

GIVE MUSIC A BREAK

Introduce reduced VAT on sound recordings



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“It seems a paradox that for a book telling the life of Giuseppe Verdi a rate of 4% VAT is applied (in Italy), however, if we want to buy a recording of the work of the great Italian composer, we would have to pay a VAT rate of 20%. Is this right?”

Italian singer Andrea Bocelli, in a statement supporting a VAT reduction on sound recordings (June, 2002)

Music – an essential part of European culture

Music is a powerful means of expression, underscoring important moments in people’s lives and evoking strong emotions. An appreciation of music is deeply rooted in European society.

The talent of European artists and authors is the driving force behind a creative sector estimated to be worth more than € 20 billion in 2000. The recorded music sector alone is valued at € 12.1 billion. European music is also a leading creative export, accounting for a third of world sales of sound recordings.

A coalition of organisations, which believe in the essential role music plays in European culture and society, is now calling on the EU Member States to give music a break. Authors, composers, music publishers, managers, entertainment retailers, independent and major record labels have joined forces to call for a reduction of VAT on sound recordings. The rates of VAT on sound recordings currently range from 15% in Luxembourg to 25% in Denmark and Sweden.

It is illogical for sound recordings to be classified differently from other cultural goods and services that currently benefit from reduced VAT rates. At the moment, when people buy a book of John Lennon’s writings they pay a low rate of VAT, but when they buy one of his CDs they pay a high rate.

We strongly believe that sound recordings should benefit from the reduced VAT rates currently applied to other cultural products. The discrepancy between the treatment of recorded music and other cultural products should be corrected as a matter of urgency when the European Commission carries out its review of the 6th VAT Directive in 2003.

The European Union should put an end to the discrimination between cultural products by allowing sound recordings to benefit from the reduced VAT rate that is already applied to books, cinema tickets, concert performances, museums and cartoons among other “cultural goods”.



“Why should more tax be payable on Bob Dylan than on Dylan Thomas? More on Radiohead than on the Radio Times? More on Paul McCartney than on pornography? Is one of greater cultural value than the other?”

Martin Mills, UK independent producer
Beggars Banquet Group, (October 2002).

Correcting VAT discrimination against music

Music epitomizes the EU’s cultural richness and linguistic diversity. In Europe, 41% of all music sold is local repertoire. It seems self-evident that music is part of the fabric of European culture. It is therefore unjust to impose a higher rate of VAT on CDs as compared to other cultural goods. We urge the Commission to rectify this situation when it makes proposals on the products eligible for reduced VAT rates in the first half of 2003.

VAT on sound recordings is currently set at a minimum 15% rate across the EU. By contrast, a number of other cultural goods, deemed to be of “social necessity” – books, newspapers, magazines, admissions to theatres, concert halls, cinemas and zoos – are subject to a lower band. On those goods or services, contained in Annex H of the VAT Directive, EU Member States may apply VAT rates as low as 5%. In some countries, books, newspapers and magazines are even given an exemption from VAT.

Yet music is as “socially necessary” as the cultural goods currently listed in Annex H. Applying high VAT rates to sound recordings penalises parts of the population, particularly young people, whose main way to access culture is through music. A reduction in the VAT rate on sound recordings would consequently facilitate access to cultural goods.

It should not be forgotten that the EU Treaty (Article 151, paragraph 4) invites the Community to take cultural considerations into account in all its actions. EU fiscal policy should therefore take due account of cultural and social issues with a view to easing access to the arts.

To achieve a VAT reduction on sound recordings, the European Commission would first have to propose their inclusion in Annex H. The addition of sound recordings to Annex H would then require the unanimous agreement of EU Finance Ministers. A number of EU governments have expressed the wish to treat sound recordings as a cultural good from a VAT viewpoint.

It should be noted that a Member State is not obliged to grant a reduced VAT rate even if the good or service is listed in Annex H. However, unless sound recordings are listed in this Annex, the governments that wish to cut VAT on recorded music will not have the option to do this in their own country.

EU Member States should at least be given the option of lowering VAT on sound recordings by the inclusion of these products in Annex H.



Growing support for reducing VAT on music

11 November 2002

The French government appoints the former Culture Minister, François Léotard, as the person responsible for promoting a reduction of VAT on sound recordings across the EU.

16 September 2002

French Prime Minister Jean-Pierre Raffarin met with European Commission President Romano Prodi in Brussels and requested a lowering of VAT rates on cultural products.

24 July 2002

The French government wrote to EU Internal Market Commissioner Frits Bolkestein requesting that sound recordings benefit from the lower VAT band "like other cultural goods such as books". The letter was co-signed by Francis Mer, Minister for Finance, Economy and the Industry, the Deputy Minister in charge of Budget Alain Lambert, and by Culture Minister Jean-Jacques Aillagon. This follows a firm political commitment by both President Jacques Chirac and Prime Minister Jean-Pierre Raffarin to reduce VAT on sound recordings.

