.¹⁸ An important element of this approach is the ex-ante consultation with all interested parties, which is supposed to take place early in the process of drafting legislation. In the past, the publishing sector complained of not being consulted before important Commission decisions were taken, for instance the ban on press advertising and sponsorship of tobacco products imposed by Directive 2003/33/EC¹⁹ in EU markets. The European Newspaper Publishers Association (ENPA), the European Federation of Magazine Publishers

¹⁵ Action Plan on simplifying and improving the regulatory environment – COM(2002) 278 final, available at http://europa.eu.int/eur-lex/en/com/cnc/2002/com2002_0278en01.pdf

¹⁶ Resolution for the Publishers’ Forum 2002 – “Publishing in the Digital Age”, March 2002

¹⁷ Communication from the Commission on Impact Assessment COM(2002) 276 final
http://europa.eu.int/eur-lex/en/com/cnc/2002/com2002_0276en01.pdf

¹⁸ http://europa.eu.int/comm/secretariat_general/impact/index_en.htm

¹⁹ Directive 2003/33/EC of the European Parliament and of the Council of 26 May 2003 on the approximation of the laws, regulations and administrative provisions of the Member States relating to the advertising and sponsorship of tobacco products, OJ L 152 , 20.6.2003, p. 16.
http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_152/l_15220030620en00160019.pdf

(FEAP) and the European Publishers' Council (EPC), voiced their concerns about the lack of consultation during the process of adoption of this legislation²⁰.

In this respect, the Commission services – formerly DG Enterprise, now DG Information Society and Media, with its specialised task force - are now engaged in a regular policy dialogue with the five EU publishing trade associations present in Brussels, which is often used by industry as an early warning mechanism regarding important legislative initiatives. The annual organisation of a Publishers' Forum²¹ also serves as a platform for the exchange of views between the Commission services and industry representatives on policy matters relevant to publishing in the EU.

Finally, as regards the application of EU competition rules to the publishing sector, media and enterprise policies will continue to provide accurate market information. Media policy will develop this activity in particular, as the economic observatory role of DG Information Society and Media's task force on co-ordination of media affairs evolves.²²

5.2. Stimulating entrepreneurship and innovation

The publishing sector is under continuous pressure to innovate, notably due to the “digital revolution”, which affects publishing more than other sectors. However, different and over time changing views exist concerning the nature and impact of the structural changes resulting from the digitisation of content. Following the example of the Digital Content Forum²³ in the United Kingdom, the inclusion of publishing within the remit of the task force on co-ordination of media affairs will facilitate analysis of the technological impact on the sector, including measurement of the speed and direction of innovation and ultimately facilitating structural change towards the digital economy.

Faced with competitive pressures arising from declining circulation and loss of advertising revenue, innovation will have to play a crucial role in safeguarding the competitive position of publishing in the future. However, more research is needed to ascertain how and how well publishing enterprises innovate. Publishing businesses tend to be good at incremental innovation, but more radical innovation is harder to find. A special study for the Publishing Watch Function project has explored this subject in some depth and has defined an innovation model and innovation indicators for publishing.²⁴ This research may also help further refine strategic objectives for publishing in existing Community programmes, such as the eContent programme.

Insufficient innovation has been identified as a significant cause of the EU's recent disappointing growth rate. It is believed that innovation will enable Europe meet the challenge of competitiveness and help close the GDP per head gap between the EU and the US. Innovation is the main entrepreneurial tool for gaining new markets and is relevant to all enterprises in every economic sector.

²⁰ See press release “Tobacco ad ban is disproportionate, discriminatory – and illegal - April 2002” at the European Publishers' Council website - <http://www.epceurope.org/presscentre.shtml>

²¹ See <http://europa.eu.int/comm/enterprise/ict/policy/publ-ind/index.htm>

²² http://europa.eu.int/comm/avpolicy/taskforce/taskforce_en.htm

²³ Digital Content Forum – www.dcf.gov.uk

²⁴ Publishing Market Watch Innovation Report (February 2005), available at: <http://www.publishing-watch.org/documents/default.aspx>

The new Action Plan for innovation²⁵ from Directorate General Enterprise contains supportive measures to promote innovation, which are of relevance to the publishing sector, such as those to foster an active intellectual property culture among European businesses, promote technical regulations and standards conducive to innovation, or reinforce the multi-annual programme's financial instruments.

5.3. Facilitating access to finance

Like many other sectors, publishing is strongly impacted by SMEs. Among the 64.000 publishing companies in the enlarged EU, 97% have less than 50 employees. It should therefore be expected that many of the general problems of SMEs, as described in recent policy documents, apply equally to the publishing sector.

