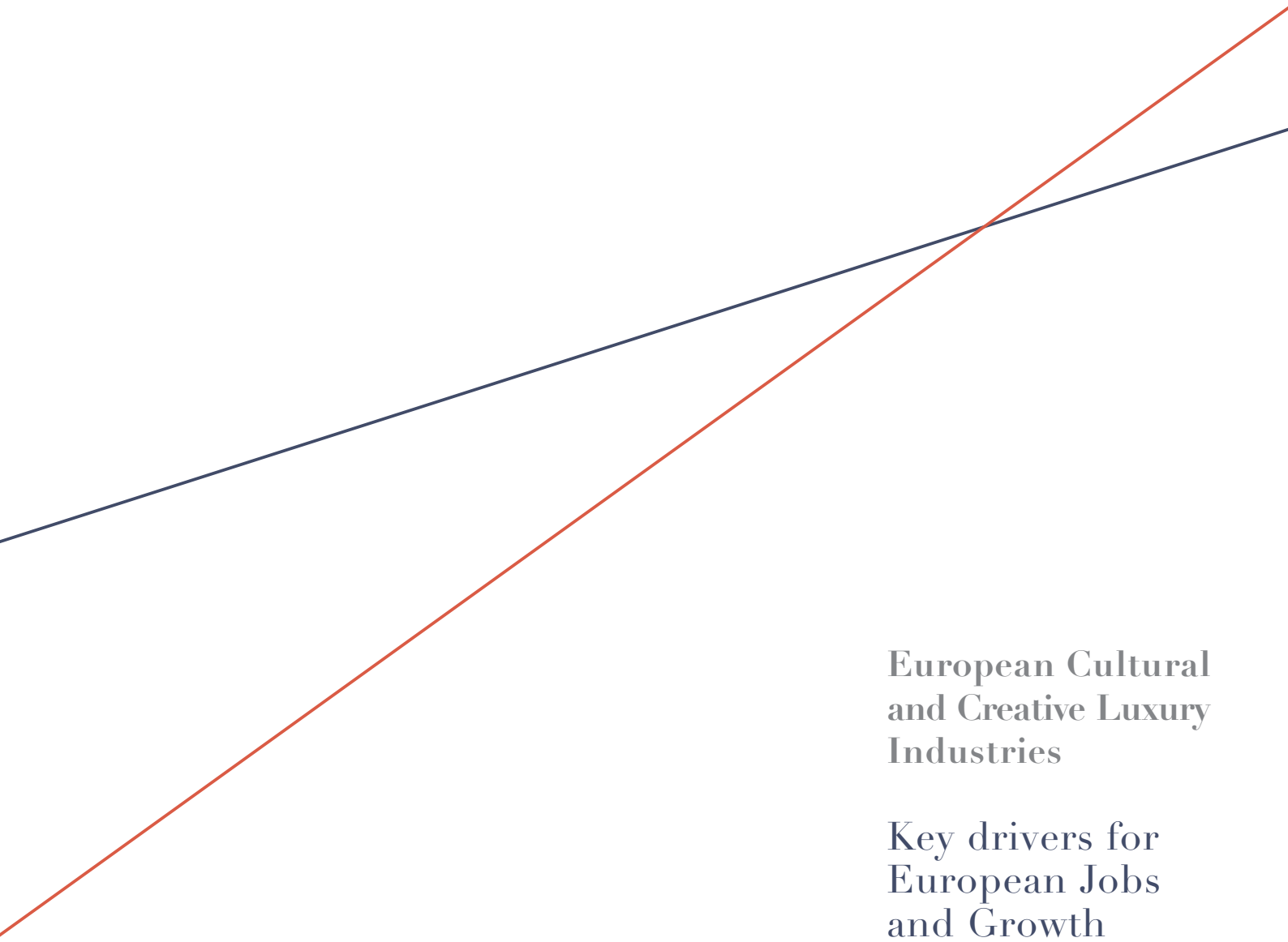


European
Cultural
and Creative
Industries
Alliance



European Cultural
and Creative Luxury
Industries

Key drivers for
European Jobs
and Growth

2012

I. The European Cultural and Creative Industries Alliance

European Cultural and Creative Industries Alliance

The European Cultural and Creative Industries Alliance (ECCIA) is composed of the five major European Cultural and Creative luxury industry associations: Circulo Fortuny (Spain), Comité Colbert (France), Fondazione Altgamma (Italy), Meisterkreis (Germany) and Walpole British Luxury (UK). Its members together represent approximately 300 of Europe's leading luxury brands covering 14 different high-end product and service markets.¹

ECCIA's members are cultural and creative entrepreneurs. Based on culture, craftsmanship and creativity, our successful business model is underpinned by continuous innovation, a relentless focus on quality, highly skilled employment and strong export abroad. Our members strive for the highest quality in all they do, from products and services through to the experience offered to consumers.

