HOUSE OF LORDS

Library Note

Leaving the European Union: Impact on the Creative Industries

This House of Lords Library briefing has been prepared in advance of a debate that is scheduled to take place in the House on 19 January 2017 on the following motion:

> Lord Clement-Jones to move that this House takes note of the impact of Britain's planned withdrawal from the European Union on the creative industries sector.

The creative industries in the UK account for a significant part of the UK economy. According to figures produced by the Department for Culture, Media and Sport (DCMS), the gross value added (GVA) for the creative industries was £84.1 billion, which accounted for 5.2 percent of the UK economy. The GVA for the creative economy—which includes the contribution of all those employed in the creative industries, as well as those who work in so-called creative occupations outside the creative industries—was worth £133.3 billion in 2014, accounting for 8.2 percent of the UK economy.

Following the results of the EU referendum, a number of commentators raised concerns about the potential impact of leaving the European Union on the UK's creative industries, especially funding. Creative Europe was established by the EU in 2014 and is the European Commission's framework programme to support the EU's culture and audio-visual sectors. It has a €1.46 billion budget for the years 2014/20 with the UK receiving €40 million worth of grants over 2014 and 2015. However, with the UK set to leave the EU, its participation in this programme remains uncertain.

As the creative industries cover a wide variety of sectors, this Library briefing considers two areas of the creative industry in greater detail—the video game industry and the film industry. The Entertainment Retailers Association preliminary estimates found that video games sales in 2016 were worth around £2.9 billion and as of October 2016 there were 2,044 active games companies in the UK. Trade bodies for the industry are particularly concerned that leaving the EU could make it difficult for UK companies to recruit the talent it needs. Similarly, the film and television market was worth an estimated £4.1 billion in 2015. A number of commentators have expressed concern about the potential loss of funding for the film industry from the EU's Creative Europe programme, although others have argued that the UK's exit presents opportunities for the British film market.

On 16 September 2016, the House of Commons Culture, Media and Sport Committee launched an inquiry on the impact of leaving the EU on the creative industries, tourism and the digital single market.

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1. Creative Industries in the United Kingdom

The creative industries encompass a wide variety of sectors and job types, from films to architecture. The Department for Culture, Media and Sport (DCMS) has defined the creative industries as:

> [T]hose industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.[1]

In order to identify what industries could be considered "creative", the DCMS has worked with stakeholders to identify which "occupations and industries should be considered creative" based on estimates of 'creative intensity'.[2] This was estimated by calculating the "proportion of creative jobs for each industry" and industries that passed a specified threshold were considered creative industries.[3] The DCMS explained that the "creative economy includes the contribution of all those who are in creative occupations outside the creative industries as well as all those employed in the creative industries".[4] The DCMS outlined a number of creative industries and occupations based on the Standard Industrial Classification and Standard Occupational Classification systems, as shown in the Table 1.

Table 1: Creative Industries and Occupations

Creative Industries	Creative Occupations
Advertising and marketing	Marketing and sales directors Advertising and public relations directors Public relations professionals Advertising accounts managers and creative directors Marketing associate professionals
Architecture	Architects Town planning officers Chartered architectural technologists Architectural and town planning technicians
Crafts	Smiths and forge workers Weavers and knitters Glass and ceramics makers, decorators and finishers Furniture makers and other craft woodworkers Other skilled trades not elsewhere classified
Design: product, graphic and fashion design	Graphic designers Product, clothing and related designers
Film, TV, video, radio and photography	Arts officers, producers and directors Photographers, audio-visual and broadcasting equipment operators

[1] Department for Culture, Media and Sport, *Creative Industries Economic Estimates*, January 2016, p 3.
[2] ibid.
[3] ibid.
[4] ibid.

Creative Industries	**Creative Occupations**
IT, software and computer services	Information technology and telecommunications directors IT business analysts, architects and systems designers Programmers and software development professionals Web design and development professionals
Publishing	Journalists, newspaper and periodical editors Authors, writers and translators
Museums, galleries and libraries	Librarians Archivists and curators
Music, performing and visual arts	Artists Actors, entertainers and presenters Dancers and choreographers Musicians

(Table compiled from information in the Department for Culture, Media and Sports, *Creative Industries Economic Estimates*, January 2016, pp 21–2).