2 July 2002

The European Parliament adopted with an overwhelming majority a report on audiovisual works recommending the reduction of VAT rates on cultural products and services when Annex H of the 6th VAT Directive is reviewed (Rapporteur: Luckas Vander Taelen).

13 October 2001

EU Education and Culture Commissioner Viviane Reding expressed her support for a reduced VAT rate for sound recordings at the Music in Europe Conference organised by the European Commission and the Belgian presidency.

18 December 1997

EU Culture Ministers unanimously called for a reduction of VAT on sound recordings.



VAT rates on sound recordings in the European Union

Source European Commission (2002)

Member States	Normal Rate %
Austria	20
Belgium	21
Denmark	25
Finland	22
France	19.6
Germany	16
Greece	18
Ireland	21
Italy	20
Luxembourg	15
The Netherlands	19
Portugal	17
Spain	16
Sweden	25
United Kingdom	17.5

“Without music life would be a mistake”

Friedrich Wilhelm Nietzsche

Giving a break to an industry facing a piracy epidemic

Piracy and mass-scale, unauthorised copying are the greatest threats facing the music sector today. The economic losses due to piracy are enormous and have an impact on authors, performers, music publishers, producers, retailers and everyone who depends on music to sustain his livelihood. Piracy rates in Spain, Italy and Greece, for example, have risen to levels of 30%, 27% and 50% respectively.

CD copying has badly hit the European music sector. In Germany, for example, the number of blank CDs used to copy music was estimated at 182 million in 2001, compared to 185 million CD album sales, according to a survey by market research firm Gfk.

Several European countries showed significant declines in their recorded music markets in the first six months of 2002 that were clearly linked to the twin problems of piracy and mass scale copying: Germany (-14.4% in value), UK (-6.2% in value), Denmark (-22% in value) and the Netherlands (-15.8% in value). Industry sales figures for 2002 show that the music market declined 7.5% in value in Western Europe.¹

This situation is jeopardising the future of numerous small creative enterprises that are particularly affected by these problems in the marketplace.

The creative sector is actively fighting back against this epidemic of piracy and illegal copying. But at a time when the industry is going through a turbulent phase in its development, the EU could help promote European music by ending the current unfair discrimination between CDs and other cultural products that benefit from reduced rates of VAT.

1. IFPI interim sales figures for the first half of 2002



“If music be the food of love, play on”

William Shakespeare,
(*Twelfth Night*, Act 1:1)

Reducing VAT encourages increased sales volume

Research suggests that a cut in the VAT rate on sound recordings would result in increased sales and a significant expansion of the market. Research by the French trade body SNEP (Syndicat National de l'Édition Phonographique) predicts that a reduction of the VAT rate to 5.5% would lead to a projected increase in sales of 40% over three years.

In 1987 when the VAT rate on sound recordings in France was cut from 33.3% to 18.6%, sales rose by 36% the following year and by 91% for the period 1988-1991.

French retailer FNAC reduces VAT on CDs every year to mark the “*Fête de la musique*”, which² results in an increase of between 140% and 170% of the turnover of its record department.

Pirates don't pay taxes and VAT. So if reducing VAT on legitimate sound recordings stimulates sales, this in turn will increase revenue streams from VAT to national treasuries.

Maximising the benefits for European consumers

Music is a driving force for social integration and cultural exchange across Europe. Some 61.3% of Europeans listen to music everyday, according to the Eurobarometer survey carried out at the request of the European Commission (April 2002). The survey also found that 86.3 % of Europeans prefer listening to radio programmes featuring music.

While music is for every one, it plays a strong and central role in the lives of young people. In France, a study carried out by the French market research group, Sofres, in 1997, reported that 33% of 15-24 age group buy more than 10 sound recordings a year. This age group, in particular, is being penalised by the high rates of VAT applied to sound recordings.

