

**The UK film, TV, music
and software sectors:
their importance to
employment and output**

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The UK's creative economy

- 1 We have been asked to produce, using only information that appears in the public domain, a brief report on the economic importance of, and especially employment in, four sectors within what is termed broadly the UK's "creative economy". We understand that the wider context in which this document is to be used is a discussion about the desirability and impact of reducing the piracy of copyright in the creative sector.
- 2 The sectors we consider are films, TV, music and software.

The creative economy as a whole

- 3 The creative economy of which these sectors form part is important to the UK by virtue of its sheer size. Several recent published documents attest to this fact, although two stand out:
 - In its publication *Creative Britain: New Talents for the New Economy*, the Department for Culture, Media and Sport (2008) reported that **the creative industries as broadly defined now account for economic output of at least £60 billion per annum, equivalent to over 7 per cent of UK GDP.**¹ On this measure the creative industries outrank both construction and tourism.
 - The Work Foundation, in a 2007 report entitled *Staying Ahead: The Economic Performance of the UK's Creative Industries*, identified thirteen sectors which make up the UK's creative economy, and reported that together **they account for 1 million direct jobs and another 800,000 in related upstream and downstream sectors.**^{2 3}

- 4 We estimate that that direct employment in the four sectors considered in this report totals at least 400,000 and probably more. If the Work Foundation's assessment that indirect employment adds about 80 per cent to the direct component, the figure of 400,000 it would gross up to about 720,000; and standard multiplier effects would take it to not far short of 800,000.
- 5 We now consider the four sectors individually, wherever possible cross-checking figures from different sources against each other.

Films

- 6 The Work Foundation (*op. cit.*) estimates that as at 2005 some 64,000 people were employed in the film, video and photography sectors combined, and that they produced a

¹ http://www.culture.gov.uk/reference_library/publications/3572.aspx. The calculations of GDP and/or GVA date from 2004.

² See <http://theworkfoundation.com/research/publications/publicationdetail.aspx?oltemId=176&parentPageID=102&PubType=>

³ The Work Foundation also reports that the OECD found that "the UK's creative industries make up a greater share of GDP than in other nations."

Gross Value Added (GVA)⁴ in 2004 of some £2.3 billion. No further breakdown is given.

- 7 For film alone, the UK Film Council's Statistical Yearbook 2008⁵ reports that the value of UK film production in 2007 was just under £750 million (p.120, Table 15.1). The Council further estimates that **current direct employment in film accounts for just under 39,000 jobs** (p.156, table 19.1).
- 8 Of these, more than half (22,600) are in film production – what one might term the truly creative end of the supply chain. Some 11,500 are in film exhibition (mainly cinemas), and 4,500 in the distribution chain. The 11,500 jobs in cinemas are of course geographically spread and thus make an economic contribution which is widely dispersed across the UK.
- 9 Nevertheless, the employment to which film production gives rise is diminishing: the 2007 figure of 22,600 was over 8,000 (almost 30 per cent) down on the 2001 peak of 31,000. UK film employment has broadly followed UK output, so the likelihood that the film sector will show increases in employment for increases in output seems to us very strong. If reductions in film piracy can be achieved, gains in film industry employment must surely follow.

TV

- 10 The Work Foundation estimates that TV and radio together (it does not split the two) give rise to about 100,000 UK jobs. The GVA of TV and radio combined was assessed (for 2006) at £7.1 billion. **We think that TV probably accounts for between 70 per cent and 80 per cent of this total – say approximately £5 billion.**
- 11 For a breakdown of employment between TV and radio we have drawn on a 2005 “interaction study” by the Arts and Humanities Research Council (AHRC) which covers TV and radio separately.⁶ Its primary interest was in types of skill needed in TV and radio and, as a subset of that, the extent of employment in each. The figures that AHRC published were based on a survey conducted in 2002, so they are not up to date, but even with that qualification it is apparent that TV employment exceeds that of radio.
- 12 AHRC reported some 25,000 employees in terrestrial TV, over 13,000 in independent production for TV, and 5,000 in cable and satellite TV. In addition, there were over 8,000 people in post-production and over 7,000 in “commercials” (advertising), and we estimate that a substantial majority of these would have been in TV rather than in radio.

⁴ For present purposes, GVA may be taken as equivalent to output.

⁵ <http://www.ukfilmcouncil.org.uk/publications>

⁶ See <http://www.ahrc.ac.uk/About/Policy/Documents/Sec%20interaction%20tv.pdf>. See especially p.20.

