HOUSE OF COMMONS

Digital, Culture, Media and Sport Committee

Oral evidence: Economics of music streaming, HC 868

Tuesday 19 January 2021

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Watch the meeting

Members present: Julian Knight (Chair); Kevin Brennan; Steve Brine; Alex Davies-Jones; Clive Efford; Damian Green; Damian Hinds; John Nicolson; Giles Watling; Mrs Heather Wheeler.

Questions 203-330

Witnesses

I: Peter Leathem, Chief Executive, Phonographic Performance Ltd; and Andrea Martin, Chief Executive, PRS for Music.

II: Tony Harlow, Chairman and Chief Executive, Warner Music UK; Jason Iley, Chairman and Chief Executive, Sony Music UK & Ireland; and David Joseph, Chairman and Chief Executive, Universal Music UK & Ireland.

Examination of witnesses

Witnesses: Peter Leathem and Andrea Martin.

Chair: This is the Digital, Culture, Media and Sport Committee, and this is a hearing on the economics of music streaming. Today we have two panels. Our first panel is Peter Leathem, chief executive of Phonographic Performance Ltd, and Andrea Martin, chief executive of PRS for Music. Good morning, Peter and Andrea, and thank you for joining us.

Peter Leathem: Morning. Thank you.

Andrea Martin: Morning.

Chair: Before we ask our first question, I am going to open up the floor to Members' interests.

Kevin Brennan: Thank you, Chair. I would obviously like to refer to my entry in the Register of Members' Financial Interests. I am a member of PRS for Music and I have received tickets and hospitality from PRS for Music and some royalties in the past. I have received tickets and hospitality from Universal Music Group, which is in front of us later. I am a member of the Musicians' Union, and it made a donation to my electoral fund. And I have some earnings as a musician, which are declared.

Steve Brine: Very similarly to Mr Brennan, I have received hospitality from Universal Music and PRS for Music in the past.

Chair: Thank you. Does anyone else have any interest to declare? No. Okay, our first questions come from Kevin Brennan.

Q203 **Kevin Brennan:** Thank you, Chair, and welcome, Andrea and Peter. Peter, could I ask you a few questions to kick things off? We are pushed for time this morning, so we are going to rattle through these as quickly as we can. PPL has traditionally collected revenue derived from linear radio play, among other things. As the way people consume music is changing, including through streaming, how is that affecting the sort of income that PPL is able to collect?

Peter Leathem: PPL has had a very successful 10 years, in terms of our growth. In 2019, the last year we announced all our financial results for, we collected £271 million, which was almost a doubling of that over the last 10 years, so a £128 million increase. We have seen 10 years of consistent growth and, even though we have obviously had the rise of streaming and other activities, things like commercial radio continue to grow. Our revenue from radio over the last five years has grown by just over 20%. Commercial radio listening is at the highest level it has been at—35 million listeners a week. So, certain things at the moment are continuing to grow for performers and record companies.

Q204 **Kevin Brennan:** Given the growth in streaming, which has been huge in recent years, would you favour something like equitable remuneration, which is paid in relation to radio play and so on, being extended to streaming?

Peter Leathem: From PPL's point of view, we are given a certain amount of rights by record companies and performers, so we are, obviously, licensing public performance, TV and radio. We go around the world collecting as well. Part of our role is actually to take those rights that are given to us, try to administer them as carefully and accurately as possible and take them forward. From our point of view, we don't particularly have a view about whether other income streams should have certain rights, and so on. If there were those rights, obviously PPL would play a role and perform there, but as I say, we don't have a particular opinion about which other services should have streaming rights—

Q205 **Kevin Brennan:** But you would be happy to administer them if a change happened that meant that money came your way from streaming.

Peter Leathem: Yes, we are a professional repertoire matching and distribution service. We receive over 30,000 recordings a week. Last year, we paid many record companies and performers. Over 100,000 performers were paid last year, and about 12,000 recording rights holders. We are set up to handle large amounts of repertoire and to make large payments, so yes, if new rights came along, we could play a role in administering those.

Q206 **Kevin Brennan:** Okay. There are some new services online. Do you get money from a service like Apple Beats, which seems to be linear, almost like a radio station? Do they actually pay money to PPL?

Peter Leathem: What has happened is that our streaming position was radio and TV, as you say, and gradually that has moved into other areas, such as the BBC's iPlayer catch-up TV and catch-up radio—we have done licensing in that particular area—and also we license about 3,500 internet radio stations. There has been this gradual movement of where that licensing takes place. Something like Apple is a good example, because Apple is actually licensed directly by the record companies, but has now launched Apple Music radio, and that is an area where there is equitable remuneration to be paid. There is currently a dialogue going on at the moment about PPL providing some administration to ensure that performers are paid that ER for that particular service.

Q207 **Kevin Brennan:** So you would expect them to be paying in the near future. Would you expect any backdating of that?

Peter Leathem: Yes, on both counts.

Q208 **Kevin Brennan:** Would you like to tell the Committee what PPL's Momentum fund is and how it is funded? It has been a source of support for musicians during the current situation.

Peter Leathem: Within about 12 months of the end of a particular year, we pay out about 96% of our money. As I say, we paid about 12,000 record company rights holders and about 122,000 performers last year—there is lots of money going out there. We then spend about six years trying to find performers to ensure that they are linked to recordings, to make sure they are paid. By the end of that six-year period, we have a situation where we close down the distribution, and we have about 1.5% to 2% of the money left. Historically, we have then distributed that pro rata to those performers and record companies that were paid in that particular distribution.

More recently—this has been led by performers and record companies—we have started to look at how we can support new talent and artist welfare, and a range of different funding things. Over the last few years, we have come together with the PRS Foundation, which has been running for a number of years, and we have started to provide some additional funding—as well as the funding provided by PRS—to things such as the Momentum fund, which tries to identify up-and-coming artists to provide them with funding to take their careers to the next stage. Rather than redistributing pro rata some of those moneys to other members at the end of six years, the decision has been made that that is probably a good time to try to help support the next layer of talent to come through in a very difficult industry.

Q209 **Kevin Brennan:** So the artists who might otherwise get some of that pro-rata distribution are effectively giving off some income to help new up-and-coming artists. Do the record labels contribute their share to that fund?

Peter Leathem: In relation to the Momentum fund, no. That is actually funded by the performer side. Again, these are decisions made by the different interest groups—the record companies and performers—as to how they are going to use that money and which bits they are going to support. The PPL Momentum fund is supported by the performance side.

Q210 **Kevin Brennan:** So the record labels just keep their share of it?

Peter Leathem: Yes. On the record company side, it is redistributed pro rata across those record companies. They take the view that they will then take that and reinvest it in their own artists and repertoire, and develop from there.

Q211 **Kevin Brennan:** I will ask Andrea just the one question, as we are on a very tight timetable. Does PRS, which is obviously responsible for paying songwriters and composers for their copyright, get money from services such as Facebook? Do they give you the data of the music that they are playing, and are you able to identify whose music has been played on Facebook?

Andrea Martin: Mr Brennan, I know we are pressed for time, but would it be worth quickly making sure that people understand what PRS for Music does?

Q212 **Kevin Brennan:** I think if you could just answer this question because of time constraints—we have quite extensive briefing in front of us, so that can all be on the record in our written evidence.

Andrea Martin: As you know, I am relatively new in this business. My background is data transformation, digital and tech. I have more than 30 years' experience on data, and PRS, like many companies, handles big data. One of the things that I have learned over the 30 years is: better data in, better data out. Yes, we do get data from Facebook. In 2019, PRS for Music processed almost 19 trillion usages of music, and we think that this year, it is about 25 trillion to 30 trillion.

Q213 **Kevin Brennan:** That is a huge amount of data, Andrea, but does Facebook actually tell you which music has been played, or does it just give you a chunk of money to distribute pro rata?

Andrea Martin: It depends on the accuracy of the data and how quickly we get it. Yes, it does, and in some cases because of the hosting defence and safe harbour, and because of content recognition, we don't always get all the data and all the content. I think the Government can really help us on that, on article 16 of the copyright directive. No, not the copyright directive, but the collective—definitely on article 16, the Government can help us make sure that we do get data and at a certain standard.

Kevin Brennan: I am going to leave it there, Chair, given the time constraints. Thank you.

Chair: Thank you. Heather Wheeler.

Q214 **Mrs Wheeler:** Andrea, you bring me nicely to my question, which is: what could the Government do to help you about data? Could you expand a little bit more about article 16 so that everybody watching can learn a bit more?

Andrea Martin: Absolutely, Mrs Wheeler. Article 16 is the collective rights management regulation, which stipulates, to enforce the provision of data, that the user provides the data under certain standards. I think it is really important, because in the last five years of the regulation it has not been really implemented, and we have not seen the Government using those tools. It is really important, because the more data we get, and the more accurately and quickly, the more we can pay our members what is due to them.

Q215 **Mrs Wheeler:** What you are saying is that there is an existing regulation, which would help you to transfer—from the data that you get—money to your members.

Andrea Martin: Absolutely.

Q216 **Mrs Wheeler:** But the Government does not insist on article 16 being used.

Andrea Martin: Exactly. We actually have not seen the Government really using those tools that are available.

Mrs Wheeler: Andrea, that is really helpful. Thank you so much. I will finish there, Chairman.

Chair: Thank you, Heather. That was so quick that you caught me out. Steve Brine.

Q217 **Steve Brine:** Speed is of the essence. Andrea, good morning. Thanks for joining us. Just reading, over the last couple of days, your submission to us, I am interested in exploring a little bit the so-called safe harbour provisions. You call on the Government to get with its commitment to close what is known as the value gap, by addressing the safe harbour provisions for social media—obviously, the difference between music uploaded to social media and uploaded to streaming services. Can I just explore with you how licensing music for social media companies—YouTube, for instance—compares to other streaming services? Could you just explore that for us, for our evidence?