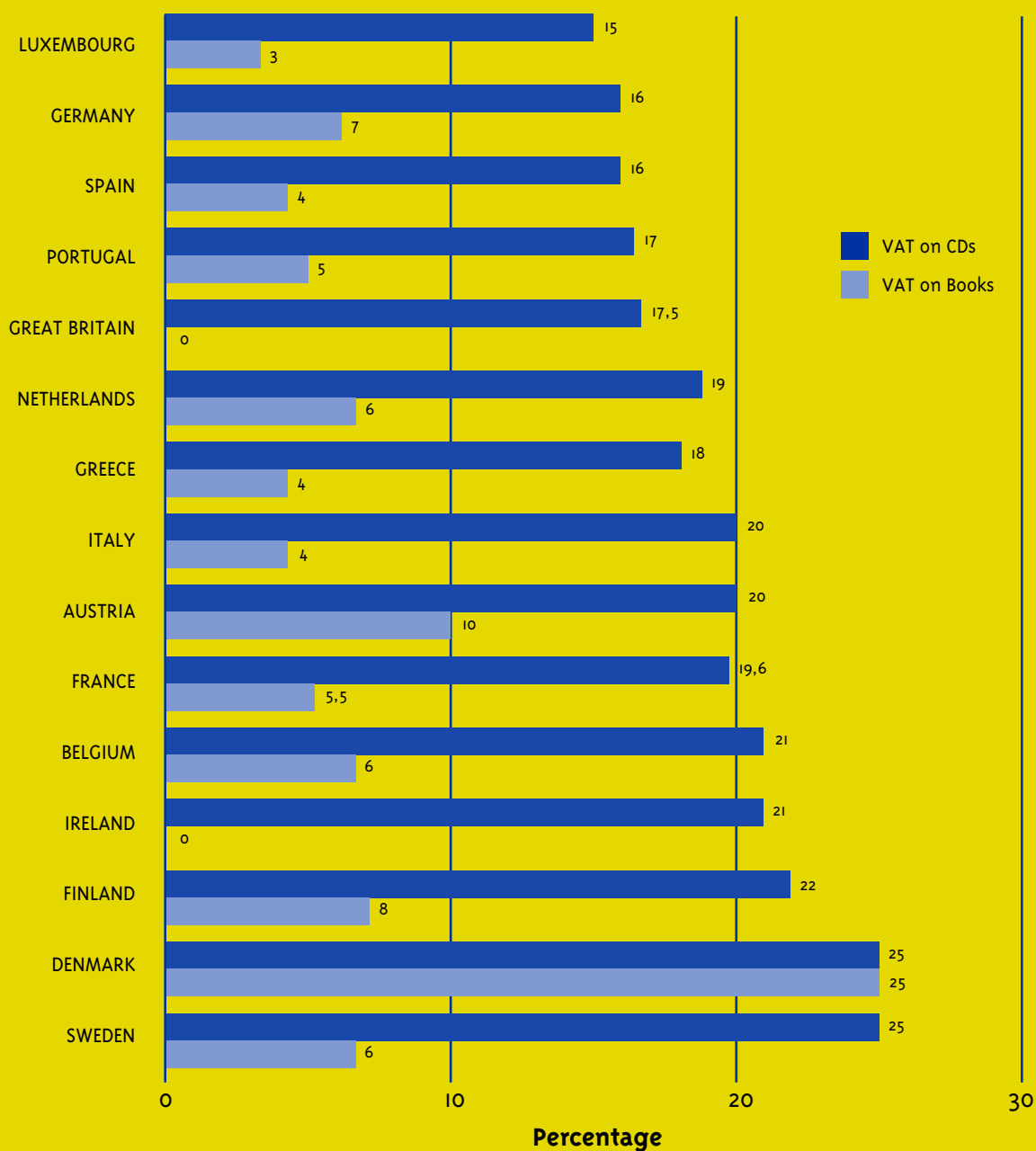
Producers and retailers have undertaken to maximise the benefits to consumers of any cut in VAT on sound recordings. Lowering the rate of VAT on sound recordings would help improve access to music among the European consumers.

Promoting diversity of music

European music has an astonishing diversity, from German classical to Celtic traditional and from British rock to Scandinavian pop. Record companies, large and small, reinvest much of their revenues to develop local artists, discovering and nurturing young talents and serving niche markets, while music publishers reinvest much of their revenues to nurture composers, songwriters and music creation in general. The boost to the market that a reduction of VAT would bring would also help promote the diversity of music on offer.

2. According to “Paroles d'experts – Et si demain la TVA était à 5,5%”, Fnac.com, 13 June 2002.

Rates of VAT on Books and CDs in Europe – 2002



Please note: some Member States apply a reduced rate of VAT on books under Annex H of the 6th VAT Directive. A number of countries exempt books from VAT completely. In all Member States, CDs are at the standard rate of VAT.

“If a CD is a cultural product like other items of intellectual property, such as books, why is there still a difference in treatment that obviously penalises music”

Italian singer Laura Pausini in a statement supporting a VAT reduction on sound recordings (June, 2002)

Developing a vibrant and creative sector

Some 600,000 people are employed directly and indirectly by the music industry in Europe. Direct employment results from the activities of authors and composers, musicians, record companies, music publishers, collecting societies, manufacturers of musical instruments, music teachers, managers, concert promoters and entertainment retailers and e-retailers. It is estimated that there are 280,000 professional musicians in Europe.