1.1 Size of the Creative Economy

The DCMS uses gross value added (GVA) to measure the size of the UK's creative economy, which measures:

> [T]he contribution to the economy of each individual producer, industry or sector in the United Kingdom. GVA is closely linked to the more commonly used gross domestic product (GDP).[5]

In 2014, the most recent year for which the DCMS has published figures, the GVA of the creative industries was £84.1 billion. This accounted for 5.2 percent of the UK economy.[6] The DCMS stated that "for four years running the creative industries have grown as a proportion of the total UK GVA".[7] Between 2013 and 2014, the GVA of the creative industries increased by 8.9 percent, compared with 4.6 percent for the whole of the UK. Further, in 1997, the GVA of the creative industries accounted for 3.9 percent of total UK GVA and increased by 6.0 percent each year since then to reach 5.2 percent of total GVA in 2014.[8]

The GVA for the creative economy was worth £133.3 billion in 2014, which accounted for 8.2 percent of the UK economy.[9] This comprised 63 percent from the creative industries and 37 percent from creative occupations outside the creative industries.[10]

In 2014, there were 1.8 million jobs in the creative industries and employment increased by 5.5 percent between 2013 and 2014.[11] Similarly, the DCMS found that total employment in the

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[5] Department for Culture, Media and Sport, *Creative Industries Economic Estimates*, January 2016, p 36.
[6] ibid, p 5.
[7] ibid.
[8] ibid.
[9] ibid, p 16.
[10] ibid.
[11] ibid, p 5.

creative economy in the UK was 2.8 million jobs, a 5 percent increase since 2013.[12] Further, UK creative industries accounted for £17.9 billion in exported services and comprised 8.7 percent of total exports of services in the UK in 2013.[13]

1.2 European Union Funding for the Creative Industries

Creative Europe is the "European Commission's framework programme for support to the culture and audiovisual sectors".[14] Creative Europe was established by EU Regulation No 1295/2013 and came into force on 1 January 2014.[15] According to the European Commission, Creative Europe brought "together the current Culture, MEDIA and MEDIA Mundus programmes under a common framework and created an entirely new Facility to improve access to finance".[16] The European Parliamentary Research Service has said that the Creative Europe programme "consists of three distinct strands: a media sub-programme, a culture sub-programme and a cross-sectoral strand, which includes a self-standing financial instrument, the Guarantee Facility".[17] The Guarantee Facility was designed to help provide support for small and medium sized enterprises working in the cultural industries.[18] Creative Europe's budget for the 2014/20 period is set at €1.46 billion with 31 percent pledged for the culture strand, 56 percent for media, and 13 percent for the cross-sectoral strand. Creative Europe Desks were also established as part of the cross-sectoral strand to:

> [P]romote and provide information about the programme in their respective countries, assist the cultural and creative sectors in relation to the programme, support the Commission and ensure the communication and dissemination of information concerning the European Union funding awarded and the results obtained for their country.[19]

According to the regulations that established Creative Europe, the general objectives of the programme are:

(a) to safeguard, develop and promote European cultural and linguistic diversity and to promote Europe's cultural heritage;

(b) to strengthen the competitiveness of the European cultural and creative sectors, in particular of the audiovisual sector, with a view to promoting smart, sustainable and inclusive growth.[20]

The regulations also specified a number of specific objectives:

(a) to support the capacity of the European cultural and creative sectors to operate transnationally and internationally;

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[12] Department for Culture, Media and Sport, *Creative Industries Economic Estimates*, January 2016, p 5.
[13] ibid, p 6.
[14] Creative Europe, 'Creative Europe', accessed 9 January 2017.
[15] Regulation (EU) No 1295/2013 of the European Parliament and of the Council of 11 December 2013.
[16] European Commission, *Creative Europe—A New Framework Programme for the Cultural and Creative Sectors (2014–2020)*, 23 November 2011.
[17] European Parliamentary Research Service, *The Creative Europe Programme: European Implementation Assessment*, June 2016, p 9.
[18] ibid.
[19] ibid, pp 9–10. Creative Europe Desk UK is based across the UK in London, Manchester, Edinburgh, Glasgow, Cardiff and Belfast (Creative Europe Desk UK, 'About', accessed 12 January 2017).
[20] Regulation (EU) No 1295/2013 of the European Parliament and of the Council of 11 December 2013.

(b) to promote the transnational circulation of cultural and creative works and transnational mobility of cultural and creative players, in particular artists, as well as to reach new and enlarged audiences and improve access to cultural and creative works in the Union and beyond, with a particular focus on children, young people, people with disabilities and under-represented groups;

(c) to strengthen the financial capacity of SMEs and micro, small and medium-sized organisations in the cultural and creative sectors in a sustainable way, while endeavouring to ensure a balanced geographical coverage and sector representation;

(d) to foster policy development, innovation, creativity, audience development and new business and management models through support for transnational policy cooperation.[21]

According to the European Parliamentary Research Service, during the period of 2014 to 2015:

> [A] total of 4,494 actions were selected under the Creative Europe framework, split between a total of 702 actions pertaining to the culture strand and 4,143 within the remit of the MEDIA strand of the programme.[22]