- 13 All in all, **we assess that there must be at least 60,000 people engaged in TV production and related activities.**

Music

- 14 As with TV and software (see below), estimates of employment in music are bedevilled by differences in sectoral definitions used by different reporting organisations.
- 15 DCMS estimates (reported by the Work Foundation) aggregate employment in music recording and distribution with employment in the visual and performing arts. Using this rather wide definition **DCMS estimated GVA of £3.6 billion in 2004** and employment of 236,000 in 2005.
- 16 The Creative and Cultural Skills sector council commissioned its own survey in 2004, and on that basis estimated that there were some 95,000 employees in music.⁷ We note that about half this level of employment is accounted for by live performance, which would reduce the employment estimate to a maximum of about 47,000.
- 17 From the further sub-divisions provided, we surmise that the functions that would be most directly influenced by piracy reduction are composition, recording and wholesale and retail distribution. Together **these account for some 28,000 jobs** in the survey, and that is the figure we use for this report. It is probably conservative.

Software

- 18 Software, measured whether by output or employment, is by a wide margin the biggest of the sectors we consider here. The term software is of course immensely wide-ranging: it includes operating and applications software designed to run on PCs, video games, and a whole spectrum of industrial and commercial applications. The industry is dominated by a relatively small number of multi-nationals, and it is rarely easy to disentangle the UK component of their activities. Where a firm is active in both hardware and software it is often difficult to disentangle these components too.
- 19 The most comprehensive single study we have seen of the software sector is *The Fifth Annual BSA and IDC Global Software Piracy Study*, published by the Business Software Alliance (BSA) in 2007 and based on a survey conducted by market research firm IDC.⁸ This study is US in origin and global in scope but was subsequently broken down into 42 separate country studies.
- 20 BSA's UK study⁹, published in January 2008, estimates **current UK expenditure on IT, including hardware as well as software, at approximately £50 billion per annum**

⁷ <http://www.ccskills.org.uk/pdf/Music%20Creative%20Choices%20Presentation.pdf>

⁸ See http://www.bsa.org/country.aspx?sc_lang=en-GB for BSA and <http://www.idc.com> for IDC.

⁹ *The Economic Benefits of Lowering Software Piracy – United Kingdom*. See http://www.bsa.org/idcstudy.aspx?sc_lang=en.

(US\$89 billion in the report) and employment at 600,000. The Work Foundation also records total employment of some 600,000, but its sector definition is different, and includes, for example, electronic publishing. It is not clear from either report how far marketing and distribution or other upstream and downstream functions have been included in the estimates.

- 21 Nevertheless, we estimate, with reasonable confidence, that on either basis **at least 300,000 UK jobs are accounted for by software.**

SME presence

- 22 There is a strong presence of SMEs – a sector of great interest to government policy-makers – in most parts of the creative economy.
- 23 The Work Foundation reports that employment in video, film, and photography together is heavily dependent on SMEs, which account for some 50 per cent of sector turnover.¹⁰
- 24 The UK Film Council also estimates that film and video production employ a large proportion of self-employed people and SMEs – with some 59 per cent of the workforce in businesses of 1 to 10 employees, and a further 19 per cent in businesses of 11 to 49 employees.
- 25 In music, the 2004 survey commissioned by the Creative and Cultural Skills sector council found that, of the 18,000 businesses active in the music sector broadly defined, 96 per cent employed no more than 20 people, and 78 per cent no more than 4, while only 11 per cent of businesses in the sector had a turnover of more than £1 million.
- 26 The software sector is much less dependent on SMEs, though even here the SME presence is by no means negligible, accounting as it does for 20 per cent of sector turnover – and that turnover is of course very substantial.
- 27 By virtue of their small size, SMEs lack the negotiating clout of larger enterprises (especially with lenders¹¹) and in some respect the organisational resilience too (because there are few employees amongst whom work can be reallocated). It follows that when larger firms in the supply chain are weakened by piracy, SMEs are especially vulnerable to the consequences. By the same token, a reduction in piracy will feed through beneficially from larger enterprises to the SME sector.¹²

¹⁰ Chapter 2, p.45.

¹¹ See a paper by the Burns Owen Partnership and law firm Pembrige (2006) entitled *The financing of UK Creative Industries SMEs*. (http://pembrige.typepad.com/my_weblog/documents/The_financing_of_UK_creative_industries_SMEs.pdf)

¹² Of considerable background interest in relation to the performance of SMEs in the creative economy is a 2007 paper by Shaun Powell and Sean Ennis of Heriot Watt and Strathclyde Universities respectively, entitled *Organisational marketing in the creative industries*. It is available (on subscription only) from www.emeraldinsight.com/1352-2752.htm

- 28 **If government policy is to give particular encouragement to the formation and viability of SMEs, it seems highly likely that a reduction of copyright piracy in the creative industries would have precisely this effect.**

Piracy

- 29 Piracy in the context we are dealing with here is essentially the unauthorised copying or sharing of material for which the originator and/or the originator's distributors are lawfully entitled to payment. Put simply, it is theft. Piracy can be, and is, practised not just upon the four sectors we are concerned with here but upon any type of content that can be captured digitally and transferred between computers over private or public networks, most commonly the internet.

Who is harmed?