The success of our brands springs from the work of our highly - skilled artists, designers, scientists, artisans and managers. Our workshops, wineries, distilleries and stores bring art, culture and inspiration to Europe's cities and regions, contributing to their economic lifeblood. They preserve and renew artisanal skills and activities as well as Europe's artistic and cultural heritage, which are in turn made accessible to the greatest number of people in Europe and around the world.

Europe is a global leader in the development and manufacture of luxury products and services. The biggest luxury brands are European, and their products are exported across the world, acting as ambassadors for core European values.

Due to the specificity of the high-end cultural and creative sector, the challenges are different from sectors that are traditionally split across product categories. The ECCIA membership shows that the basic thrust of making a beautiful bag is the same as making a beautiful yacht - it is the creativity and innovation that our members use to leverage traditional European strengths.

Through its unique business model, ECCIA members have established European leadership across global markets. The European luxury sector is therefore a key driver of sustainable growth and is of particular significance to Europe by contributing to its overall economic health, competitiveness, creativity, innovation, employment and export.

1. This includes the high-end segment of European Watches & jewellery, Fashion, Perfumes & cosmetics, Accessories, Leather goods, Gastronomy, Furniture & furnishing, Design household equipment, Cars, Yachts, Wines & spirits, Hotels and leisure experience, Retail and Auction Houses, and Publishing.

II. The economic significance of the European Cultural and Creative Luxury Industries

ECCIA commissioned Frontier Economics to carry out a study examining the contribution to the European economy of those sectors supplying high-end consumer products and services. The study was published on 5 June 2012 under the support of European Commission Vice-President Antonio Tajani in the European Parliament. It shows that the sector provides a very significant contribution to the European economy:

- Europe dominates the global luxury market. Collectively, **European brands account for at least 70% of the global luxury goods market**;
- The **output of the sector** in 2010 is estimated to be over **€440 billion**, which **equates to approximately 3% of European GDP**;
- The sector **employs approximately one million workers directly**, and at least a further **500,000 workers indirectly**;
- The sector is a key exporter. The **sector exports 60% of its output**, representing over **10% of all exports from Europe**;
- The sector's **tax contributions amount to more than €110 billion** through sales, corporate and export taxes and through the personal income tax paid by workers in the sector;
- The sector is a **key driver of tourism in Europe**, with up to 50% of personal luxury goods sales in Europe being purchased by tourists;
- The sector provides significant spillovers to the wider European economy, to the benefit of both consumers and business. The sector is **particularly supportive of SMEs** and supports a diverse network of SMEs across Europe;
- In terms of growth, the sector has grown faster than the European economy over the last decade, and has **markedly outperformed the European economy** since the onset of the current economic crisis. Following a decline in sales in 2009, the sector has recorded double digit growth in the last two years;
- The **future prospects for the sector are strong**, driven by the expected increasing demand in Asia and other high-growth economies over the next decade. Medium term forecasts suggest the sector will continue to grow at between 7% and 9% per year. If this level of growth is realised, **the sector will contribute between €790 and €930 billion to the European economy in 2020, and will employ between 1.8 and 2.2 million people directly**.

III. Fundamentals of the business model

The Frontier Economics study shows that while the luxury sector is made up of a diverse range of products and services, the pillars that underpin the luxury business model are common across the segments.

The key pillars are:

Aura

It is well recognised that luxury products and services encapsulate more than the physical characteristics of the product and evoke a sense of fascination. Maintaining the aura of luxury is a key driver of consumer behaviour and differentiates luxury products from mass-market sales and is essential to the ongoing success of the sector;

Craftsmanship and creative people

Quality and craftsmanship are at the heart of the luxury proposition. Access to an appropriately skilled and trained workforce is essential for the success of the sector;

Substantial investment in industrial property

The luxury sector invests heavily in IP in terms of creative inventions but also in relation to design and innovation;

Selective Distribution

Maintaining control of the distribution and retail of products is critical to the success of the sector to ensure that the product's brand and image are not damaged by inappropriate distribution and retail;

Developing new markets

The European luxury sector is a significant exporter, spreading its core values, culture and heritage across new markets. Prospects for the growth of the sector are predicated on maintaining fair and free access to high-growth developing markets.

The above points demonstrate the unique pillars that underpin the luxury business model and differentiates the luxury segment from the mass-market. They also demonstrate that, far more so than the mass-market, the key pillars of the business model are vulnerable to negative policy impacts.