Creative Europe's annual work programme for 2016 outlined the kind of 'actions' that the programme intends to support under the three strands. These include literary translation projects, training for audio-visual professionals, and the development of European video games, for example. Funding is not awarded to individuals, only to firms or organisations.[23] If an action is selected, funding is provided for the project in the form of grants or through public procurement.[24]

The Creative Europe programme is also open to certain non-EU Member states. Article 8 of the Regulation No 1295/2013 outlines the conditions in which non-EU members can join:

3. Without prejudice to paragraph 4, the Programme shall be open to the participation of the following countries provided that they pay additional appropriations and that, for the MEDIA sub-programme, they meet the conditions set out in Directive 2010/13/EU of the European Parliament and of the Council:

    a) acceding countries, candidate countries and potential candidate countries benefiting from a pre-accession strategy, in accordance with the general principles and general terms and conditions for the participation of those countries in Union programmes established in the respective framework agreements, Association Council decisions or similar agreements;

    (b) EFTA countries that are party to the EEA Agreement, in accordance with that Agreement;

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[21] Regulation (EU) No 1295/2013 of the European Parliament and of the Council of 11 December 2013.
[22] European Parliamentary Research Service, *The Creative Europe Programme: European Implementation Assessment*, June 2016, p 16.
[23] ibid, p 11.
[24] ibid, p 10.

(c) the Swiss Confederation, on the basis of a bilateral agreement with that country;

(d) countries covered by the European Neighbourhood Policy, in accordance with the procedures established with those countries following the framework agreements providing for their participation in Union programmes.

4. The countries referred to in points (a) and (d) of paragraph 3 shall be precluded from participating in the Guarantee Facility.

5. The Programme shall be open for bilateral or multilateral cooperation actions targeted at selected countries or regions on the basis of additional appropriations paid by, and specific arrangements to be agreed upon with, those countries or regions.

6. The Programme shall permit cooperation and joint actions with countries not participating in the Programme and with international organisations which are active in the cultural and creative sectors such as Unesco, the Council of Europe, the OECD or the WIPO [World Intellectual Property Organisation] on the basis of joint contributions for the realisation of the Programme's objectives.[25]

The European Commission has compiled the information in Table 2 below detailing which countries participate in the Creative Europe programme as of 6 October 2016:

Table 2: Eligibility of Organisations from non-EU Countries[26]

Country	**Organisations eligible to apply in the Culture Sub-programme?**	**Organisations eligible to apply in the MEDIA Sub-programme?**
Countries that fully participate in the Creative Europe Programme		
Iceland	Yes	Yes
Norway	Yes	Yes
Albania	Yes	Yes
Bosnia and Herzegovina	Yes	Yes
Former Yugoslav Republic of Macedonia	Yes	Yes
Montenegro	Yes	Yes
Republic of Serbia	Yes	Yes
European Neighbourhood Policy Countries that participate in the Creative Europe Programme		
Georgia	Yes	Partially[1]
Moldova	Yes	Partially[1]
Ukraine	Yes	Partially[1]

[25] Regulation (EU) No 1295/2013 of the European Parliament and of the Council of 11 December 2013, paras 3–6.
[26] European Commission, 'Eligibility of Organisations from Non-EU Countries', 6 October 2016.

Country	Organisations eligible to apply in the Culture Sub-programme?	Organisations eligible to apply in the MEDIA Sub-programme?
Countries that participate conditionally[2] in the Creative Europe Programme		
Israel[3]	Yes	Partially[1]

[1] Partial participation in the MEDIA Sub-programme is defined as participation in four schemes, ie participation in Training, Festivals, Film Education and Market Access activities.
[2] The final selection of projects is subject to the signing and notification of the Agreement with the EU on their participation in Creative Europe before the award decisions for those projects are adopted.
[3] The eligibility criteria formulated in Commission notice Nr. 2013/C-205/05 shall apply.

The Creative Industries Federation (CIF)—the "national membership organisation bringing together all of the UK's arts, creative industries and cultural education"[27]— has explained that in addition to the funding provided by Creative Europe, the EU had also supported the UK's creative industries through programmes such as Europe for Citizens, Horizon 2020, European Regional Development Fund (ERDF), European Social Fund (ESF) and the European Cultural Foundation. The CIF suggested that these funds helped support a number of aspects of the creative industry. For example, these funds had supported infrastructure by developing cultural venues and exports by promoting international partnerships. These funds also helped promote innovation research and development, with EU funds helping to provide the resources needed to develop new intellectual property.[28]