- 30 The primary direct effect of piracy falls upon the industries that create the source material. To the extent that the originator does not receive all the revenue to which he is lawfully entitled, he is deprived of revenue either to recover the costs of producing his material or to invest in new material, so that in the end consumers are deprived too.
- 31 The harm does not stop there. Content originators have suppliers and customers too. Those who are harmed upstream thus include (for example) manufacturers of film stock, makers of DVDs, cases and covers, makers of replicating equipment, and, in turn, their suppliers. Downstream, the advertising and marketing companies and the distributors and retailers of DVDs and CD-ROMs are harmed; in the case of film, cinemas are likely to lose especially heavily. And their revenue losses in turn have knock-on effects on other participants.
- 32 Concomitant with revenue losses are of course employment effects, and this paper has shown just how large the employment at risk is within the creative industries themselves.
- 33 And there are of course broader ripple effects through the wider economy as employees of the participating organisations spend their income.
- 34 To all this we must add tax effects on government. When copyright theft gives rise to tax shortfalls, then, for any given level of public expenditure, government needs to recover the lost revenue through higher tax rates and/or a broader tax base.

What is the scale of piracy?

- 35 No study that we have seen provides a comprehensive breakdown of piracy by type of medium pirated or by method of piracy. We can therefore summarise only in fairly broad terms.
- 36 The most useful recent studies we have found, apart from the Work Foundation and BSA reports already mentioned, are:

- A 2008 survey by Entertainment and Media Research (EMR), entitled *Digital Entertainment Survey*, for media law firm Wiggin.¹³
 - A survey by research firm Ipsos¹⁴ entitled *Piracy in GB: Wave 5 (2007)*, one of a series covering film and TV piracy.
- 37 Survey-based research normally assesses how many people participate in piracy.
- EMR found that that 21 per cent of people aged between 15 and 54 had illegally file-shared movies or TV programmes or both; and that 29 per cent had illegally file-shared music.
 - Ipsos found that in relation to film and TV, 32 percent of the population aged 15 to 68 more had participated, or continued to participate, in piracy of one kind or another.
 - A further research firm, Taylor Nelson Sofres (TNS), in a 2006 survey for the British Phonographic Industry, found that 15 per cent of people aged 12 to 74 had illegally shared or downloaded music tracks.
- 38 Depending on which survey evidence one takes, **the number of UK citizens involved in infringing copyright in relation to films, TV and music is between 5 million and 10 million** – and the survey evidence also suggests that those who infringe copyright do so several times a year. By comparison, the 2007-2008 British Crime Survey reported a total of 10 million crimes, and for the same year the police recorded just under 5 million.¹⁵
- 39 As regards software, the BSA/IDC study already referred to suggests that the UK software piracy rate is in the region of 26 per cent, a rate broadly consistent with the findings of Ipsos, EMR and TNS. If there is any silver lining to this big black cloud, it is that the rate is down from 29 per cent five years ago and that it is lower than in a significant number of other advanced industrial economies.¹⁶
- 40 EMR also found that between 60 and 70 per cent of those who do so would stop if they knew or thought it likely that they would get caught. If so, it follows that deterrent action would be likely to have a major impact on piracy rates and thus on revenues and employment. EMR also found that 67 per cent of respondents had either never heard of, or knew nothing about, digital rights management. This *may* suggest that improving information and education is an important component of deterrence.

¹³ http://www.entertainmentmediaresearch.com/reports/DigitalEntertainmentSurvey2008_FullReport.pdf

¹⁴ <http://www.ipsos-mori.com>

¹⁵ *Crime in England and Wales 2007-2008*, Home Office, <http://www.homeoffice.gov.uk/rds/pdfs08/hosb0708.pdf>.

¹⁶ BSA/IDC report a piracy rate of 33 per cent in Canada, 42 per cent in France, 49 per cent in Italy, 65 per cent in Turkey, 73 per cent in Russia and 82 per cent in China.

Summary

- 41 It is hard to assess with any precision the output of the four sectors considered, given the great weight of the software sector and the lack of disaggregated figures within it. If roughly half the current UK spend on IT goes on software, then **the aggregate revenues of the four sectors could amount to about £30 billion.**
- 42 We estimate that **the direct employment of the four sectors considered here totals at least 400,000.** Because of the differing methods used to arrive at this total it may not take into account the indirect and multiplier effects that would form part of a full impact assessment. The Work Foundation assesses that indirect employment adds about 80 per cent to the direct component, so if this allowance for indirect effects were added to the figure of 400,000 **it would gross up to about 720,000; and standard multiplier effects would take it to not far short of 800,000.**
- 43 These are clearly sectors which, together, should command the serious attention of policy-makers.
- 44 Moral issues apart, it is plain that, given the scale of piracy on the one hand and the scale of employment in the UK's creative economy on the other, the employment gains to be had from a reduction in piracy are very large indeed. The benefits will be felt especially strongly among SMEs.