IV. The importance of the current policy environment

The Frontier Study shows that ensuring policies are in place that are supportive of the key pillars of the business model will be an essential element of helping the sector continue to succeed and deliver on its growth potential of 7%-9% average annual growth.

To demonstrate the importance of achieving the correct policy environment, Frontier Economics developed a scenario model to assess the impact on the sector if policies were to be implemented which undermine the pillars of the business model. The two biggest impacts relate to the impact of further increases in IP infringement and any substantive dilution in the sectors' ability to maintain control of distribution and retail. For these impacts Frontier Economics found that:

- **A further increase in IP infringements, either online or offline, could result in an output loss of €43-€79 billion.** This level of output loss would be associated with the **loss of between 100,000 and 180,000 direct jobs** within the sector, and **tax losses of between €14 and €26 billion.**
- **A 20% decline in output as a result of a substantial change to current policy towards selective distribution would result in the loss of 190,000 jobs** and result in tax losses of over €27 billion.
- Policies that increase costs for the sector could potentially reduce output by €24 billion, costing over **50,000 jobs and tax losses of approximately €8 billion.**
- **Policies that impact on the aura of luxury could potentially reduce output by €40 billion,** costing almost **100,000 jobs and tax losses of approximately €14 billion.**
- **A further increase in trade and non-trade barriers could potentially reduce output by between €2 and €3.4 billion** and result in **tax losses of up to €1 billion.**

V. The correct framework conditions for growth

ECCIA recommendations

In order to continue our growth successfully and increase consumer protection and trust, ECCIA believes that a number of critical issues need the urgent attention of European policy makers.

1. Support European growth-driving industries: further foster the specificity of the luxury sector.

We believe EU policy should support industries that contribute to the sustainable growth of the European economy. We believe EU policy should recognise those sectors that have established European leadership in global markets; which have built their success on European culture and heritage in the design and creation of their products and have adhered to the highest standards in European manufacturing. In particular, ECCIA believes that EU policy makers should:

- Recognise the intrinsic value of Intellectual Property for society at large;
- Safeguard consumer protection and brand values by recognising the benefits of selective distribution in both sales and after-sales markets, online and offline;
- Recognise the cultural value of products in policy making.

2. Support employment: encourage European artisanship and craftsmanship.

To respond to the increasing demand for craft products designed in Europe and to close the gap between education and skills needed in employment, it is essential to encourage European artisanship and craftsmanship. The European Commission should support the preservation of artisanship and craftsmanship in Europe in its upcoming Communication ‘Towards a job-rich recovery’, as part of the implementation of the ‘Agenda for new skills and jobs’ by:

- Putting in place the right initiatives to support these aims, including apprenticeship programmes for artisans and craftspeople;
- Further supporting the coordination among Design and Fashion Universities;
- Encouraging partnerships between public institutions and private business for the development of curricula oriented towards the needs of the job market.

V. The correct framework conditions for growth

ECCIA recommendations

3.

Support the export of European products: foster suitable trade platforms.

Exporting our brands is not only about exporting products – we believe our brands are ambassadors of European values.

By exporting European products that are based on highest standards in every aspect, we spread the messages for core European values. However, our work is jeopardized by the protective practices of countries that seek to control trade flows in mass market goods. These impediments include not only high and discriminatory tariffs, layered taxation, and local duties, but also a number of technical trade barriers, such as complicated import license procedures and product registration rules. To address this, we believe the European Commission should:

- Take the specificity of the luxury sector into account in trade negotiations - the excellence that is unique to our values does not generally face local competition in our export markets;
- Strive for trade liberalisation with Free Trade Agreements and enhance visa facilitation to boost tourism in Europe.

4.

Increase consumer trust to encourage online growth and innovation.

Over the last few years, 7 key principles have emerged which would create transparency and certainty for consumers and businesses when operating online and would allow the digital environment to grow more sustainably:

- Apply the same regulatory principles offline & online;
- Apply the principle of Duty of Care for Online Service Providers;
- Exclude Online Service Providers that are actively involved in the commercial transactions of third parties from safe harbour protection and ensure that commercial activities imply identity disclosure;
- Clarify scope of injunctions to include proactive measures against repeat infringers and an obligation to prevent similar infringements in the future;
- Introduce EU harmonisation of compulsory notice-and-takedown procedures;
- Prevent abuse of brands' reputation by outlawing the un-authorized keyword advertising with registered trademarks;
- Apply the principle of Duty of Care online in order to protect consumers against Unfair Commercial Practices.

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