According to Creative Europe Desk UK, in 2014 and 2015, the UK received grants totalling €40 million amounting to 13 percent of Creative Europe's budget of €319 million for those years.[29] The DCMS has published figures on the direct grants and indirect funding provided by Creative Europe and its predecessor for the years 2013 to 2015. These are produced in Table 3. The DCMS explained that "indirect funding in the MEDIA sub-programme relates to awards to non-UK distribution companies distributing UK films in foreign markets" and noted that "in the culture sub-programme all awards are direct grants to UK led projects".[30]

Table 3: Creative Europe Funding for the UK

Year	MEDIA		Culture
	Direct Grants	Indirect Funding	Direct Grants
2013	€7,688,041	€6,118,515	€4,825,000
2014	€9,289,292	€7,775,310	€5,880,208
2015	€6,677,272	€4,745,231	€5,451,385

The Government has announced that it will guarantee EU structural and investment fund projects that are signed after the Autumn Statement. In addition, the Government also said that it would guarantee funding for projects that was won through competitive bids for EU funding (while the UK is still a member), even if those projects continue after the UK has left the EU.[31]

[27] Creative Industries Federation, 'About Us', accessed 12 January 2017.
[28] Creative Industries Federation, *Brexit Report*, October 2016, p 29.
[29] Creative Europe Desk UK, *Culture, Media and Sport Committee Inquiry: The Impact of Brexit on the Creative Industries, Tourism and the Digital Single Market*, p 4.
[30] House of Commons, 'Written Question: Arts: EU Grants and Loans', 29 March 2016, 31508.
[31] House of Commons, 'Written Question: Arts: EU Grants and Loans', 29 November 2016, 5545.

2. Impact of Leaving the European Union

Following the results of the EU referendum, the then Secretary of State for Culture, John Whittingdale, stated that "DCMS will work closely with all of our sectors to make sure they have a voice as we now prepare for a negotiation to exit the EU".[32] He added that the DCMS would "support our sectors in seeking new arrangements which will maintain our trade relations and encourage them to look for new opportunities across the world".[33]

In a speech to the CIF, on 9 September 2016, the Minister of State for Digital and Culture, Matt Hancock, argued that the creative industries "will be absolutely central to our post-Brexit future".[34] He argued that "we must define Brexit Britain as open and optimistic, gregarious and global" and that Britain was at its best when "progressive and positively engaged in the world".[35] Mr Hancock added that the "creative industries are critical to securing that status".[36] The minister also stated that leaving the EU would not affect existing creative sector tax reliefs. While Mr Hancock acknowledged it would be challenging, he argued that:

> We are committed to ensuring that as we prepare to leave the European Union we do so in a way that protects the British economy and ensures Britain remains an attractive destination for investment.[37]

In May 2016, the CIF published the results of its survey of members and found that 96 percent wanted the UK to stay in the European Union.[38] However, following the results of the referendum, the organisation's CEO, John Kampfner, emphasised the importance of coming together to safeguard the creative industries:

> As the UK creates a new identity and a new position on the world stage, our arts and creative industries—the fastest growing sector in the economy—will play an important role.
>
> It will be vital for all sides to work together to ensure that the interests of our sector on issues including access to funding and talent are safeguarded as the UK forges its new relationship with Europe. The importance of British culture in representing our country to the world will be greater than ever.[39]

A number of organisations and commentators have raised concerns about the potential impact of leaving the European Union on the creative industries. Following the results of the EU referendum, the Arts Council England surveyed more than 1,000 artists and cultural organisations to see how leaving the EU might affect them. From this, the Arts Council England identified a number of issues.

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[32] Department for Culture, Media and Sport, '[Culture Secretary Statement on DCMS Sectors Following EU Referendum]', 29 June 2016.
[33] ibid.
[34] Department for Culture, Media and Sport, '[Minister for Digital and Culture Creative Industries Speech]', 9 September 2016.
[35] ibid.
[36] ibid.
[37] ibid.
[38] Creative Industries Federation, '[David Cameron Meets the Fed as Members Vote Remain]', May 2016.
[39] Screen Daily, '[EU Referendum Result "Devastating" for UK Film and TV]', 24 June 2016.

First, it found that the sector utilises EU funds for small and large scale projects and programmes and that "a number of our small organisations are particularly reliant on EU funding, and the loss of these funds would have an impact".[40] Second, the Arts Council England reported that 70.8 percent of its respondents felt that any barriers on ease of movement could affect their future touring work of the EU. Third, the Arts Council observed that "sector benefits from EU laws and regulations relating to copyright, intellectual property, artist re-sale rights, VAT exemption as well as employment legislation".[41] Fourth, it found that trade with the EU and other countries was also an issue, with respondents expressing concerns about the economic impact of leaving the EU given that "EU countries make up 59 percent of the market for our arts and culture industry".[42] The Arts Council argued that if these issues are addressed "cultural organisations can continue to provide enjoyment and inspiration for millions across the country, help us to build stronger communities, and continue to support our world leading creative industries".[43]