Concerning the availability and cost of capital, the Pira study on the competitiveness of the publishing sector identified significant differences between Member States and different sub-sectors of publishing. Whereas access to capital for newspapers was considered "easy" in some countries, like Finland and the United Kingdom, the situation in other countries was described as more difficult (see Figure 14). In this respect, a question that might be posed is whether access to finance is more difficult in a sector like publishing, dominated by small and medium size companies.

The recent Communication from the Commission on "Access to finance for small and medium size enterprises"²⁶ concluded that to efficiently promote entrepreneurship in Europe, efforts at European and national level should concentrate in three areas of SME finance: improving framework conditions, focusing on early-stage finance, and increasing equity in SMEs balance sheets.

In this respect, the financial instruments of Directorate General Enterprise's Multi-annual programme for enterprises and entrepreneurship (2001-2005) provide European leverage and support for SME financing. These instruments are implemented by the European Investment Fund (EIF), which is the risk finance arm of the European Investment Bank (EIB). Furthermore, European Regional Development Fund has allocated €1.5 billion to SME development in the Member States for the period 2000-2006.

²⁵ European Commission, DG Enterprise, Innovate for a competitive Europe, April 2004 - http://europa.eu.int/comm/enterprise/innovation/action_plan/doc/innovate.pdf

²⁶ COM(2003) 713 final, available at: [http://europa.eu.int/comm/enterprise/entrepreneurship/financing/docs/com\(2003\)713_en.pdf](http://europa.eu.int/comm/enterprise/entrepreneurship/financing/docs/com(2003)713_en.pdf)

Figure 14. Access to capital in publishing

| Country | Sector | Access to capital | Cost |
|----------------|-------------|-------------------|-----------|
| Austria | Directories | Difficult | Average |
| Austria | Magazines | Difficult | Expensive |
| Austria | Newspapers | Moderately easy | Average |
| Belgium | Newspapers | Difficult | Expensive |
| Belgium | Books | Difficult | Average |
| Denmark | Magazines | Difficult | Expensive |
| Denmark | Newspapers | Moderately easy | Average |
| Finland | Directories | Easy | Expensive |
| Finland | Newspapers | Easy | Average |
| Germany | Magazines | Difficult | n/a |
| Hungary | Books | Easy | Average |
| Ireland | Books | Difficult | Expensive |
| Ireland | Newspapers | Moderately easy | Expensive |
| Italy | Newspapers | Difficult | Average |
| Italy | Magazines | Difficult | Average |
| Luxembourg | Newspapers | Difficult | Expensive |
| Sweden | Magazines | Moderately easy | Average |
| Sweden | Newspapers | Difficult | n/a |
| United Kingdom | Newspapers | Easy | Expensive |
| United Kingdom | Books | Difficult | Expensive |

Source: Pira International, UK, 2003, Part 2, table 17

5.4. Promoting sustainable development

Enterprise policy applied to the publishing industries has been based upon the three pillars of sustainable development, bringing together the economic dimension of competitiveness with the environmental and social objectives of the European Union. Media policy in support of competitiveness will continue to take these issues into account.

At present publishing is arguably among the stronger and more competitive sectors in Europe. Nevertheless, the sector is likely to face competitive challenges in the future which are linked to a number of trends. Circulation numbers in some print products, notably newspapers, have been declining for some years now. The historically low margins of newspapers in some EU Member States can only compound this problem, as publishers with lower margins have less time to adapt to new market conditions. For many publishers, cross-media competition is intensifying the fight for customers and advertising budgets. Even classified advertising, formerly a near monopoly of newspapers, is being increasingly published through the internet. In response, some publishers made efforts to pre-empt the revenue erosion by setting up online advertising platforms themselves, thus speeding-up innovation rates.

As a knowledge-intensive sector, which has to rely on attracting and retaining talented staff and is vulnerable to risks concerning reputation and other intangibles, publishing could benefit from increasing its engagement in Corporate Social Responsibility (CSR) practices, which can help manage risks and minimise negative social and environmental impacts on the

one hand, and may contribute to stimulating innovation and opening up new business opportunities on the other.

CSR may be considered as businesses' voluntary contribution to the sustainable development strategy. More specifically, CSR is a concept whereby companies integrate social and environmental concerns into their business operations and into their interaction with their stakeholders on a voluntary basis.