Andrea Martin: Yes. What is really important, and what I want, is to make sure that whenever and wherever members' music is used online, they are paid for it; and they have to be licensed. To make sure that there is fair value—when we look at the hosting defence in the EU or safe harbour in the US, it dates back to 2001. The iPod did not even exist then. That is almost 20 years. Yes, there has been evolution, but the market is going really quickly and it has to be modernised. Yes, the EU has recognised that and issued a directive—article 17 of the copyright directive—that limits the scope of safe harbour or the scope of hosting defence in the EU. I think that the UK Government—I also heard this in previous sessions—has a huge opportunity now to take what the EU has done and improve it so much to make sure that the more money that is due to our members goes back into the pockets of the creators. I think it is really important that we update that legislation. The hosting defence allows some online platforms to claim that they are not liable for the music, and they do not pay up to our members.

Q218 **Steve Brine:** Presumably, this is not a role just for the UK Government. I hear you—obviously, we sit outside the EU's regulatory regime now, but what it does matters to what we do. This is a global issue, isn't it? I wonder what work PRS does with its brother and sister companies around the world in that respect.

Andrea Martin: Definitely we work with our sister companies, through CISAC, which is the international body. We do what we can to make sure that they also implement global legislation. PRS has done a lot of work on this, and we are more than happy to share with the Committee all the work that we have done.

Steve Brine: Thank you very much.

Q219 **Damian Green:** Morning, both of you. Andrea, your submission says that the music market is characterised by a lack of meaningful competition, which is chilling growth and innovation. That is quite a strong statement. Would you like to expand on it? What form does that take? What effect does it have?

Andrea Martin: It is twofold. It goes back to article 17. If you go to a browser and google "free music", so many platforms that offer free music are not licensed. There is this concept that music is free, that free music will be available and that people do not have to pay for it. These are issues that need to be fixed for the online market, to make sure that we get as much money for the creatives as possible.

Q220 **Damian Green:** That is one thing—an attitude of mind that music is free—but specifically it seems to me that the point about competition might well lie at the root of this. If you had a competitive market, the money would flow—there would be competition, and that would force money through to artists, songwriters and so on, whose concerns we obviously share. Is it the fact that you have a small number of big players that have many stakes in streaming services, and so on? On the surface, it feels like the classic definition of an oligopoly. Is that what you are getting at? Do you think it is that bad?

Andrea Martin: Just to clarify, are you referring to the record labels?

Damian Green: Yes. The big music companies—the people who are coming up next.

Andrea Martin: One of the things—this is why I would have loved to do an introduction—is that at PRS we take care of the performing rights of the songs. We do not overlook the performing and the sound recording of the songs, like Peter and PPL do. This is not an issue for PRS; the copyright framework is what we have, and we focus on making sure that the rights that we take care of—the performing rights—are taken care of for our members.

Q221 **Damian Green:** Okay. Perhaps I should put that to Peter instead. Do you worry that, in effect, you are trying to deal with an oligopoly?

Peter Leathem: I think there is plenty of competition in the market. One of the big problems we have is that the market peaked back in 2001 for recorded music. We then had Napster come along, and all the years of piracy, so the overall music industry suffered quite a lot of decline until 2014. Since then, fortunately, we have got a better handle on piracy—at the same time LimeWire, Kazaa, Pirate Bay and all these different things had to be shut down—and a number of viable, very popular streaming services have come along. From 2014, the market has grown, up until the most recent declared numbers in 2019.

The market back in 2001 was US $23 billion, and as of 2019, it was back to $20 billion. That means that on a like-for-like basis in real-money terms, that 2001 $23 billion is worth $33 billion. You can see that, even now, we are only back to two thirds of the value of the market. You have lots and lots of activity and streaming taking place, and the value of the market is that much less. With so much more streaming and back catalogue and competition, you have a smaller pie that everybody is fighting over. This is why the music industry has come back at times to say that they do need support, as Andrea was saying, in terms of the value gap and things that are happening. Yes, it’s really good that the music industry has been growing for the last few years. There has been lots of positivity and a really good demand for music, and actually the licensing of the likes of Spotify, Apple Music, Deezer, Amazon and so on has been going in a good direction, but their prices have been stuck at around £10 since the noughties. You have got some limitations there.

On the value gap, we were just identifying, as "The Trichordist" explained, that when you look at the 2019 US market, 51% of the streams from YouTube were 7% of the value. That is why the whole discussion on the value gap came through in Europe. That is why, moving forward, we would like support so that even though we are not now going to implement that copyright directive from Europe, we have support from Government to say that there clearly is an issue still and there does need to be more liability at the ISP level to make sure that better deals can be done to support the overall industry. It is not just supporting record companies; it is the thousands of performers that are struggling to make a living, given the competition and the lower value of the overall marketplace. That is why support on stopping piracy and on the value gap are the sorts of things that will help get the industry back to a level where we exceed where we were in 2001.

Q222 **Damian Green:** I get the point about eliminating piracy and the value gap, and I am sure there would not be much controversy about that. I just want to tease out whether you identify two separate problems, one being that the market is still, in real terms, smaller than it was 20 years ago for all of the reasons you have outlined, and the second being that too much of the money that flows into this market sticks at the sides before it gets to the performers and the songwriters. Do you identify that as a separate problem, or do you think that problem is being overstated by previous witnesses we have had at this Committee?

Peter Leathem: I don't have the direct evidence of exactly what is happening on individual deals and payments, but what you do see is that there is, if anything, a more competitive market now than there was 10 or 20 years ago. If you are a performer now, you can go to record companies of all different shapes and sizes, or you can do it yourself and do your own releasing. Compare this to when you had a more physical market and you probably had to go through the record companies to get your shelf space in the record store or the supermarket. There is plenty of competition and a very broad market, and you have got legal advisers, accountants and managers to try and advise you on the right route to take. Overall, in the marketplace I think there is the flexibility to do what you want to do in the digital space. The options are there.

What you are faced with is an overall market that is less than two thirds of what it was twenty years ago. You are also faced with massive competition. If you look at 2019, two of the bestselling albums were Queen's "Bohemian Rhapsody", based on the film, and "Abbey Road" by the Beatles for its 50-year anniversary. As well as trying to break a new artist and get your own streaming going, you have the last 50 years of the music industry to compete with in trying to get streams and activity. Generally speaking, it is hard, but ultimately you've got some of the most talented people in our society as performers struggling to make a living, because the overall economics of trying to make it all add up for the size of the market and how things operate is hard.

Q223 **Damian Green:** In a sense, that is even more bleak than the message we have had from the performers. They have all said that we can change the rules a bit and discuss all the details we have been discussing, and they can then have a chance at making a living. What you are saying is that it is just a tough industry to break into and it is going to be tough.

Peter Leathem: I am not trying to be bleak. All I am trying to say is that if you look at the years of growth we have had from 2014 to 2020, music is as popular as ever. It is incredibly important to people's identity and to young culture. Music is brilliant. It is not like Kodak film where there was no demand for it any more and it had to shut down; music is very popular, which is good. The demand and the increase are there, which is good. The service is developing, which is all good.

What I am trying to identify is that we should not forget that the current size of the industry—and the current demands and competition—makes it quite hard, but, with the right level of support, and the way that things are going, then you can continue. If the value was back at what it was in 2001, there is absolutely no reason why you cannot generate that value again.

However, as I say, record companies and performers need a bit of support along the way to ensure that you have the right level of copyright protection to make sure that you can shut down sites like Pirate Bay, or you can actually then have a value gap, and make sure that some of the value of the music that has been distributed around finds its way back to the performers and songwriters who are the original creators of the music.

I am not trying to be bleak; I think there are brilliant prospects for music coming forward. If you look at the UK coming out to forge its own way in the world now, you've got a massive export potential. One in every 10 streams last year was from a UK artist; we are very, very good at music in the UK. Absolutely, we should be asking what things will help us go out and negotiate new trade deals, to take Britain forward in this new world, and you would look at our music as something that is respected around the world; it is massively in demand, and we should be trying to support it to carry that on.

Q224 **Damian Green:** Thank you. Andrea, did you want to come back on that?

Andrea Martin: Just to support what Peter was saying, I think there are really three things that we need to see. We have to ensure that when anybody has music on their servers, or provides it to consumers, the music is licensed. That absolutely needs to happen. These unlicensed platforms that I have talked about have to be stopped, because otherwise there is a concept among consumers that music is free, and that does not help.

Then, there is the piracy all around the stream ripping, which is a service that allows users to have an unaltered copy of music without having to pay the creators. That does not help.

Those are a couple of things that could be implemented to protect the value and ensure that our members—the songwriters, the composers, the publishers—are paid. Like I said, I talked about data too. Absolutely.

Damian Green: Thank you.

Q225 **Chair:** Thank you, Damien. Peter, I'd like to follow up on your answer to Damien. First of all, would you be able to share the analysis that you have just cited about market size—especially in terms of spend per head on music on a like-for-like basis, as opposed to global total revenue—with the Committee at a later date?

Peter Leathem: I can put some data together for you; I am very happy to do that.

Q226 **Chair:** Thank you. To sum up your answer to Damien, to a certain extent, with the financial pressures that the industry has faced—the major decline that happened in the decade before this—the fact that streaming has come along, along with a greater ability to stop piracy, has effectively helped the industry recover, but not recover enough.

Therefore, the industry is falling back on slightly archaic means to ensure that their bottom line is not affected; I am thinking things like breakages, or for example, the very opaque contracts that seem to abound within the industry itself.

Is it fair to say that the assets have been sweated over the last few years—the assets being the artists themselves?

Peter Leathem: I do not have direct knowledge of what is going on in terms of what artists are signing to and so on, but, as I said before, I think there is actually a very competitive market taking place. There is good access for artists in the UK to lawyers like Tom Frederikse, who came and advised you, or to accountants like Colin Young, to managers and so on. So, there will be a certain amount of advice for performers to try to sign up on sensible terms, to go forward with record companies and to try to protect themselves.