The chairman of the Independent Film and Television Alliance, Michael Ryan, suggested that:

> The decision to exit the European Union is a major blow to the UK film and TV industry. Producing films and television programs is a very expensive and very risky business and certainty about the rules affecting the business is a must. This decision has just blown up our foundation—as of today, we no longer know how our relationships with co-producers, financiers and distributors will work, whether new taxes will be dropped on our activities in the rest of Europe or how production financing is going to be raised without any input from European funding agencies. The UK creative sector has been a strong and vibrant contributor to the economy—this is likely to be devastating for us.[44]

The Museums Association Director, Sharon Heal, argued that there had "been an immediate economic fall-out and that could have consequences for the sector".[45]

She added that there was greater financial uncertainty because of the threat to EU funding but added that leaving the EU might also have an effect on the "spirit that drives a myriad of international partnerships in the arts".[46]

Other commentators have suggested that leaving the European Union could pose a threat to free movement, which they argued was important for international collaboration in the creative industries. Writing in *Apollo* magazine, Robert Hewison argued that "travel for artists and performers will be harder, in both directions" and suggested that it was now unlikely that the UK would host the European Capital of Culture in 2023.[47]

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[40] Arts Council England, *The Arts and Culture Sector and Exit from the European Union*, November 2016, p 3
[41] ibid, p 3.
[42] ibid, p 28.
[43] ibid. p 27.
[44] *Independent,* 'Brexit is 'Terrible News for TV And Film', say Industry Heads', 24 June 2016.
[45] Museums Association, 'Economic Fall-Out of Brexit Will Impact Museums, Warns MA', 24 June 2016.
[46] ibid.
[47] Robert Hewison, 'Brexit Will Happen. The British Culture Sector Needs a New Plan', *Apollo*, 5 July 2016.

Similarly, the *New Statesman* argued that:

> While it is true that departure from the EU does not necessarily mean an end to this sense of cultural collaboration, the chances are that it will be made much more difficult if we're attempting to collaborate with Europe from the outside.[48]

Commentators have also argued that leaving the European Union could have an effect on EU funding for the UK's creative industries. CIF explained that "Britain has been a major beneficiary of EU funding both from designated culture schemes and general pots for regional and social development, innovation and business support" and noted that the "UK receives more funding than almost any other country through Creative Europe" and "it is second only to Germany in the amount it receives from Horizon 2020, an £80 billion innovation scheme".[49] CIF called for the Government to:

> Maintain participation in Creative Europe, alongside other non-EU partners given its effectiveness, particularly for cultural exports, to the UK as a net beneficiary. If this is not possible, equivalent funding should be redirected for similar purposes within the UK.[50]

In its written submission to the House of Commons Culture, Media and Sport Committee's inquiry on the impact of leaving the European Union on the creative industries, tourism and the digital single market, the Creative Europe Desk UK observed that the programme had "supported 230 UK cultural and creative organisations and audiovisual companies as well as the cinema distribution of 84 UK films in other European countries with grants totalling €40 million".[51] It also suggested that along with the financial impact of leaving the programme there were "less measurable benefits that stem from full participation in the programme, such as exchanging know-how, improving practices, growing international peer networks and reaching out to new audiences".[52]

Given that Creative Europe allowed the participation of non-EU countries, the Creative Europe Desk UK suggested that the "UK's participation in the programme could continue beyond its exit from the EU".[53] However, it noted that:

> Evidence suggests that it is only through continued, full participation that we can ensure the two-way benefits of the programme, which flow both inwards and outwards of the UK, including access to audiences and markets, and to international knowledge and peer networks.[54]

The organisation argued that the Government could devise a replacement funding scheme if continued participation in the Creative Europe programme was not possible.

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[48] *New Statesman*, 'What Will Brexit Mean for Arts and Culture in the UK?', 11 July 2016.
[49] Creative Industries Federation, *Brexit Report*, October 2016, p 28.
[50] ibid, p 9.
[51] Creative Europe Desk UK, *Culture, Media and Sport Committee Inquiry: The Impact of Brexit on the Creative Industries, Tourism and the Digital Single Market*, p 1.
[52] ibid.
[53] ibid.
[54] ibid.

