

Advancing Enterprise 2005

4 February 2005

Speech by Eric Nicoli, Chairman, EMI Group at Advancing Enterprise 2005.

Advancing enterprise: creativity and innovation.

Secretary of State, thank you, ladies and gentlemen good afternoon. My company is 108 years old, and there are days when I feel like I've been there throughout, but today is not one of them. We operate directly in 50 countries. We're UK owned and we deal only in music. We have many famous labels as well as the music publishing business and the world famous Abbey Road studios, and we're a major investor in musical talent throughout the world. Our strategy is one of musical diversity and providing consumers with the music that they want to hear. 90% of our business is outside the UK, and we have 13% of the global market, and our music covers every imaginable genre from pop and rock and urban and classical and jazz through to Christian music. We invest in local artists in every country where we do business, and in China and Brazil and India and South Africa, for example, somewhere between 50% and 90% of music is derived from local repertoire.

For the purposes of this conference, for me as a representative of the so-called creative industries, the discussion starts with the need to recognise the importance of these industries, and I must say at the outset that I'm hugely encouraged by the emphatic and very public support that we've received recently from senior government ministers. The creative industries have traditionally been regarded by some constituencies as rather less serious business than for example aerospace or pharmaceuticals, just to pick a couple at random, and the perception of being less serious probably hasn't been helped by the fact that much of the creative output is for entertainment purposes.

It may surprise many of you that the UK music industry alone contributes nearly £5 billion annually to the UK economy, of which £1.3 billion comes from export earnings. It generates 130,000 jobs and has a creative, flexible, diverse, dynamic and highly skilled workforce. We reinvest around 13% of our turnover each year in A&R to discover and develop new talent. A&R is short for artists and repertoire development and is the music industry's research and development, and 13% is among the highest levels of R&D investment of any industry sector. UK retail spending on recorded music exceeds £2 billion and that generates around £300 million in VAT. The UK is recognised as a world leader in music. It's the world's third largest market for sales of music and is second only to the USA as a source of international repertoire, and that's partly because Britain is a nation of music lovers. Indeed we buy more music per capita than any other country in the world, but mainly because we have in this country the best run music industry bar none.

It's a vibrant and innovative industry and that has shown the world that with consistently excellent creative development, imaginative marketing and a real commitment to cultural diversity, it is possible to drive growth in the face of potentially devastating levels of piracy, both on-line and in the physical world. If you

Advancing Enterprise 2005

add to the music industry's contribution to GDP, that of radio and TV, video, film, photography, art, craft, design, publishing, designer fashion, advertising, software, computer games and electronic publishing, and you consider the growth rates in both growths value-added and in employment, it's easy to see just how important the creative industries are to this country's economic and cultural well-being.

Now, apart sheer size, there's another reason to recognise their importance, and it relates directly to our collective aspiration to establish a knowledge-driven economy. The creative media and information businesses invest in, produce and disseminate a huge array of content that educates, informs and entertains, and together we create content, whether that be songs, music, information, articles, stories, poems, films or shows. It's that creative content which people are looking for when they connect to the internet, they activate their broadband connection, they switch on their 3G mobile phone or they choose the channel on their digital TV service. The creative and media sector is therefore arguably the true heart of the information society, and without it, the information society could be a world of largely empty pipes and boxes, and nobody wants that.

If you accept that music and other creative industries must be at the heart of the enterprise culture and that innovation is much more than science and technology and pipes and wires and waves, then you'll understand why we call on all governments to make our industries and our concerns central to their future policy agenda. In the creative industries, value is created by copyright and other intellectual property, and in the UK we have a government that completely understands the importance of IP. You must know that piracy in all its forms, and much of it technology-enabled, has had and is continuing to have a profound impact on the global music industry, and the fact that the UK music industry has mitigated the impact of that piracy better than in any other market in the world is only small consolation for companies like EMI who operate in 50 countries and who've seen the global market decline by 25% in just five years.

So, at the top of our list of concerns is the need to protect intellectual property and the right of the creator of that property to get paid for it, and I congratulate the UK government for setting up the cross-departmental and creative industries IP forum. The forum has set up three sub groups to focus on new business opportunities, on education and awareness, and on piracy and illegal file sharing, and the forum is doing an outstanding job for the UK, but now we need to develop an international focus, so we very much hope that the UK government will use its presidency of the European Union to take these discussions into a European and wider international forum, and in particular to drive the Lisbon agenda better and faster.

I respectfully suggest that one of the reasons that Europe's economic reform agenda is in trouble, or even a failure according to the recently published Kok Report is the Lisbon agenda's one-sided focus on new technologies and its complete failure to recognise the importance of creative industries. We don't ask for subsidies. What we need most is a strong legislative and regulatory framework based on respect for intellectual property. More needs to be done to track down and pursue illegal use of intellectual property rights as was discussed this morning. Just because intellectual

Advancing Enterprise 2005

property is intangible doesn't mean that it has no value. The EU has a role to play in helping to educate consumers about the importance of intellectual property and the EU should seek agreements with third countries for counterfeiting and piracy are criminal offences that should be treated no less seriously than other criminal offences such as forgery, theft and fraud. Widespread abuse of these new digital technologies has led to a proliferation of mass unauthorised theft of content on-line, and this has resulted in loss of investment in content creation, declining sales in the legitimate market, thousands of lost jobs and lost tax revenues for governments.

Now, please don't interpret my remarks as resistance to technological development, which is a regular accusation thrown at music industry executives. As a scientist by degree, nobody appreciates and enjoys technical innovation more than I do. Indeed, the music industry is at the forefront of technological revolution, which has transformed the way we do business. We have a multiplicity of new products, DVD's and ring tones, and new services like i-tunes and napster.

The biggest challenge for us has been to harness these new business opportunities, and to make music easier to buy in a variety of ways, and to make it harder to steal. We're also seizing the opportunities created by digital technology, developing new business skills and adapting our business to enable us to flourish in the years to come. Record companies have currently digitised and licensed over a million songs to over 230 legal music sites around the world, paid-for downloads are up by more than a factor of ten to over 200 million tracks, and we think that digital sales could rise to as much as 25% of total revenues in five years. Among the any benefits of digital distribution is the facility to make available music from every country and culture to music fans wherever they are in the world.

Portable players led by the hugely successful and beautiful i-Pod, and mobile phones are helping transform the consumer experience in creating big, new revenue opportunities. Indeed some estimates suggest that 50% of mobile content revenues will come from music in due course. So, while driving our own business in new directions, we are driving other new businesses and creating value for our new business partners as well.

In conclusion, while I've talked a lot about the creative industries, I just want to stress that the similarities with other industries are greater than the differences. We all need creativity and innovation, we all need the skills set to compete efficiently and effectively in the future, and we all need the financial resources to invest in exploiting the growth opportunities wherever they may be. Because of those similarities, I'd love to see the creative industries more at the centre of the government agenda. Thank you for listening.

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