On top of the same CSR issues that any other sector faces, publishers have a specific set of stakeholders with fairly unique needs. Readers rely on publishing enterprises for objective and truthful reporting, creative ideas and truthful advertising. Publishing relies heavily on freelancers for much of its input and its operation, thus bearing a special responsibility to ensure that they are treated fairly. Overseas outsourcing of some operations like printing and typesetting also has implications for maintaining satisfactory levels of CSR throughout the value chain. A recent paper from the Publishing Watch Function series²⁷ explores in detail the current situation of CSR in publishing.

To further the discussion about CSR, a European Multi-stakeholder Forum²⁸ was established in July 2002 with the aim to promote CSR through raising the level of understanding of CSR and fostering a dialogue between the business community, trade unions, civil society organisations and other stakeholders. How, far media policy should continue to promote the participation of the publishing industries in CSR is one of the issues for consultation.

Like most industries, the publishing uses natural resources and creates waste as an integral part of its activities. The main consumption of natural resources is paper, but it also uses considerable amounts of energy to manufacture products and uses energy to distribute them, contributing to transport congestion. In some areas of publishing where products are highly disposable, like newspapers, the pressure to recycle paper has resulted in voluntary agreements between the newspaper industry and national governments to increase the utilisation of recycled paper. In the UK, for instance, a target of 70% of utilisation of recycled paper in newspaper printing has been set for 2007.

The other environmental effects of publishing are shared by many other industries and are associated with the transport stage, which consumes energy and creates greenhouse gas emissions and contributes to traffic congestion and noise pollution. The regulatory environment relevant to the forest based industries focuses today on pollution control, hazardous substances and processes, minimisation and management of waste and conservation of natural resources. Environmental regulation is, in general, geared up to increasing efficiency through energy saving and waste reduction. However, as part of the better regulation principles, an ex-ante assessment of the costs of compliance with environmental regulation should in the future be incorporated in any major legislative initiative at EU level.

²⁷ Publishing Market Watch – Issue Paper 1: Corporate Social Responsibility, www.publishing-watch.org

²⁸ European Multistakeholder Forum on CSR - <http://europa.eu.int/comm/enterprise/csr/forum.htm>

6. CONCLUSIONS AND RECOMMENDATIONS

Publishing is an important economic sector in the EU 15, with €117 billion of production value (at factor cost) in the year 2001. This rises to over €121 billion if one includes the 2001 production value for the ten new Member States that joined the Union on 1st May 2004. In an enlarged, 25 Member State EU, publishing employs 750.000 people in almost 64.000 companies. Most of them are small and medium sized enterprises, which represent 97% of the employees, but account for only half of the revenues. This indicates that concentration is an issue for this sector.

Publishing is a heterogeneous sector, with important differences in cost and revenue structures between the different sub-sectors, newspapers, magazines, books and directories and databases. This makes it rather difficult to draw generally valid policy conclusions with respect to the competitiveness of this sector.

Taking into account statistical limitations, the competitive position of publishing in the EU is positive overall. The productivity of the publishing and printing industries in the EU is higher than in the US. However, this sector is under strong economic pressure, due to the increasing digitisation of content, which is changing consumer patterns and modes of distribution.

The competitiveness of the European Publishing industries is strongly affected by European policies, in both directions. Whereas further legal restrictions of advertising might have a negative impact on the revenues base of publishing, enhanced copyright protection has a potentially positive effect, provided that publishing manages the change towards new business models.

The objective of this working document is to prepare a media policy agenda in order to strengthen the competitiveness of the European Publishing industries, based on the three pillars of sustainable development. In this respect, media policy should follow an independent and integrated approach. Better understanding of the concerns of the sector in view of assessing the impact of Community policies on the competitiveness of the publishing is an indispensable element for policy makers.

In order to strengthen further the competitiveness of the European publishing sector, media policy could potentially include:

- analysis, in a continuing manner, of the evolving competitiveness of the different sub-sectors of the European publishing industry, notably by sponsoring specific studies on factors that impact competitiveness. This will be facilitated by the establishment of a reliable, comparable statistical base;
- stimulation of entrepreneurship and innovation, by measuring and benchmarking innovation in the sector, facilitating the dissemination of best innovative practice and promoting the effective use of intellectual property rights;
- analysis of the needs and possibilities of specific actions to improve access to finance, in particular to facilitate structural changes and new business models;
- achieving better regulation, by establishing a close dialogue with the publishing sector and strictly applying the principle of ex-ante impact

assessment to new EU policies, which have a strong impact on the competitiveness of the sector;

- establishing a dialogue with the European publishing sector, with the objective to identify best practice in the field of Corporate Social Responsibility and to promote sustainable competitiveness; establishing an Internal Market policy in this field so that high quality publication services and products benefit from free movement in the European Union, in order to enhance pluralism and culture at European level.