In addition, they suggested that:

> If this outward-looking activity, focused on partnerships, is no longer supported at all, the creative sector's capacity to flourish and realise its international potential is likely to be diminished both to the detriment of the sector and to the detriment of UK citizens' access to diverse cultural works throughout the nations and regions.[55]

In addition, the CIF expressed concern that the UK may lose influence in the development of the EU's Digital Single Market (DSM). The creation of a DSM would implement rules to make cross-border e-commerce easier and create a more European copyright law for instance.[56] The CIF argued that with the creative industries "increasingly operating in and reliant on the digital world" a lack of UK involvement in the creation of the DSM might "risk that new legislation could have a detrimental impact on the UK's interest and future trade with EU countries".[57] However, in a reply to a written question, the Parliamentary Under Secretary of State at the Department for Business, Energy and Industrial Strategy, Margot James, stated that

> The UK remains a member of the EU and will continue to play an active role in the development of the Digital Single Market until the formal and legal process of leaving the European Union has been finalised.[58]

Writing in the *Telegraph*, Lord Grade of Yarmouth—a former chairman of the BBC—observed that the "creative industries are truly flourishing".[59] He suggested that "we Brits are not great at embracing change" so it was understandable that some sections of the creative industries were concerned about the potential impact of leaving the EU.[60] However, Lord Grade suggested that the creative industries had repeatedly delivered success, despite previous challenges, and argued that "I have no reasons to believe that Brexit will be any different".[61] He added that the "fundamentals of the sector's success remain unchanged", such as Britain's language, rich cultural heritage, and pool of talent. [62] In addition, Lord Grade argued that the continuation of current tax breaks would mean the creative industries in the UK remain competitive and suggested that leaving the EU would free the UK from EU state aid rules and that this would allow greater choice over how the UK invests in its creative industries.[63]

3. Video Game Industry

3.1 Overview

The video games industry is a significant part of the UK's creative economy. The Entertainment Retailers Association's preliminary estimates found that video games sales in 2016 were worth around £2.9 billion. Of this, £2.2 billion was from digital sales, and £776 million from physical

[55] Creative Europe Desk UK, *Culture, Media and Sport Committee Inquiry: The Impact of Brexit on the Creative Industries, Tourism and the Digital Single Market*, p 1.
[56] European Commission, 'A Digital Single Market for Europe: Commission Sets out 16 Initiatives to Make it Happen', 6 May 2015.
[57] Creative Industries Federation, *Brexit Report*, October 2016, p 9.
[58] House of Commons, 'Written Question: Digital Technology: EU Internal Trade', 19 July 2016, 43457.
[59] Michael Grade, 'Britain's Creative Industries Have Nothing to Fear from Brexit', *Telegraph*, 18 November 2016.
[60] ibid.
[61] ibid.
[62] ibid.
[63] ibid.

sales.[64] Some of the industry's biggest developers are based in the UK. For example, the video game *Grand Theft Auto V* was released on 17 September 2013 and sold 11.2 million units in the first 24 hours of its release, and three days after its release it had earned $1 billion in revenues. It was developed by Rockstar North based in Edinburgh. The game broke seven Guinness World Records including the fastest video game to gross $1 billion and highest-grossing video game in 24 hours.[65] In April 2014, the Government introduced video games tax relief (VGTR). Companies would be able to claim VGTR if they met certain conditions:

- The video game is British.
- The video game is intended for supply.
- At least 25 percent of core expenditure is incurred on goods or services that are provided from within the European Economic Area (EEA).[66]

The DCMS estimated that the GVA for the video games industry in the UK was £426 million in 2014.[67] This was smaller than the GVA for the industry at £743 million in 2011. The DCMS suggested that:

> This might be due to de-stocking as the value of purchases made by the computer games industry was lower in 2011 than it was in either 2010 or 2012. Computer games which have been developed but not released might also have contributed to this change.[68]

However, the DCMS observed that:

> Estimates at this level of detail are volatile and dependent on survey data and, as such, should be treated with caution. In particular, single years of data can be misleading.[69]

In its 2014 report, *A Map of the UK Games Industry,* the UK Interactive Entertainment Association (Ukie) and Nesta—an innovation foundation—estimated that the GVA for the video games industry could be worth as much as £1.7 billion in 2014. They reached this figure by combining their own data with the GVA data published by the DCMS and business count data from the Inter-Departmental Business Register (IDBR) to "make some back-of-the-envelope calculations about the size of the UK games industry".[70]

Ukie and Nesta found that as of 18 October 2016, there were 2,044 active games companies in the UK. They observed that 68 percent of UK games companies were founded since the beginning of 2010.[71] In its 2014 report, Ukie and Nesta found that "around one-half of UK video games companies are based in London and the South of England" but noted that the "sector is better represented in the North of England than the rest of the creative industries".[72] The