I think that you will get a stronger answer from either a performer or from the record companies themselves as to what they are doing, in terms of those deals. As I say, there is good advice around. There are choices you can make as a performer about whether you go with a record company or do it yourself, and which record company you choose. There is that competitive market, but, as I say, I do not have the direct evidence that I could give you in terms of those artists' deals.

Q227 **Chair:** One of the things that has been cited by the Committee—you have seen the evidence—is the fact that breakages are charged. In the digital age, we have breakages. Surely that is just a means by which the record companies are effectively boosting their profits, because they can see a slightly declining cake, so to speak, which is what you mentioned earlier. It seems quite staggering that artists could be charged for breakages.

Peter Leathem: On the face of it, I would agree that that sounds like something that doesn't sound very sensible, but—

Chair: It doesn't sound sensible; it sounds deeply unfair.

Peter Leathem: But equally, that is where you have to look into the overall deal-making mechanics that are going on. Quite often, the artists' lawyers are asking for those to be retained as they are trying to think about how to do their overall deal negotiations. All I am saying is that I agree that, on the face of it, it does not sound like the thing you should be having. But in terms of the attempts to reform recording contracts over time, I know from anecdotal evidence that there are different expressions as to what the overall deal is and how you make the deal work. That would be something that, again, others would have to give direct evidence on.

Q228 **Chair:** Andrea, YouTube has told us that over half of all revenues generated by the music industry come from corporate claims made through Content ID and other tools. Do you agree with that assertion, and is YouTube doing your job—the job of rights holders?

Andrea Martin: That is a really great point. Yes, the market has content tools, which are growing and increasingly competitive. But, again, I go back to the point about better data in. In this case, it is not just better data in; it is all data in, and better data out. The content recognition—it depends on how it is deployed and how it is supplied. As rights holders for our members, we need to be confident that the content recognition tools are being applied on all content uploaded on the services, and we know that our members' works are not always identified by these recognition tools.

Q229 **Chair:** Why is that?

Andrea Martin: You might want to ask the Content ID—

Q230 **Chair:** Why do you think it is, though? What is your suspicion?

Andrea Martin: I think it goes back also to the hosting defence and the safe harbour. That needs to be updated.

Q231 **Chair:** Do you think that the tech used by YouTube to enforce copyright is effective?

Andrea Martin: It is effective to a certain point, but it has to be used on all content, and we have to make sure that all that content is licensed before it gets put on the service.

Q232 **Chair:** When you say "all content", do you mean, effectively, across the whole board—visual and music?

Andrea Martin: I am talking about our rights holders: the songwriters and composers of the song.

Q233 **Giles Watling:** I am interested in the conversations you are having with the big three. Listening to some of the artists who have been before this Committee, I get the impression that sometimes they feel like they are shouting into a void and not being heard. Clearly, it is in the interest of all the majors—the big three—to make sure that the artists are properly remunerated, which clearly spurs creativity and makes their businesses sustainable in the long run. Are the big three—the big music publishers—in danger of killing the golden goose? What dialogue are you having, Andrea?

Andrea Martin: We do not have dialogue with the record labels; we have dialogue with the publishers of the big three. That is the dialogue that we have—not with the artist or the recording label.

Q234 **Giles Watling:** Why not?

Andrea Martin: I think what is important—I would have loved to talk about what PRS is, but we represent the performing rights of the song.

Giles Watling: I get that. I thought there might be a dialogue.

Andrea Martin: With the composers, the writers and the publishers that publish the songs.

Q235 **Giles Watling:** Okay, I take that. Thank you. Peter, if music is licensed by you for TV or film, and then subcontracted to social media, who is responsible under current arrangements for notifying YouTube, and ensuring that enforcement takes place and the artists are properly remunerated?

Peter Leathem: We all license a range of secondary sales, as you identify, so there has always been a vibrant market. We create very good programmes over in the UK, such as something like the BBC's *Top Gear*, which is a massive seller around the world. We have long licensed those sorts of secondary sales to different TV and so on and, now, also to some of the streaming areas. We will license that transfer, and the value when they have music within that, the report to us and so on. That is us licensing the likes of the BBC or ITV. We are not licensing YouTube at all; that is something that is done directly by the record companies. So, that other part of policing—how things work with YouTube or any of the streaming platforms—is done directly by the record companies, and they will account through to their artists as appropriate under their deals, etc. The PPL bit is very much about licensing original TV production, the original playing of those films on TV and so on, and any subsequent sale of that to other platforms. The licensing of the other platforms, as I say, is handled by the record companies directly.

Q236 **Giles Watling:** Thank you, that is very clear. Going back to you briefly, Andrea, earlier we talked about piracy, stream ripping, illegitimate music streaming apps and so on. I want to drill down a little further. What more legislation do you think is needed?

Andrea Martin: On specific legislation, we absolutely would have to sit down, although PRS has already done independent research into the problem of stream ripping, which we did in association with the UK Government. We would be more than happy to share that with the Committee. We have to make sure that such free unlicensed platforms are not allowed. The user and the consumer—you can do this yourself—google "free music", and there is so much. Many of them are unlicensed platforms.

Q237 **Giles Watling:** So more robust legislation—it is not just a question of enforcement of existing legislation; you want more robust legislation.

Andrea Martin: Absolutely. Especially on streaming and these unlicensed platforms, it will be very important. Also, the consumer is used to having free music, and for this free music they do not pay the rights holders.

Giles Watling: We have got that. Thank you so much. Thank you, Chair.

Chair: Thank you, Giles. Thank you to Peter Leathem, chief executive of Phonographic Performance Ltd, and to Andrea Martin, chief executive of PRS for Music, for your evidence today. We will take a short recess while we set up our second panel.

Examination of witnesses

Witnesses: Tony Harlow, Jason Iley and David Joseph.

Chair: This is the Digital, Culture, Media and Sport Committee, with our second panel on the economics of music streaming. Will anyone not answering questions please mute. Thank you.

Our second panel consists of Tony Harlow, chief executive of Warner Music UK; Jason Iley, chairman and chief executive of Sony Music UK and Ireland; and David Joseph, chairman and chief executive of Universal Music UK and Ireland. Tony, Jason and David, thank you very much for joining us today. It is very much appreciated.

Our first question comes from Clive Efford.

Q238 **Clive Efford:** In our last panel, we discussed how publishers license collectively through PRS for Music. Why is there no collective licensing for recordings? Any one of you may answer.

Chair: Who would like to answer that one? Do you want to go first, Tony?

Tony Harlow: Thank you, and let me talk to the question for a second. What we use in music is the direct licence; we use that for primary rights and we pay for the collective licence in secondary rights. That operates really well, and the two collective societies you have been talking to this morning are principally in secondary or ancillary rights.

Clive Efford: Would anyone else like to answer that?

David Joseph: I am happy to. We have a direct relationship between our artists—our teams, our investment and our relationship with artists—and the platforms, but in broadcast that goes through something like PPL, but in the direct relationships we have.

Clive Efford: My question is, why is that? I am not asking you to describe what happens. I am saying, why is there no collective licence in recording?

Tony Harlow: To pick that up again, Clive, I think that the answer to that is that we believe that that direct relationship to which Mr Joseph referred gives the maximum power of negotiation. It is underpinned by the ability, ultimately, to say no to any licence, and that is the maximum strength to get the best position. Wherever that position is weakened, for example by the safe harbour, which was very much the theme of the conversation before, we get less good and less effective deals. That is why we favour the direct negotiation.

Q239 **Clive Efford:** May I ask you about licensing social media companies like YouTube and Twitch? How do you go about doing that? How are they licensed? Any one of you can answer.

Jason Iley: We have relationships with all of our streaming services, and as Mr Harlow just explained, we try to do the very best in our negotiations with those services. Our view is that we have the ability to walk away from the table if we need to. That's why we prefer to negotiate our rights with the respective streaming services. Whereas with the PPL, that conversation, essentially there is not the ability for them to walk away. We have walked away from the conversation. Our interests are to protect our artists, and to get the best deals for our artists. That is why we believe we should be in control of those conversations.

Q240 **Clive Efford:** We have seen evidence that YouTube has said that it is likely to be the No. 1 source of revenue for the industry by 2025. Is that a healthy state for the industry to be in? Is it in the interests of the artists? Anyone can answer.

Tony Harlow: Sorry, it's a bit difficult to work out who is going to step in, Mr Efford. What we would say about it is—

Clive Efford: The last one to step backwards, it sounds like to me!

Tony Harlow: Not at all. YouTube is the source for more people than all the other streaming platforms put together. As such, it's the way a lot of people like to consume music, and it's the way a lot of our artists like to share music. What we would say is, it would be healthier if YouTube and other platforms like that, you listed a couple yourself, were not as able to use safe harbour provisions, where they can say that user-generated content is protected on their services.

What you would look at is what we would always argue for—the maximum possible pool to share with. What we have seen over the streaming era is the pool of revenue and the pool of income going back to artists growing. We are paying more royalties now than we were before, in 2015; it has raised from 27% to 32% if you are talking Warner. If the pool grew on the basis of less ability to hide behind safe harbour, that is probably the most effective thing we could ask for to improve the artists' position.

Q241 **Clive Efford:** Let me move on to Spotify. Mr Joseph—in 2017, Universal negotiated a new multi-year global licence agreement with Spotify in which you allowed Spotify to reduce royalty rates if it met certain revenue targets. Has Spotify met those targets, and has the reduction in rates been passed on to artists?