Employment indirectly linked to music includes jobs in the press, radio and television, advertising (the music industry is a large TV and radio advertiser in Europe), public bodies overseeing cultural activities and pressing plants.

Out of the five major record companies, three are European while all employ people in the EU Member States and work to develop local talent. However, the sector is characterized by hundreds of labels that are small and medium-sized companies or even micro-enterprises. Germany and the UK can each count more than a thousand such companies.

A 2002 study by the European Commission pointed to the cultural sector's high growth potential in terms of employment. It reported that 7.2 million people are currently employed in the production of cultural goods and services, representing 4.6% of total employment in the EU. Between 1995 and 1999, employment in the sector rose annually by 2.1%.

Speaking at the Music in Europe conference in Brussels (October 2001) EU Culture Commissioner Viviane Reding commented: "One counts on continued growth in the cultural employment sector in future, pushed by a strong demand for cultural products and services and characterized by the creation of jobs linked to the digitalization of cultural products".

Commissioner Reding added: "Besides musicians, the live music sector employs a significant number of technical and maintenance personnel, as well as personnel concerned with the organisation of concerts and managing the careers of performers. At the heart of the European Union, these functions are often taken on by thousands of small enterprises."



Extract: ANNEX H [1992 of the Sixth VAT Directive (1977)]

List of supplies of goods and services which may be subject to reduced rates of VAT

In transposing the categories below which refer to goods into national legislation, Member States may use the combined nomenclature to establish the precise coverage of the category concerned.

Category Description

1. Foodstuffs (including beverages but excluding alcoholic beverages) for human and animal consumption; live animals, seeds, plants and ingredients normally intended for use in preparation of foodstuffs; products normally intended to be used to supplement or substitute foodstuffs.
2. Water supplies.
3. Pharmaceutical products of a kind normally used for health care, prevention of diseases and treatment for medical and veterinary purposes, including products used for contraception and sanitary protection.
4. Medical equipment, aids and other appliances normally intended to alleviate or treat disability, for the exclusive personal use of the disabled, including the repair of such goods, and children's car seat.
5. Transport of passengers and their accompanying luggage.
6. Supply, including on loan by libraries, of books (including brochures, leaflets and similar printed matter, children's picture, drawing or colouring books, music printed or in manuscript, maps and hydrographic or similar charts), newspapers and periodicals, other than material wholly or substantially devoted to advertising matter.
7. Admissions to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities Reception of broadcasting services.
8. Services supplied by or royalties due to writers, composers and performing artists.
9. Supply, construction, renovation and alteration of housing provided as part of a social policy.
10. Supplies of goods and services of a kind normally intended for use in agricultural production but excluding capital goods such as machinery or buildings.
11. Accommodation provided by hotels and similar establishments including the provision of holiday accommodation and the letting of camping sites and caravan parks.
12. Admission to sporting events.
13. Use of sporting facilities.
14. Supply of goods and services by organizations recognized as charities by Member States and engaged in welfare or social security work, insofar as these supplies are not exempt under Article 13.
15. Services supplied by undertakers and cremation services, together with the supply of goods related thereto.
16. Provision of medical and dental care as well as thermal treatment in so far as these services are not exempt under Article 13.
17. Services supplied in connection with street cleaning, refuse collection and waste treatment, other than the supply of such services by bodies referred to in Article 4 (5)'.

Coalition Members

europaemusicoffice

EMO

The European Music Office's objective is to obtain from the EU the implementation of a cultural policy in the field of music and the music industry.

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GERA-EUROPE

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G E S A C

GESAC

European Grouping of Societies of Authors and Composers – groups 24 of the largest authors' societies in the European Union, Norway and Switzerland, and represents as such nearly 480,000 authors or their successors in title in the area of music, graphic and plastic art, literary and dramatic works, audiovisual and music publishers.

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IFPI

The organisation promotes the interests of the recording industry worldwide and comprises a membership of over 1500 independent and major record companies in more than 70 countries.

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IMMF

The International Music Managers Forum works with its separate offices around the world to help promote/safeguard the role of managers by providing a support infrastructure and holding regular training and education briefings for its members.

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ICMP/CIEM

ICMP/CIEM

The International Confederation of Music Publishers represents the music publishing community globally, serious and popular music, independent and major publishers, in Europe and worldwide. ICMP/CIEM includes the quasi-entirety of all national music publishers' trade associations in and outside Europe, as well as regional (Latin America and Asia) and international (IMPAs) associations.

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IMPA

The International Music Publishers Association is a trade association representing music publishing groups who do business on an international level through operating companies in a number of countries.

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