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[64] Entertainment Retailers Association, 'Entertainment Sales Reached £6.4 billion in 2016', 5 January 2017.
[65] *International Business Times*, 'GTA 5: How 'Grand Theft Auto 5' Broke 7 Guinness World Records', 10 October 2013.
[66] HM Revenue and Customs, 'Corporation Tax: Creative Industry Tax', updated 21 October 2016.
[67] Department for Culture, Media and Sport, *Creative Industries Economic Estimates*, January 2016, p 24.
[68] ibid.
[69] ibid.
[70] Nesta and Ukie, *A Map of the UK Games Industry*, September 2014, p 4.
[71] Ukie, 'The Games Industry in Numbers', accessed 10 January 2017.
[72] Nesta and Ukie, *A Map of the UK Games Industry*, September 2014, p 4.

report also identified twelve so-called 'games hubs' that have a high concentration of video games companies or employment. These are Brighton, Cambridge, Cardiff, Dundee, Edinburgh, Guildford and Aldershot, Liverpool, London, Manchester, Oxford, Sheffield and Rotherham, and Warwick and Stratford-upon-Avon.[73] The UK video games industry currently employs over 24,000 people.[74] The video games industry is also a significant exporter. According to TIGA—a trade association representing the video games industry—"95 percent of UK games development studios export at least some of their games".[75]

3.2 Impact of Leaving the European Union on the Video Game Industry

In its submission to the House of Commons Culture, Media and Sport Committee inquiry on the impact of leaving the EU on the creative industries, Ukie observed that the "ability to recruit easily from across Europe has been a huge benefit to the UK games industry's ability to grow and secure work globally in a highly competitive market".[76] Ukie argued that "in order for the UK to maintain its reputation as a world-leader in the games industry, businesses must continue to be able to attract and retain top talent from across the world".[77] It reported that in a survey it conducted, "74 percent of respondent companies use non-UK EU nationals to fill high-skilled posts".[78] Ukie argued that the Government should guarantee the rights of high-skilled EU nationals working in the UK to stay and argued that "the future of the games sector is dependent on maintaining the flow of talent entering the industry".[79]

Ukie made a number of recommendations to the Government following the results of the EU referendum in its report, *Video Games and Brexit Negotiations*.[80] It argued that the Government should aim to keep UK-EU trade tariff-free, reform the immigration cap and "develop a long-term, funded vision for games talent that includes investment in computing and 'STEAM' [Science, Technology, Engineering, Arts, Maths] education", for example.[81] Similarly, TIGA argued that there were "four key issues facing the video games industry following the EU referendum: access to finance; a favourable tax environment; access to talent; and intellectual property.[82]

The video game industry could also be affected by any future arrangements regarding the UK's participation in the Creative Europe programme. For example, according to the Creative Europe Desk UK, in 2015, the UK's video game sector received the "highest total allocated to a single country from the EU-wide budget".[83]

[73] Nesta and Ukie, *A Map of the UK Games Industry*, September 2014, p 4.
[74] Ukie, *Ukie Response to the Culture, Media and Sport Committee's Inquiry into the Impact of Brexit on the Creative Industries, Tourism and the Digital Single Market*, 9 September 2016, p 4.
[75] TIGA, 'About the UK Video Games Industry', accessed 10 January 2017.
[76] Ukie, *Ukie Response to the Culture, Media and Sport Committee's Inquiry into the Impact of Brexit on the Creative Industries, Tourism and the Digital Single Market*, 9 September 2016, p 5.
[77] ibid.
[78] ibid.
[79] ibid, p 6.
[80] Ukie, *Video Games and Brexit Negotiations*, September 2016, p 4.
[81] ibid.
[82] TIGA, 'Brexit: Priorities for the Video Games Industry', 24 June 2016.
[83] Creative Europe Desk UK, *Written Submission to Culture, Media and Sport Committee Inquiry: The Impact of Brexit on the Creative Industries, Tourism and the Digital Single Market*, October 2016, p 1.

In a response to a written question on 19 November 2016 on the potential effects of the UK's decision to leave the EU on the video games industry, the Minister of State for Digital and Culture, Matt Hancock, stated:

> We have received a range of representations from the video games industry on the UK's decision to leave the European Union and we are working with industry to assess the potential impacts and maximise the opportunities that our exit presents for the sector. Our ongoing discussions have included a roundtable attended by a number of individuals from the video games sector. I have further meetings with representatives from the games industry planned for later this month.[84]

4. Film and Television Industry

4.1 Overview

According to the British Film Institute (BFI), the "total filmed entertainment market in the UK in 2015 was worth an estimated £4.1 billion, up from £3.8 billion in 2014" and the UK had the "third largest film entertainment market in the world after the USA and China, but is expected to be overtaken by Japan in the next four years".[85] In addition, the BFI observed that gross revenues for UK film increased from £836 million in 2014 to an estimated £1,095 million in 2015.[86] The UK film industry receives a significant amount of public funding with the industry receiving an estimated £414 million in 2014/15.[87] It also received EU funding through the Creative Europe's MEDIA sub-programme, which funds the development, promotion and distribution of European works. In 2014, Creative Europe invested "£3.8 million in UK-based film activity, and nearly half of this (47 percent) went into film distribution". The BFI compiled the information reproduced in Table 4 which shows a breakdown of Creative Europe's investment:

Table 4: Creative Europe MEDIA Sub-programme Investment in Film in the UK, 2014

Activity Area	MEDIA Scheme(s)	£ million	Percent
Distribution	Selective, automatic, sales agents and online	1.8	46.7
Development	Single project and slate	0.6	17.9
Training and Skills	Initial training	0.4	11.8
Education	Audience development	0.4	9.9
Exhibition	Film festivals and Europa Cinemas	0.3	6.9
Business	Markets	0.3	6.8
Total		3.8	100.0

[84] House of Commons, 'Written Question: Video Games', 14 November 2016, 51897.
[85] British Film Institute, *Statistical Yearbook 2016*, 2016, p 169.
[86] ibid.
[87] ibid, p 230.

The BFI reported that Creative Europe also invested £6.6 million to support the export of UK films, and UK television and new media (including video games) received investment of £3.8 million and £0.3 million respectively.[88]

4.2 Impact of Leaving the European Union on the Film Industry

A number of commentators have suggested that the UK leaving the European Union could have a negative impact on the UK film and television industries. The *Guardian's* Film Editor, Andrew Pulver, has suggested that there were a number of ways in which the British film industry may change when the UK leaves the EU. He argued that there could be less money available for British film-makers because the UK may no longer receive funding from Creative Europe's MEDIA programme. Other commentators have suggested that EU funding may be lost for the production of some television shows.[89] Writing in *Foreign Policy,* David Francis suggested that *Game of Thrones* (some of which is filmed in Northern Ireland) could be costlier to produce because it would no longer receive funding from the European Union European Regional Development Fund (designed to boost economic growth). He argued that "this means that some of the cash used to bring big-budget productions to Northern Ireland could disappear".[90] Andrew Pulver also suggested that European films could disappear from British cinemas:

> British distributors buy rights to European films in Euros—and now they have become much more expensive. Few European films are serious commercial propositions in the UK, and the companies that release them operate on wafer-thin margins, if at all. If barriers or tariffs intervene, or cultural subsidies from the EU disappear, the supply could dry up rapidly. We would probably still get high-profile award-winners such as *Dheepan* and *Son of Saul*, but what chance would there be of seeing lesser-known stuff such as *Suburra* or *Long Way North* in British cinemas again? They only get here with EU help.[91]

Conversely, Andrew Pulver argued that British films could disappear from European cinemas. He noted that around 40 percent of the UK's film exports have been to the EU and argued that "Brexit will hinder British producers' ability to sell their products in a giant trading area".[92] In addition, he asked whether a slowdown in the film industry, as a consequence of leaving the EU, would be temporary or "are we in for a two-decade fallow period comparable to the Hollywood pull-out of the early 70s?" He argued that:

> Back then, the number of UK production starts crashed under the pressure of falling audiences, competition from TV and the disappearance of Hollywood funding as studios ended their practice of subcontracting production overseas in favour of retrenching in California. Despite occasional mini-renaissances—usually around individual companies, such as Goldcrest—it took two decades for a concerted revival to occur. It could happen again.[93]

However, other commentators have argued that leaving the EU presented opportunities for the British film industry. Paul Duddridge, a British film and TV producer, suggested that the British film industry "looks like a very attractive investment, and international funds will be

[88] British Film Institute, *Statistical Yearbook 2016*, 2016, p 237.
[89] *Guardian,* 'Less Cash, Fewer Movies, Meltdown: How Brexit May Affect British Film', 24 June 2016
[90] David Francis, 'The Brexit Could Be Bad News for 'Game of Thrones'', *Foreign Policy*, 21 June 2016.
[91] *Guardian,* 'Less Cash, Fewer Movies, Meltdown: How Brexit may Affect British Film', 24 June 2016.
[92] ibid.
[93] ibid.

queuing to get in". He also argued that leaving the EU would give the UK greater independence to "create the most attractive environment in the world for film-makers" by implementing "robust tax incentives for the film industry".[94]

According to the *Financial Times,* the film and television industry had shown strong growth in the following three months after the EU referendum. In October 2016, the Office for National Statistics (ONS) reported that the economy had grown by 0.5 percent between July and September 2016. The ONS noted that the service sector was responsible for all of the growth in 2016's third quarter, with the film and TV programme sector growing by 16.4 percent.[95]

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[94] *Guardian,* 'How the British Film Industry Could Flourish Outside the EU', 29 June 2016.
[95] *Financial Times,* 'UK Growth Confounds Gloomy Predictions', 27 October 2016.