David Joseph: I should say this is an incredibly competitive environment, and there are so many more choices and labels for people. I noticed when we were trying to open questions before—I should explain that I have not seen Tony Harlow for about 10 years—Tony, hi—and I haven't spoken to Jason for a few years. We are incredibly competitive companies. I think you will understand why—

Clive Efford: Between you, you have 60% to 70% of the market, so—

David Joseph: I can only speak on behalf of Universal Music, but I cannot give details of our deal for our music and our artists with Spotify. That is something I cannot discuss publicly on this call. I am very happy—

Clive Efford: Okay, but I am not asking you to give me details of the deal. You came to this agreement with Spotify that they could reduce the royalty rates. Did that result in a reduction in rates being passed on to the artists? That is the question; it's a yes or no.

David Joseph: I have to take a step back, because these are global deals, and there are many of these deals because we are embracing as many music services as possible. You are talking about one, but we have about 250 to 300 agreements in place with different music services around the world, and they cover every corner of the globe. They are all different types of services, as we have learned so far in the inquiry.

Q242 **Clive Efford:** I am sorry to cut across you, but we are short of time. The question is: did that result in a reduction in rates being passed on to the artist? That is a straightforward question—I am not asking you to divulge details of the deal.

David Joseph: There is no scenario where we are successful and our artists are not.

Q243 **Chair:** Excuse me, Mr Joseph, but I have to cut across you. I am really sorry, but Mr Efford has asked you this question three times. Frankly, I have all day, so we could sit here all day. It is a fairly straightforward question. Could you please answer it?

David Joseph: I am happy to share any information about our deal with Spotify after the session, but for competitive reasons, Chair, it is understandable—

Clive Efford: That does not make sense.

Chair: It does not make sense at all. The question is very simple. It is about a reduction, not the precise figures. You are in front of a parliamentary Select Committee. In the past, we have had the likes of Google, Facebook, YouTube and Twitter, and frankly we have found them to be dissembling and not clear in any way. So far, I have to say, you are beating them to the prize for lack of clarity and openness to a parliamentary Committee. Mr Efford will put the question to you once more, and I do expect an answer.

Q244 **Clive Efford:** Has Spotify met the revenue targets that you agreed with them, and has any reduction in rates been passed on to artists?

David Joseph: You are probably referring to a new deal that we—

Clive Efford: That you negotiated in 2017.

David Joseph: There have been subsequent deals since then with Spotify.

Q245 **Clive Efford:** You negotiated a new multi-year global licence agreement with Spotify in 2017, when you agreed with them to reduce royalty rates if they met certain targets. Did they meet those targets, and did that result in a reduction in rates being passed on to artists? That is the straightforward question.

David Joseph: Because of streaming and digital, we have increased the amount that our artists get.

Q246 **Clive Efford:** Right, so no artist has suffered a reduction in rates as a consequence of that deal?

David Joseph: We have increased the amount that we pay to artists. Chair, I really am an open person. I have been watching all these inquiries. This is a business that is so close to my heart and soul, but so much has been done about what a stream is and how our artists get paid. I really hope we can come on to that rather than focus on one company and one—

Q247 **Chair:** Mr Joseph, you do not get to choose the questions. We are clearly not getting anywhere with this particular line of questioning, but what we will do *[Interruption.]* Order. What we will do is request that you put this in writing to us in a prompt and clear fashion, and even if that information is to be held privately, we want to get full disclosure from you on this. Is that okay, Mr Joseph?

David Joseph: Absolutely.

Q248 **Clive Efford:** Were similar deals negotiated with other streaming services? You mentioned that you have several.

David Joseph: We have negotiated very different deals, because all the services differ, with about 250 to 300 services. The primary purpose of that is to get our artists' incredible music available throughout the world. We are the biggest investor to our artists, and we want to pay them as much as possible. We have systems, Mr Efford, where all of our artists can see exactly what they are earning from streaming and other sorts of revenue on their phones or browsers. All of our managers look at how much they are earning, so there is no opaqueness; people can understand. I hope you understand that I do not have all the information to hand on all 250 to 300 global deals, but I will provide what you have requested.

Q249 **Clive Efford:** That would be really helpful. Your press release at the time mentioned "unprecedented access to data, creating the foundation for new tools for artists and labels to expand, engage and build deeper connections with their fans." What data did you receive from Spotify, and how exactly is it being used?

David Joseph: If I may for a second focus on two resources that we have for artists, managers and—

Clive Efford: I would like you to focus on the data specifically.

David Joseph: I am literally just about to. There are two portals. One that we have—I cannot speak on behalf of others in the industry—is called Universal Music Artists. It is a data portal where managers can look up all the trends behind the streaming data for their artists, by song, platform, country and audience. It is incredible for tracking where an artist is growing their fanbase, as well as how our marketing is working. I would be very happy, another time, to show you and everyone on the Committee these incredible portals. The date has about a 24-hour lag. I even checked in on a couple of our artists earlier to see how they were doing in different regions.

All this data can be broken down. It is literally something that I have on my phone. You can literally look at an artist, their fanbase, what age of person is listening to their stream, where they are, how many times they listen, what songs they listen to, and what albums they listen to. It is fascinating. There was one brand new artist that I saw, a huge proportion of whose streams was coming from North America and Brazil.

I should explain that this thing goes to—something I would also love to show you—the Global Royalty Portal. There an artist can see a detailed financial summary, and their exact royalty earnings from streaming and from different formats, by track, platform, territory, personal advances and recording costs. I launched these at one of our managers' meetings, something that we usually do annually—

Chair: Mr Joseph, I am really sorry, but I do not wish to know about your annual management meeting, if that is okay. This is a bit like dilation, in terms of the answer to the question. Clive, are you satisfied with the answers that you have received?

Clive Efford: There are a couple more questions. I am happy to move on to my next question.

Chair: Please do.

Q250 **Clive Efford:** It is about the fact that you dominate the catalogues. This is, again, a question to all three of you, so please, one of you, step forward. Do your licensing agreements or equity stakes in streaming services involve any deals regarding playlisting or algorithmic curation for your catalogues?

Jason Iley: We try our best to make sure that all of our artists, whether they are catalogue artists or current artists, are streamed as much as possible. If I look at George Michael, for example, obviously as a catalogue artist, three years ago 70% of his music was sold physically and now 85% of his repertoire is streamed, so it is equally in our interests to make sure that we look after our catalogue artists as well as our modern artists.

Tony Harlow: I think your question, Clive, was also pointing at whether our deals gave any advantage to different kinds of artists, and whether we got preferential terms on things like placement. The answer is no, we don't—those are the conversations that we have about the importance of acts. I think earlier today the PPL gentlemen, Peter, said something about how Universal created such a brilliant story around Queen. It is about storytelling for us. That is actually the nature of our business, in a large way: it is about taking artists and their creativity and telling stories about it. We do not build it into deals.

Q251 **Clive Efford:** You do have a very dominant position in the market, don't you? Do you consider it healthy for a market that is already close to being an oligopoly to own equity in Spotify, which is a major streaming service for your product, or for Tencent, another Spotify equity holder, to own shares or to have shares owned by your parent companies? That is an unhealthy relationship for the industry, is it not?

Tony Harlow: To be very clear, we do not own any shares in Spotify at this point, although you are right to talk about Tencent's stake in us and also we have a small stake in Deezer, which is a significant platform in other countries. But that is more about our efforts to encourage the pool to grow by licensing as many different parties as we can. On occasion, when we are licensing start-ups and interested platforms, we will take a small stake to cover the risk that we are taking, on our behalf and that of our artists, remembering that at all times we are aligned with our artists' interests. What we are attempting to do is to grow as many platforms as possible as widely as possible. On occasion, that is a solution.

I do not think that there is any implication at all of market power, and when you talk about market power, you should always consider barriers to entry. Peter earlier, and both my colleagues here, have talked about the fact that there are very limited barriers to entry in music these days. DIY is the simplest way to consider that. When Mr Ek at Spotify talks about 40,000 or 50,000 tracks, and 50 million being in the catalogue, you can see that we provide a very small amount of that music.

Jason Iley: There are two points there, the first of which is in respect of competition—Mr Joseph mentioned this earlier. There is more competition in the music industry now than in my 30 years of doing this job. The independent sector is a brilliant sector, and signs some of the best acts. There is more opportunity for artists to sign to a major label, to sign to an independent label or to distribute their own records. There are more avenues today than ever, more than I have ever seen in my time of doing this job. That is point No. 1.

The second point is in relation to Spotify. Yes, Sony does still have a small holding in Spotify. Spotify launched over 15 or 16 years ago, and when we do deals, we often take a small share in a company. None of us in 2006 had any idea that Spotify would be as big as it is today—none of us. I remember sitting in a boardroom discussing the whole concept of streaming, and the majority of that boardroom—in fact, 99%—did not have that idea, apart from one person, the head of digital, who was telling us that streaming was the future. All of us executives at the time just did not believe that it would happen. We all totally believed in ownership; we never believed that people would not want to open a CD, look at the booklet, read the track listing, read the liner notes. We did not believe that would happen, but it has. That is great for the industry and great for artists.

Going back to the point about our shareholding, yes, we still have a share. We divested half of our shareholding a couple of years ago. We put over $250 million of that shareholding directly into the pockets of our artists.

David Joseph: I do not want to take up too much time, but I want to echo the comments. In my 30-plus years of working in the industry, I have never seen a more competitive environment between labels, do-it-yourself options, deal terms and platforms. Honestly, it is the most competitive environment, with so many choices. That is all I wanted to add, Chair.

Q252 **Chair:** Thank you. Jason, to follow up on that, you mentioned that you were in that room and no one thought that Spotify would be as big as it was, or that music streaming would be as big as it was. Do you recognise that the economics of the industry has not caught up with that yet?

Jason Iley: I think that 80% of our revenue comes from the streaming. We spend more money on A&R and marketing, again, than I have ever seen in my career. If I look at the past few years, since I have been running Sony Music, we have spent more than £190 million in A&R. I have increased the label structure. When I started at Sony Music, there were six labels in the company, and now there are 15, so there has been a huge investment in more labels, in order to help us sign up more acts. Over that same period, I have spent more than £175 million on marketing those acts. We have more than 400 employees in our company, who help sign artists, market acts, and do the press, promotion and digital campaigns. We have a huge investment.