7. CONSULTATION – QUESTIONS FOR THE SECTOR, CIVIL SOCIETY AND PUBLIC AUTHORITIES

Stakeholders are invited to provide comments on this document including the policy orientations above by responding to the set of questions below. These questions are also intended to probe the link between two different aspects of media policy – competitiveness - and protection of general interests. Responses should therefore take into account the opportunity for a change in scope, following the shift from a purely enterprise policy framework to a broader, media policy approach. Responses will help to orient the direction of future policy reflections at the level of the Commission services.

This staff working paper

- (1) Does this paper accurately describe the main indicators for competitiveness across different publishing segments?
- (2) Are there any further issues you would add in respect of publishing, notably with regard to the policy approaches set out in the Commission's recent i2010 communication?²⁹
- (3) Are current industry structures across all segments likely to survive the transition to electronic value chains? What are the major barriers and threats to publishers during the transition? What are the opportunities for publishers arising from new information and communications technologies?
- (4) How will business models evolve and how far will Digital Rights Management systems be essential for their successful implementation?

The nature of the link between diversity of ownership and diversity of content

- (5) How far is there tension between the need for open outcomes in economic terms at a time of rapid technological change and the political desire to support democratic values including diversity?
- (6) How far is diversity of content and ownership likely to be self-sustaining in fully electronic markets, given for instance lower entry barriers to citizens' direct participation (eg blogs)?

²⁹ i2010 – A European Information Society for growth and employment, COM(2005) 229 final, http://europa.eu.int/information_society/europe/i2010/index_en.htm

- (7) In converging markets, from the perspective of publishing, what approaches would you suggest for co-existence between the two different traditions of regulated, licensed broadcast media and unlicensed press?

Advertising; integrated media policy

- (8) In relation to advertising regulation, what are your reasoned preferences in relation to the different instruments available, voluntary self-regulation, co-regulation and statute law?
- (9) From the perspective of publishing, what are the main issues that an integrated media policy – i.e one that covers all media sectors - should address?

Concise responses to this questionnaire should be sent to the e-mail address below. Responses should clearly indicate whether they are confidential and therefore cannot be published. All responses will normally be published at the web page below. This consultation will close on 15th November 2005. DG Information Society and Media will publish a summary of the responses received.

E-mail address for responses: info-taskforce-media@cec.eu.int

Consultation web page:

http://europa.eu.int/information_society/media_taskforce/publishing/consultation/index_en.htm

Annex A – Economic Figures for the EU publishing sector

Table A.1 Economic figures for publishing in the EU-25³⁰

| | Production value (in million €) | Value added at factor cost (in million €) | Number of enterprises | Number of employees |
|---------------------------------|---------------------------------|---|-----------------------|---------------------|
| Belgium | 2,560.0 | 739.7 | 1,119 | 9,786 |
| Denmark | 2,762.3 | 1,115.8 | 1,239 | 32,291 |
| Germany | 27,900.8 | 10,140.4 | 6,709 | 185,307 |
| Greece | na | Na | na | na |
| Spain | 7,019.3 | 2,595.2 | 5,897 | 47,900 |
| France | 19,140.2 | 5,854.9 | 12,223 | 88,992 |
| Ireland | 567.3 | 330.4 | 107 | 4,245 |
| Italy | 11,553.8 | 3,514.8 | 6,934 | 36,692 |
| Luxembourg | na | Na | 103 | na |
| Netherlands | 7,089.2 | 2,894.7 | 2,620 | 38,659 |
| Austria | 1,757.7 | 621.3 | 538 | 8,180 |
| Portugal | 1,075.0 | 338.4 | 1,020 | 10,814 |
| Finland | 2,384.0 | 944.0 | 1,406 | 17,493 |
| Sweden | 4,027.3 | 1,221.0 | 4,493 | 27,016 |
| United Kingdom | 28,868.6 | 13,119.2 | 9,694 | 165,430 |
| Total EU-15³¹ | 116,705.5 | 43,429.8 | 54,102.0 | 672,805.0 |
| Cyprus | 49.0 | 17.5 | 71 | na |
| Czech Republic | 824.6 | 181.2 | 2,671 | 15,540 |
| Estonia | 91.1 | 32.0 | 240 | 2,978 |