I go back to the point that if an artist does not want to sign to Sony, they have a choice. If they wish to earn more of that revenue, they can sign to a distribution company. Today, three of the most culturally important acts—Jorja Smith, AJ Tracey and Skepta—have chosen to sign to a distribution company. They want a bigger share of the revenue and that is their choice. With respect to them and their management, that is their decision. I clearly would prefer them to sign to Sony Music, but that is the opportunity of choice.

Q253 **Chair:** You have just talked about how you have been able to diversify your business, to be able to sign more acts as a result, and bring on more talent. In terms of contracts, have they caught up with the world of music streaming? One thing that has been mentioned to us is breakages and the fact that artists often have that in their contracts. That seems bizarre and quite usury in a digital age.

Jason Iley: The latter point on breakages is categorically not true. I heard the session where it was alleged that we charge breakages on physical distribution and digital distribution. From Sony Music's perspective, that is not true. That does not happen.

Q254 **Chair:** Just to check that with the other witnesses. Tony and David, do you charge breakages on your artists?

David Joseph: In terms of digital royalties, they are 100% clean. I did hear that in the inquiry and it is not an industry I recognise or a company practice that I would recognise.

Q255 **Chair:** Thank you, David. Tony, yes or no?

Tony Harlow: I agree 100% with Jason and David, but I would point out, Chair, that there is a different definition of breakage in digital. Breakage in the old physical world related to shipping shellac records that might break. Breakage in the digital world is where a minimum guarantee isn't reached by the number of streams we deliver. That works in the artist's favour. There is a different definition of breakage in the digital world, and we need to be clear that we are talking about the same thing. In terms of the old breakage, no we are not involved in that at all.

Q256 **Chair:** David, you just put your hand up again.

David Joseph: Just to echo those thoughts. It is really important to be clear on the term "breakage." There is a thing called digital breakage. DSP sometimes guarantee labels a minimum amount of revenue for plays of their catalogue over a certain period, with respect to minimum guarantees. If the actual revenues paid to the label fall short of the minimum guarantees, then the DSP pays the label the balance, which is called digital breakage.

Q257 **Chair:** So it is almost like a royalty.

David Joseph: No, it is just the difference between the two. It is very important to say that Universal accounts a share of all of this breakage to artists, according to the number of plays of their tracks, across the minimum guarantee period, in the same way as other revenue received from the platform.

Q258 **Chair:** Do you take this money up front, or do you claw it back if you find there is a shortfall?

David Joseph: It can vary but we share—

Q259 **Chair:** So in some cases you do take it up front.

David Joseph: Sometimes we take things up front and sometimes we negotiate.

Q260 **Chair:** Therefore, effectively you are putting in something called breakage, which basically means that there is a shortfall in the money that you get in for the streaming compared with what you think you should be getting in. That is basically set out in the contract. In some respects, it is not quite a breakage, but it is a type of royalty clawback, if necessary.

Tony Harlow: I am not sure I understand.

Q261 **Chair:** Well, I will give you an example. I know this in terms of books: if you write a book, for instance, and it doesn't sell—I have done a few of those, I can tell you—what happens is that you are paid a royalty, and if you do not earn out that royalty, you have to pay that money back.

Tony Harlow: No, I do not think so. What we are saying is that we negotiate each of these deals separately, as Mr Joseph has said. A platform might give us a minimum guarantee of £10. If the number of streams our artists actually delivered added up to £7, they would still owe us the £3.

Mr Joseph is saying that that £3—and Warner Music was pleased to be the first company that instigated this procedure—is then allocated back to the artists on the basis of their performance on the platform, so when we talk about digital breakage, it works in the favour of the artist. When we talk about physical breakage, that is a deduction, and we should be very clear what we are talking about in this language. None of us charges physical breakage anymore, based on what my counterparts have said, and I know Warner is, but all of us are beneficiaries at certain times of having done a smarter deal than the platform realised.

Chair: Thank you. Alex Davies-Jones?

Jason Iley: Sorry, Chair, would you like me to answer the contract question, or move on?

Chair: We will move on.

Q262 **Alex Davies-Jones:** Actually, Jason, I will come to you next. You were just discussing a breakdown of things that the A&R is spent on, but could you give us exactly what proportion of that total is comprised of advances, royalties and ancillary costs each year?

Jason Iley: From an A&R perspective—again, sharing information with my competitors—we would spend over £20 million a year, and a similar amount on marketing. There is a huge amount of money that goes back to invest in an artist, because you have to appreciate that from a marketing perspective, there are marketing costs, digital costs, promo, press, radio, TV, the support we give our artists—including tour support—obviously advances, and recording costs. That is really the collective that comes out of the 80%.

Q263 **Alex Davies-Jones:** So those production costs, which are expected to be covered by the artists themselves or the artists' advance, are then recouped by you through royalties. Is that correct?

Jason Iley: When we sign an artist, we will negotiate their advances, and that is done with their lawyers and their managers. We will then mutually agree what the recording cost and video cost will be, so those costs are recoupable. The marketing costs are costs that we spend; that is money we invest. I saw the other day that for one of my rap artists, we gave an advance of £300,000 and a recording cost of over £400,000, and we have subsequently spent over £1 million on marketing that artist to be successful—and fortunately, that artist is successful.

Q264 **Alex Davies-Jones:** How many artists, then, do you provide these types of advances to each year?

Jason Iley: Oh, crikey. As I touched on earlier, we have invested over £190 million in artists over the past few years, so we are signing on average about 50 artists a year. To put that into perspective, it is very rare that I see an album artist advance of less than £200,000, and quite frankly in the modern world, with the success of platforms such as TikTok, I might get a call from one of my labels in the morning about a one-off single to say, "It's £50,000 for an advance", and by the end of the day it's a £300,000 advance.

The one-off singles market is really huge at this moment in time, so you have two different markets, really: singles-driven campaigns, and then album artist campaigns where it takes considerably longer to market an act these days, and therefore the costs increase.

Q265 **Alex Davies-Jones:** Given that these advances are then recouped from the royalties, do you deduct those totals from the A&R costs each year?

Jason Iley: No, we don't. My job is to ensure that our artists are the most successful artists in the world. When I wake up in the morning, that is what I live and breathe, and that is what we try to do. We try to give our artists every form of support and backing we possibly can. It is in our interests sometimes to invest more money in A&R and more money on marketing. You are never going to hear a manager say, "Stop marketing." They want you to market their act, so there is a good continuing investment there.

Alex Davies-Jones: That is a no, then. How much of your yearly income is comprised of recoupments against historical advances?

Jason Iley: I'm sorry: would you mind asking that question again?

Q266 **Alex Davies-Jones:** How much of your yearly income is comprised of how much you make against those historical advances?

Jason Iley: I am not really sure how to answer that question; I might have to come back to you and write to you on that. I don't really know how to answer your question—I apologise.

Q267 **Alex Davies-Jones:** That is fine. We would appreciate it if you could write back to us with that information.

I would like to move on to the PPL fund, if I may—something we heard a lot about in the last session. We know what a success the fund has been in supporting up-and-coming talent: Years & Years, Sam Fender, Kae Tempest and many more have benefited from the fund, and it was confirmed to us, in an answer to my colleague Kevin Brennan, that the record labels do not contribute to it. Is that something you acknowledge?

Jason Iley: Is this still to me?

Q268 **Alex Davies-Jones:** Yes, Jason, I will come to you first. Can I ask you all for a yes or no, if possible?

Jason Iley: The past year has been horrific for artists, especially artists who live on *[Inaudible.]*. Sony Music has had two funds, including a global social justice fund, and we have put an awful lot of money into helping musicians, stagehands and music venue trusts. Sony was a supporter of the Sony Music Trust before the pandemic, so we have invested hundreds of thousands of pounds over the past year trying to support artists during this horrible time.

Q269 **Alex Davies-Jones:** But you have not contributed to the PPL fund?

Jason Iley: I don't believe so.

Q270 **Alex Davies-Jones:** Tony, can I ask you—yes or no? Are you aware that you have contributed to the PPL as an organisation?

Tony Harlow: I think the answer is no, but you should be clear, as Peter explained on the PPL call, that that is a black box amount left over from disbursal, so our contribution is in not insisting it is disbursed. You should look at it that way, and say, "No, we don't contribute actively, but what we do passively is to allow that black box, instead of being distributed by rota of streaming, as he explained, to go to this development fund that works in the interests of the whole industry."

Q271 **Alex Davies-Jones:** A fund that is meant to support musicians, artists and songwriters is something that your organisations have benefited from, and it is a fund that you do not contribute to. I think that is what we are hearing.

Tony Harlow: We do; the point I am making is that we contribute in the sense that we do not insist on the black box coming back to us and being disbursed in the way we have talked about disbursing everything else. We do not actively contribute to that fund—I think that is what Peter was saying—but, as Jason says, we all have our own individual artist development funds, social justice funds and other causes. The answer to your question is technically no, but actually it is letting go of the demand for that balance.

Q272 **Alex Davies-Jones:** We will talk a bit more about supporting artists. David, I will bring you in and you can answer this one if you want to. The BPI has reported that record labels' trade income last year was £1.1 billion. At the same time, this Committee has heard from many musicians, artists and songwriters who are struggling to make ends meet. Even before the pandemic, a typical musician was earning just over £23,000 a year—well below the national average of over £29,000 a year, according to the Office for National Statistics. Do you think that is fair?

David Joseph: May I answer the charity one first?

Q273 **Alex Davies-Jones:** You can come in on that, but I would like to know your answer on whether you think that is fair.

David Joseph: No, of course I will come in and answer, but I did not want it to appear that we were not supporting charities. A lot of artists and musicians have been hit dramatically during the events of the year, and then you add the uncertainty of Brexit on top of the initial uncertainty.

We contribute to the BPI, and I like the idea that there are lots of different sources for charities. We support Help Musicians, MMF ReBuild, Stagehand, Music Venue Trust, Music Support and Nordoff Robins. I would also like to say that we have supported a lot of our artists during this time creatively and with payments. We have made sure of that. The picture for artists signed to us I feel incredibly passionate about and I care deeply about.

In terms of your question about the trade value of the industry, in 2020 streaming did go up. With the backdrop of 2020, we all wanted and needed music more than ever before, and streaming revenues grew massively this year—through family listening, for example.

Music was necessary. It's oxygen. Last year alone, we signed 100 new artists, many of whom are not household names, and they earned more than £100,000 last year just from streaming. We are getting the recording industry out, but it is important to note the devastation of the live industry, which with everybody's help we will bring back. I wanted to thank everyone for what they are doing for the live industry—Mr Brennan particularly for raising it at Prime Minister's questions.

Chair: Thank you very much for that; it is very kind of you. We are under time constraints. Alex, have you had the answer you were looking for to your question?

Q274 **Alex Davies-Jones:** Yes, I have just one more question. We have heard a lot from all of you about the charitable organisations that your organisations support, which is very commendable. In the last two years more than 100 nominees of major industry awards like the Brits, Grammys and Ivors have all received funding from one organisation—a charity, in fact: the PRS Foundation.

You have all gone to great extents to talk about the charities you support. Can you explain why, if this market isn't failing, hundreds of our most acclaimed artists are having to seek charitable funding?

Tony Harlow: That is too embracing a question. I think Mr Joseph has explained in the case of his label, and I would second most of those, that we look at the artists who are signed to us and the process of supporting them and working with them.

We are involved with one of the biggest acts at the moment, in renegotiating in a certain way to allow them to support their organisation through the covid times. This has been a special challenge. But recording music is only a small portion. I mentioned today that 40,000 tracks are going up a day, while David, Jason and myself together have probably signed 170 or 180 artists. It is only 20% of the entire music infrastructure, and we are supporting that part of the infrastructure as fully as we can.

Alex Davies-Jones: Thank you, Chair. No more from me.

Chair: Thank you.

Q275 **Steve Brine:** Good morning, gentlemen. Thank you for your time. I want to explore the issue of ownership, which one of you—Mr Joseph, I think—referred to.

When I was a young lad and I went to buy the latest Poison record at HMV in Guildford, I took it home with me. I can feel the Chair reeling. I took it home with me, and it was mine. I could listen to "Every Rose Has Its Thorn" as many times as I liked. I loved the breath, the bit at the start. But what if I stopped paying my subscription to Spotify? The modern Steve with his modern Poison couldn't listen to that anymore. Can we get to the bottom of this? Is streaming a sale or is it a rental, or is it something else? Is there another term that you use? Can we start with you please, Jason?

Jason Iley: It is a very interesting debate, actually.

Steve Brine: What is your view?

Jason Iley: My view is that the modern world is living in subscription, which gives more artists a bigger opportunity than ever before to have their music heard. We as record companies pay those artists on the basis of their royalty rates from their subscription.

Q276 **Steve Brine:** All right. Is it a sale, or is it a rental, in your opinion?

Jason Iley: I have to just answer the same—sorry. It is the same answer. We are in a subscription model. Today, it becomes almost a legal conversation, in the sense of what the definition is. We are in a subscription model where people have the ability to subscribe, and more artists have a bigger opportunity than ever before to have their music heard, and we pay them a royalty based on that.

Q277 **Steve Brine:** Do you, then, pay your artists after each stream, as if it were a sale, in the same way that if I bought that Poison record again I would pay for it again?

Jason Iley: Forgive me if I am interpreting your question wrong. The conversation about whether there is a user-centric model: if you listen to that album and the artist should get paid on that album, compared to the current model, which means that artists are paid on the total amount of streams—that is defined as a user-centric model.

Again, that is a very difficult conversation, because I look after artists across many different genres and I have many artists that favour the current model of getting paid per stream. I would be favouring one subset of artists over another, so that is a difficult position in this debate. I can listen to Harry Styles 10 times, or The Clash 10 times, and that is my choice, but ultimately the difficulty is I have different artists that favour the two different options.

Q278 **Steve Brine:** So the interesting thing is, then, if I don't choose to listen to a piece of music on Spotify it chooses something for me. We have discussed this in other sessions of this inquiry, around the algorithm. Sunday morning smooth jazz—who doesn't like that? It is still, then, deemed a sale.

Tony Harlow: Steve, I will pick that up.

Q279 **Steve Brine:** What do you think the answer to this is? Is it a sale or is it a rental?

Tony Harlow: Steve, I think it is clear in the conversation that the streams are covered by the making available right, which is the sort of internet equivalent of a sale. Why do they get covered by that area? They are covered because streams are generated by deliberate choices. You can play what you want when you want it and skip when you don't want.

That is the basis of the argument that streams are equivalent to sales: you have a choice. You can either choose a song directly or you could make your own playlist, or as you say you could listen to something like Sunday morning jazz; but when I am listening to it as you are listening to it, it will then feed me artists based on the choices I have made before. I can decide how long I want to listen to it.

That is not like broadcast. I can decide when I want to listen to that. I can skip, and most subscription platforms nowadays will offer you the chance to case your recordings, or bring them down to use offline. So in all those ways it is like a sale and, as I say, it is covered by that making available right, which is kind of what the internet has set out as the basis of equivalent to sale.

Q280 **Steve Brine:** Ah, but you see, the way that it is like a sale—when I was buying my tragic purchases, all the contracts would talk about sales, wouldn't they? So they are then paid as sales. But you are not paid the same as sales if it is streamed, are you?

Tony Harlow: Well, it is certainly true that we have moved from a transaction-based model to a consumption-based model, so you continually get paid over repeated usage of your intellectual property as opposed to the one payment when you—and, I have to be honest with you, Steve, it was perhaps me that sold it to you in Guildford Our Price, because I was working in that area—

Steve Brine: I knew it—I knew you looked familiar!

Tony Harlow: But I got one payment. You walked away with the album. Now Bret Michaels and Poison are getting paid over and over again as you go back and explore your youth in the way that I do with my—

Q281 **Steve Brine:** Ah, but the thing with Bret is, you see, that he has already made a fortune. He is not attempting to start his career and get remunerated for his artistry; he has already been paid through the old model. So, I still go back to the question: is it a sale or is it a rental?

David Joseph: If I may, Mr Brine—

Steve Brine: Please do come in, Mr Joseph.

David Joseph: I am also looking forward to sending you a copy of "Songs In The Key Of Life" to compensate for your Poison.

Steve Brine: I have heard that, too, yes. I have heard of—

David Joseph: It's great. Indeed, it's essential—like oxygen.

Steve Brine: I have heard of that new artist, yes. *[Laughter.]*

David Joseph: To go back to CDs or vinyl, with any artist you got paid once, and whether you listened to that album once or every day of your life, there was only one point at which the royalty was paid. And also, those stores naturally closed at 5 o'clock. Streaming is 24/7, in every country in the world, so you can listen to the greatest record store ever. It's clearly a sale; it's not radio. It's on demand; you can go wherever you want.

I have this issue, which is—this is not aimed at you. It is really important that it's not radio, because that kind of underestimates the creative curiosity of the fan, because not everyone on these streaming services is sitting back and saying, "Great, I've got Spotify or Apple, I'm listening to a playlist." I mean, I'm very happy to talk about algorithms—my view is very anti-algorithms in the music that we put out. Hopefully, you can bring that up with the streaming services, because I would like different—

Steve Brine: We will.

David Joseph: Thank you. And I am happy to share thoughts about how I think our UK artists could benefit from different types of model for them, in curation and albums, rather than just lists.

However, streaming is by demand—it is on demand by nature and it gives the music fan control. So, if they are listening through self-selection, which is about 86% of all the listening on the services, or playlists, and even on playlists—on the ones left—the listener/fan can choose the genre or theme, they can skip forward or go back, and they can listen again. So, it is very, very different from broadcast.

There are micropayments throughout the world, and once again—very briefly—our artists see this on their portals, on their royalty statements, rather than the one transaction. And when it was CDs—this is probably the last thing I will say. When there were CDs, the record stores, like the one that Mr Harlow used to work in, used to charge record companies for getting their records in the front of the windows and on the shelves, a bit like book publishers do, Chair; you referenced that.

In those days, about 13% of artists were in the top 10. There was not any real massive economy to it; you couldn't really do it yourself. And now it is absolutely the opposite. So, it is very important to say that the real estate— the number of artists. You know, if you were—

Q282 **Steve Brine:** I get it, I get it. I want to close things, because it has gone 11.30 am and there is obviously a lot of business to cover.

What we are learning here in this session and in other sessions is that we are talking about a new-ish world. We often hear about the beauty of getting your music played on these platforms and getting your music heard, which is what every artist wants. Yeah, sure—every artist wants people to be able to know their lyrics and sing along to "Hey Jude".

However, here's the thing—that is great, but you have still got to get paid for it. You still get paid, Mr Joseph, as does Jason and everybody who sits around this table here today. But let me read you this quote from Nadine Shah. This is in *Hansard*; it is on the record. She gave evidence to our inquiry on 24 November. I am sure you know Nadine, who is an up-and-coming artist. She said this: "All I do know is that the earnings from my streaming are not significant enough to keep the wolf away from the door. As an artist with a substantial profile, a substantial fan base, critically acclaimed"—and she is—"I don't make enough money from streaming. I am in a position now where I am struggling to pay my rent and I am embarrassed to talk about these issues publicly. I am embarrassed to talk about them for many reasons, because money to an extent is an indication of success. Here that is not really the case because I am a successful musician but I am not being paid fairly for the work that I make. As I first said in this session, often artists are encouraged not to ask these questions."