³⁰ Derived from data in NACE 22.1

³¹ Excludes EL, LU for some variables

| | | | | |
|---------------------------------|------------------|-----------------|-------------------------|------------------|
| Hungary | 541.8 | 159.6 | 342³² | 7,838 |
| Lithuania | 132.8 | 49.8 | 609 | 6,416 |
| Latvia | 113.4 | 63.3 | 282 | 5,197 |
| Malta | na | na | na | na |
| Poland | 2,295.4 | 1,591.8 | 4,625 | 30,372 |
| Slovenia | 247.5 | 101.5 | 658 | 3,338 |
| Slovak Republic | 172.3 | 59.2 | 318 | 4,660 |
| Total EU-25³³ | 121,173.4 | 45,685.7 | 63,918.0 | 749,144.0 |
| Bulgaria | 111.8 | 24.5 | 622 | 4,906 |
| Romania | 221.2 | 76.2 | 1,320 | 13,178 |

Source: Eurostat, New Cronos 2004. Data for last year available (2001), except for Italy
 (*) and Ireland (*) (2000).

³² Undertakings with more than 5 employees
³³ Excludes EL, LU, MT for some variables

Table A.2 Labour productivity and related indicators for publishing in the year 2001³⁴

| | Apparent labour productivity (Gross value added per person employed) (k€) | Simple wage adjusted labour productivity (Gross value added per unit of personnel cost) (k€) | Labour cost per employee (Unit labour cost) |
|---------------------------------|---|--|---|
| Belgium | 68 | 134.5 | 50.6 |
| Denmark | 33.8 | 124.6 | 27.1 |
| Germany | 53.2 | 132 | 40.3 |
| Spain | 50.1 | 147.4 | 34 |
| France | 65.3 | 125.1 | 52.2 |
| Ireland | 77.3 | 194.6 | na |
| Italy | 77.3 | 149.1 | 51.9 |
| Netherlands | 64.1 | 154 | 41.6 |
| Austria | 73.2 | 148 | 49.5 |
| Portugal | 29.7 | 116 | 25.6 |
| Finland | 53.3 | 137.9 | 38.7 |
| Sweden | 40.9 | 102.8 | 39.8 |
| United Kingdom | 76 | 178 | 42.7 |
| Total EU-15³⁵ | 60.6 | 145.4 | 41.7 |
| Cyprus | 25.2 | 156.8 | 21 |
| Czech Republic | 11.4 | na | na |
| Estonia | 10.5 | 120.1 | 8.7 |
| Hungary | 20.2 | 186.5 | 10.8 |
| Lithuania | 7.4 | 152.7 | 4.9 |
| Latvia | 12 | 220.4 | 5.4 |
| Malta | 18.5 | 182.7 | 10.1 |
| Poland | na | na | 13.7 |
| Slovenia | na | na | 27 |
| Slovak Republic | 12.4 | 177 | 7 |

Source: Eurostat, New Cronos 2004. Data is not available for Greece and Luxembourg.

³⁴ Derived from data in NACE 22.1

³⁵ Excludes EL, LU for some variables

Annex B – Indicators specific to the publishing sector

The competitiveness assessment of publishing as an industry undertaken in this paper can be complemented with a number of traditional industry-specific indicators:

- *Circulation (either per 1,000 population or per head)* – gives an idea of the variety and soundness of the business in a particular country, but also has societal implications. High circulation levels are traditionally associated with higher levels of literacy and education in the population.
- *Titles per million* - reflects the diversity and dynamism of publishing
- *Advertising revenue as % of GDP* – advertising revenue is considered a critical revenue source for large parts of the publishing sector and is very sensitive to the business cycle.

Additionally, these indicators are perceived by the sector itself as good indicators of their competitiveness and are traditionally included in sectoral studies of publishing.

Circulation and advertising revenue are clearly important measures of competitiveness – or more accurately, the trends are important and changes indicate an improving or declining situation. However, numbers such as title production or titles per million may, for example, indicate a fragmented or overheated sector rather than a stable one, especially if the trend continues upwards while total value remains stagnant or declines.

In newspaper publishing, countries like Denmark, Luxembourg and Netherlands score the highest levels of circulation and of titles per million of population. It is also remarkable the lower percentage of advertising revenue as a percentage of GDP in the southern European countries as opposed to the northern countries, with the exception of Belgium. A full table with these industry-specific indicators for the newspaper sub-sector is included in table C1.