That is pretty damning, isn't it? There is an up-and-coming artist who has put her heart and soul into her work, but she is struggling to pay her rent. This may be a new world, a subscription service, a rental, a radio—we can call it what we like, dance around these issues as many times as we like, and use words as big as we like—but the bottom line is that here are artists who cannot afford to pay their rent. Something is going wrong, surely? Don't you think, David?

David Joseph: There are two answers to that. I think Nadine Shah is a wonderful musician; she is fantastic songwriter, and there is the fact that it is coming from here. The amount of money that an artist gets from streaming is determined by the model based on certain parts of popularity. I would be very happy to talk when you speak to the streaming services about whether there are different ways that artists can be paid and that pie can be split up.

It is true to say that there are some artists who have been particularly badly hit by the pause in the live business, because they have a relatively small fanbase, but a very passionate one that they play live to very often. Inevitably, their economy, as it were, has been incredibly badly hit because the major source of income they had, which was playing live, has not been available to them. Unfortunately, it is not possible or logical that that would be instantly replaced by the money that they make from their recordings. That was never how their earnings were shaped.

There are two parts to it: any help that we can get with the live industry—our artists are clearly not wired to stay at home—and then with the platforms perhaps, a look at how, at the moment, all the streams come to us and other artists based on popularity. There are other ways that we could look at. Mr Brine, there are models whereby if you listened just to Nadine Shah that month, there would be models the services could do just to pay that artist, rather than being diluted with all the popularity and the label pools.

There are lots of ways that we can approach this. Streaming is at the start; it is not perfect yet. I have tons of ideas of how to improve streaming for the artist. It is an incredible service—it is all the music you want in your back pocket—but do I think it is at the end of its life and that was it? There is so much growth in this area. I want liner notes and the musicians' notes, and I want there to be focus on the albums. I would love a service where, if I signed up to Spotify, I got the choice between my data being tracked and delivered to me by an algorithm, or my music being served up by the artists who I love and my friends. I would love to have a service that was not based on the algorithm, which I think favours particular types of music.

I want there to be the most competitive things. Younger audiences, who I am very in touch with, have issues about data and algorithms, and perhaps we could get to a pure service, like a 6 Music service, where things are just being curated for people, rather than using data and algorithms. I would absolutely welcome that.

Steve Brine: There is an awful lot of stuff that we want to cover as a Committee, so I will say that other glam rock bands are available and hand back to you, Chair.

Chair: Thank you. I call John Nicolson.

Q283 **John Nicolson:** Mr Joseph, a number of our musician witnesses have told us privately and off the record that they are scared of you. Not you specifically, but record company bosses like you. They are too scared to speak in public. That must make you feel very ashamed.

David Joseph: Absolutely not. I saw the statement that the Chair issued, but from my point of view, that is not the relationship we have with any of our artists.

Q284 **John Nicolson:** If you are the person who does the scaring, you are not likely to be aware of it—at least, I hope you are not aware of it. It is a disturbing thing that they should feel this.

David Joseph: My job is to amplify the voices of our artists. That is my job.

Q285 **John Nicolson:** Why don't the artists see it like that?

David Joseph: I have been speaking to artists two or three times a day, every single day, since March. We are closer than ever. It is not just me, but our teams. We have huge teams who wake up and care passionately—

Q286 **John Nicolson:** You may feel that, but that is not what so many of the artists feel. Why is there such a gulf between your understanding of the relationship and their feeling about what the relationship entails?

David Joseph: We really do have open and honest conversations at all levels. I really think—

Q287 **John Nicolson:** They are just too sensitive, are they?

David Joseph: No, artists are all different. One thing I will say that they have in common is that they are not wired to stay at home. We are having conversations about creativity and how we can support that creativity while they are not touring, but I do not recognise what you say. I speak to artists all the time, as do our labels—they are welcome. We have to understand that artists are creatively empowered and in charge, and they do not have to do things if they do want to do things.

Q288 **John Nicolson:** Really? Let's look at that. As we have discovered, A&R is the money that goes into scouting and developing artists. What are your A&R costs as a proportion of your revenue?

David Joseph: Roughly in line with the market of £250 million in A&R. It is somewhere between 20% just in A&R and marketing—just in terms of signing new artists and keeping artists with us for long careers.

Q289 **John Nicolson:** And the average royalty rate would be what? How much?

David Joseph: There are different types of deal. I will come to the average, but it is important that I say that a lot of deals at the moment, with a competitive market, are just distribution. A lot of them can be 80:20; some can be 50:50. If you are talking about an average advance deal, which is 90% of deals—the artist wants the investment in them over a long period of time—they average between 20% and 25% artist royalty.

Q290 **John Nicolson:** The big stars get 30%, but I understand that the average royalty rate is 22%. What that means in practical terms is that a record would have to make four and a half times the agreed recoupable cost for the artist to make any money at all. Isn't that the case?

David Joseph: If I may, it is not the case. In terms of artists making money, they and their team, lawyers and management often ask for personal advances. They ask for advances to come all the way through the contract. I have to bring up the artist royalty portal, because it is so used by us. Like a banking app, you can see your current account and the money that you are getting. They see all that. Our artists seem to be very happy with the investment and the advances for them, so it is a really—

Q291 **John Nicolson:** They are really not. I think you are living in cloud cuckoo land if you really believe that. We are not experts in this field—we are politicians—but our job is to sit and listen to people in the industry. You have a very unhappy industry, and artists are not happy. I am sure the very rich artists are happy, but not the young ones.

David Joseph: I would like not to be accused of being out of touch. We signed 100 new artists last year. I deal with some of the biggest artists in the world.

Q292 **John Nicolson:** On that question, how much of your A&R budget is going towards new artists—first-album artists—as a percentage?

David Joseph: A significant proportion of that 20%. It is a very competitive situation, so I can't share my exact A&R spending.

Q293 **John Nicolson:** Really? You keep returning to the commercial sensitivity point. What the Chair said earlier is spot on. We are not asking you to share sensitive figures. We are not asking you to tell us what the artists are being paid, or to speak on detailed sensitive issues like that. I was asking you something that it is quite easy for you to tell me, I would have thought, without—

David Joseph: You are correct. By the way, I apologise if that seemed evasive. You are completely right. It's millions and millions of pounds. Signing new artists is the lifeblood of our industry—

Q294 **John Nicolson:** No, I am talking about the percentage. As a percentage, how much of your A&R budget goes to new or first-album artists?

David Joseph: Roughly, 40% to 50%.

Q295 **John Nicolson:** So a fair amount. And how many artists do you reckon are on royalty rates of 30% or more?

David Joseph: I think the answer is one I gave before. The majority are on between 20% and 25%—

Q296 **John Nicolson:** All right. May I move on to Mr Harlow, please? Is it true that in 2019 Warner's return on capital—more money went to passive investors than to developing musicians?

Tony Harlow: No, I don't think it is. If by "passive investors" you mean things like dividends, I don't think it is. In 2020, we spent globally about $1.15 billion on A&R around the world, and our dividends were about $280 million.

Q297 **John Nicolson:** Interesting. That is not what the figures appear to show, because I have the figures in front of me and the year ending 30 September figures show that recorded income—this is page 51 of the report—was $3,840 million, but A&R costs were $1,178 million. That means that more is spent on dividends than on A&R; it just seems a surprising priority.

Tony Harlow: I am sorry: I do not recognise what report you are looking at. We do file all our reports, because we are a public company, and the numbers I have in front of me are from our filings. And that is the balance. What I would say is that across our global organisation, consistently—probably with the exception of around 2014—our A&R investment is around 30% to 32%. And the difference between the numbers quoted by Mr Joseph and us is what is on the operational P&L as opposed to what goes to bigger artists, who we tend to write off the investments for.

Q298 **John Nicolson:** We can probably drill down into the figures in the report, but the bottom line is that because you are paying out as a percentage so much in dividends rather than for A&R and developing people, a lot of that money goes abroad, doesn't it? So, you are actually taking money out of the country and out of this industry; it is not supporting the UK and UK musicians.

Tony Harlow: As I just said to you, Mr Nicolson, I think we have a very high R&D rate relative to other businesses; it's 30% to 32%. That is a high R&D rate and it is heavily focused in the UK, where we have artists as diverse as Ed Sheeran, Coldplay, Pink Floyd, Joel Corry—I can go on and on naming British talent that we—

John Nicolson: Sadly, we don't have time, because we are rushing to go to the Commons Chamber for a statement on music.

Giles Watling: You also have Led Zeppelin, which I am delighted about, because I do like an album.

Tony Harlow: Me too.

Q299 **Giles Watling:** You get the album up and you know which track comes next.

I will be brief because I know we are short of time. I think this question is to Jason, really, but others can come in. What proportion of artists in your repertoire are upstreamed from independent or subsidiary labels, and what proportion are signed from social media as opposed to being scouted directly by your company?

Jason Iley: Sony has a company called The Orchard, which distributes independent artists. For some of those relationships, we will help—work with The Orchard and support the marketing and vision with those labels. In respect of social media, from an A&R perspective, that is one of the avenues where our A&R teams try to find and sign artists. That is the modern world. Years back, you were limited to trying to get a record on radio or TV, but now there are so many different platforms for finding artists—so many different platforms, because social media is so huge.

Q300 **Giles Watling:** Do you have an idea of the proportion, between social media—

Jason Iley: Of the acts that we sign?

Giles Watling: Yes.

Jason Iley: It would be quite high. Look at the likes of TikTok at this moment in time. TikTok is enormous, and if I look at my top 20 records of the past year—especially artists signed from America—a big amount will come from TikTok.

Q301 **Giles Watling:** How is that picture now changing? What direction of travel is that? Are you relying less on scouting directly? Are you signing directly from the social media platforms?