In magazine publishing, it is worth highlighting the fact that Finland scores top in titles per million of population. The slump in advertising revenue has been most acute in Denmark and Portugal. Although no data is available yet, this declining trend in advertising revenue may have been continuing in 2001 and 2002, according to industry specialists. The number of titles and circulation varies greatly from country to country, with no discernible geographical pattern. A table with the industry specific indicators for the magazine sub-sector is presented in table C2.

For book publishing, it can be observed that in terms of titles produced per million of population, Danish publishers are far ahead of the rest of the EU, followed by the UK publishers. Belgium and the UK are the countries with more titles in print per million of population, followed by Germany. Finally, the turnover of book publishing as a percentage of national GDP varies across the EU, ranging from the 0,06% of Ireland to the 0,32% of the UK and the 0,35% of Portugal. Again, a table with the industry-specific indicators for the book sub-sector is presented in table C3.

Table B1. Indicators specific to newspaper publishing

| | Circulation per head (latest year available) | Titles per million (2001) | Advertising revenue % of GDP (2001) |
|---------------|--|---------------------------|-------------------------------------|
| Austria | 0.3 | 25.6 | 0.53 |
| Belgium | 0.181 | 2.72 | 0.15 |
| Denmark | 1.829 | 57.8 | 0.43 |
| Finland | 0.617 | 64.85 | 0.46 |
| France | 0.844 | 12.78 | 0.11 |
| Germany | 1.472 | 21.27 | 0.39 |
| Greece | 0.182 | 6.53 | 0.28 |
| Ireland | 0.726 | 18.98 | 0.3 |
| Italy | 0.133 | 1.59 | 0.14 |
| Luxembourg | 1.349 | 65.75 | 0.35 |
| Netherlands | 1.578 | 40.48 | 0.52 |
| Portugal | 0.242 | 27.26 | 0.18 |
| Spain | 0.256 | 8.23 | 0.25 |
| Sweden | 0.652 | 23.08 | 0.43 |
| UK | 1.071 | 18.18 | 0.47 |
| Average EU-15 | 0.762 | 26.34 | 0.33 |

Sources: World Association of Newspapers – World Press Trends 2002, Eurostat

Table B2. Indicators specific to magazine publishing

| | Titles per million population (latest year available) | Magazine advertising as % of GDP (2001) | Advertising growth rate %, 1999-2001 |
|-----------------------------|---|---|--------------------------------------|
| Austria | 366 | 0.259 | 14.7 |
| Belgium | 69 | 0.101 | 4 |
| Denmark | 76.5 | 0.03 | -10.2 |
| Finland | 478 | 0.134 | 6.6 |
| France | 50.8 | 0.222 | 5.8 |
| Germany | 70.95 | 0.22 | 2.6 |
| Greece | n/a | 0.427 | 46 |
| Ireland | 115 | 0.017 | 0 |
| Italy | 49.6 | 0.1 | 17 |
| Netherlands | 299 | 0.139 | -0.4 |
| Portugal | 46.9 | 0.13 | -5.9 |
| Spain | 68.4 | 0.135 | 8.3 |
| Sweden | 58 | 0.112 | 8.8 |
| UK | 140.6 | 0.17 | 3.1 |
| Average EU-14 ³⁶ | 127 | 0.16 | 7.17 |

Sources: FIPP, World Magazine Trends 2002, and OECD

³⁶ Excludes LU

Table B3. Indicators specific to book publishing

| | Titles produced per million population | Titles in print per million population | National turnover (in million EUR) | Turnover as % of GDP |
|-------------|---|---|---|-----------------------------|
| Austria | 394 | 5685 | 178,8 | 0.09 |
| Belgium | 680 | 16505 | 336,6 | 0.14 |
| Denmark | 2822 | 9434 | 166,6 | 0.09 |
| Finland | 750 | 1346 | 242,7 | 0.18 |
| France | 361 | 8486 | 2.093,1 | 0.15 |
| Germany | 740 | 10949 | 5.240 | 0.26 |
| Greece | 554 | N/a | 140 | 0,11 |
| Ireland | 262 | 2453 | 63,16 | 0,06 |
| Italy | 553 | 6219 | 1.954,8 | 0,17 |
| Netherlands | 763 | 6289 | 670 | 0.17 |
| Portugal | 634 | 7144 | 398,6 | 0.35 |
| Spain | 761 | 6056 | 1.573 | 0.26 |
| Sweden | 414 | N/a | 420,5 | 0.17 |
| UK | 1407 | 15815 | 4.979,6 | 0.32 |

Source: Federation EP, 2000 survey