Jason Iley: As I mentioned earlier, we still have an enormous investment in our A&R executives and the different labels. I made the point earlier that we had increased our labels from six to 15. If my boss said to me tomorrow, "Go from 400 to 40 people," 35 of those people would be A&R. We would keep those people because they are the source who find our artists, and the artists are the most important part of my life. Without the artists, there isn't any marketing, press or promo—there isn't anything else. I have monthly meetings with new starters, and I say, "You can be the best marketing person in 10 years," or, "You could be the next CEO in 15 years," but then, "None of you is more important than the artist." It is the A&R execs who find those artists, and they find them from the multitude of platforms. Social media is incredibly important.

Q302 **Giles Watling:** Thank you. I imagine the others are the same. David Joseph?

David Joseph: That is an excellent question. Scouting is often online, particularly during covid, when we have not been able to see concerts or have everyone hanging out together. It has been really interesting building relationships with new artists.

The answer, I'd say, is really simple: the majority of artists we sign—I would say 98%—already have their music on Spotify, YouTube or SoundCloud, so we can find their music and talk about it. During this time, most of them have been signed remotely.

Was one of the questions about social media accounts?

Giles Watling: Yes, social media as opposed to directly scouted.

David Joseph: Social media is really the artist's choice. The majority of young artists have their own social media accounts to talk directly to their fans. That is not something that we get involved in.

Q303 **Giles Watling:** You as an industry? *[Interruption.]* Sorry, Tony Harlow, you wanted to say something.

Tony Harlow: I was going to make a point of clarification, if possible, Giles, or rather an observation. When you talk about social media or other platforms where there is velocity of activity for artists, they are all part of a massive amount of data that our A&R teams come in to discuss. People talk about the industry being simpler. Isn't it simpler? No, it is more complicated. We still have—obviously not at the moment—traditional standing at the back of the pub to watch the action, and we have social media and stream velocity. We have this enormous amount of data that comes in and that makes the choice, but the point that my A&R team always reinforce to me is that, at the end of that time, when Jason has that data, David has that data, or we have that data, we then have to make an active choice: is this a Warner Music artist? Is this someone we want to work with? Do we believe in it? Do we think that the balance is there? Is the social media balanced correctly with the streams? Does this person have the talent to deliver a hit, or three hits? That is the traditional A&R process. So, all of this data is flooding into us, more and more opportunity—but then the traditional A&R is still there: discovery, and do we want to sign?

Q304 **Giles Watling:** Thanks to the coronavirus pandemic, that method has changed, so are you trawling the internet much more?

Tony Harlow: A little bit. Sometimes it is a live stream or a performance on the internet. The artists have innovated; we have innovated. This has been a year of incredible innovation in all the platforms. How can we get our artists out to a world when, as Mr Joseph said, they cannot do the one thing that they do better than anyone else, which is connect with their audience?

Q305 **Giles Watling:** Thank you for that. I would like to move on very quickly, and I will go to David Joseph with this one. There is a difference between US and UK law; I understand that in the UK, if an artist signs copyright away, they can only get it back if the label goes bust, or if it agrees to sell the rights back. In the US, I understand that artists have a right to regain the copyright after 35 years. Would you know, from Universal, how many artists in the US have recaptured their copyrights after 35 years?

David Joseph: I would like to address the issue of ownership. I do not have that information to hand, but I will provide that to you.

Chair: Can you do that in writing? Thank you. We are going to move on. Kevin Brennan?

Q306 **Kevin Brennan:** Thank you, Chair. I would like to clarify something factually. I think Tony, earlier on, talked about the Momentum fund. My understanding of Peter Leathem's answer was that it was only the artist's share of unattributed royalties that went into the Momentum fund, rather than the record label's share. Were you saying that in your case—I don't know about the other record labels—they actually allow that unattributed income to go into the Momentum fund? Is that correct?

Tony Harlow: I believe that is correct, Kevin. I would rather come back to you on the specific detail, but I believe that the point that Peter was making is that the Momentum fund is drawn from unallocated—

Q307 **Kevin Brennan:** Okay, I think we got that, Tony. I don't think we need to go over it again, but could we perhaps clarify that in writing after the meeting, just so that we get the facts correct on that?

Tony Harlow: Absolutely.

Q308 **Kevin Brennan:** I appreciate that. And from the other labels too, if that is possible, please.

There was a discussion earlier on, with Steve Brine questioning, about whether a stream constitutes a sale, or whether it is something different, and the making available right was talked about. Isn't it the truth that, actually, it is a hybrid that is not really adequately covered by current copyright regulation? If I put on an album on Spotify, which I frequently do, one of my great frustrations is that, at the end of that album, it will carry on playing something that I haven't asked it to play. Although you could say that I have a choice to switch it off, I could also switch my radio off. At that point, it is playing out to me, like a radio, a playlist that I haven't chosen, but that has been chosen for me by an algorithm. Jason, I understand why you want to talk about the making available right, because that currently works well for you as a record label, but is the truth not that this is a new thing, and that it needs a new definition in law?

Jason Iley: I just feel, Kevin, that the streaming service is providing a much bigger opportunity for more artists than ever before.

Q309 **Kevin Brennan:** I do accept that; it is a wonderful thing, and I accept that it is a marvellous technological achievement. However, if I turn the radio on, there will be equitable renumeration paid to artists involved in those recordings. If I turn on what is, effectively, Spotify radio—it is even called Spotify Radio—there isn't. The truth is that it's something different, isn't it?

Jason Iley: But you still have the opportunity, as you highlighted yourself, to choose to listen to that track, to skip that track or to listen to a new album.

Q310 **Kevin Brennan:** I could skip to another radio station as well, couldn't I? I don't want to pursue that too far, but I just want to make that point. If you wanted to make further points about to the Committee in writing, I think that would be potentially useful.

I did want to talk about some things that were mentioned in earlier sessions—about the nature of record deals and how they work these days. David Joseph mentioned earlier about the sort of percentage royalty that people might get in a standard type of record deal.

On the economics of streaming, I'll give an example based on what David and some others said earlier about the sorts of figures that might be involved. Say someone signed a standard record deal with an advance of £300,000 and additional costs on top of that of, let's say, £250,000—that does not sound unreasonable from what David and some of the others were talking about earlier on—and they got, let's say, a fairly generous

24% deal. You said it was normally somewhere between 20% and 25% for new artists these days, David. How many streams would you estimate the artist would have to achieve in order to earn £1 in net profit? David, do you want to have a go at that?

David Joseph: I am not a mathematician. I am very happy to do two things. I have very good people around me who can add up like that. I will provide you with that information. I am happy to—

Q311 **Kevin Brennan:** Okay. Before you do, David, I want to press this point a bit, if you would excuse me. Jason, do you have an estimate? It was a £300,000 advance, with about £250,000 of other costs.

Jason Iley: If you were to look at an artist having, say, 10 million streams, that is roughly £50,000 worth of revenue. Taking a royalty of 20%, for the sake of easiest maths, that would be £2,000. I would have to get a calculator out as well, but you can look at that as a rough estimate.

Q312 **Kevin Brennan:** Tony, what would you say to that?

Tony Harlow: Similar with the mental math logistics, but we would probably say that 1 million streams is worth £4,000 to £5,000 in revenue, and that would deliver, on that same 20% metric, £1,000 to the artist. The number of artists reaching those levels is changing quite considerably. In 2016, 582 Warner UK artists did 1 million streams; eight did 1 billion. In 2020, 1,739 Warner artists do 1 million; 35 do 1 billion-plus. Those billion-plus candidates would all be recouping that deal, I would think. Four of our acts did 10 billion streams-plus. Those artists are going to be earning multiple millions.

Q313 **Kevin Brennan:** I am pretty good at maths, actually. I got a grade A in my O-level, which is equivalent to a PhD I understand these days, according to Michael Gove et al. However, there is a handy app online—I do not know whether you have ever seen it—called Deal Sim CreateOS. As you say, there are lots of handy things for artists these days so that they are not signing deals in complete ignorance or under any pressure, as they might have been in days gone by.

If you put the deal into that app with a $300,000—it is in dollars because it is American—artist's advance and $250,000 in the other costs, such as recording costs, et cetera, and other marketing costs that might be recoupable, it says that the artist would have to achieve 458.3 million streams to earn $1 in net profit out of the deal. Obviously, I am asking you to comment on an app that you have not looked at or had your experts look over, but does that sound totally wrong, or is it about right, Jason?

Jason Iley: It is definitely not a figure that I am aware of, Kevin, but in the deal model that you are discussing the artist has the choice to take the £300,000 and have the £250,000, and they have the equal choice to go to a distribution platform and take 80%—

Q314 **Kevin Brennan:** But if they want to sign with a major label, this is the kind of deal that they have to do, and the £300,000 advance, although it sounds like a lot of money, might be shared among a group of artists and they have to repay it; it has to be recouped. You are buying for that, are you not, the life of the copyright, which lasts how long, Jason?

Jason Iley: This is one of the points that I saw in one of the earlier sessions. The idea that three major record companies are putting down on a table three exactly similar take-it-or-leave-it deals for an artist feels like something from over 50 years ago. That is not true. The modern deals are all different. I do licence deals—again, this is competitive information—distribution deals and life-of-copyright deals. Different things are important to different artists. One artist might want a huge advance and be prepared to do life-of-copyright; another one will choose to take more royalties and would prefer to do a licence. Every deal is different, and the idea that it is literally "Sign here—take it or leave it" is not the case.

Q315 **Kevin Brennan:** So when artists tell us that the standard record deal is pretty much what you will be expected to go into if you sign with a record label, you are saying, "No, there are all sorts of other options on the table that are as easily available to them. They absolutely have a choice." Is that the same across all three major record labels? Jason, you have made your point. Tony?

Tony Harlow: Absolutely. We offer everything from DIY—we have a DIY platform through distribution deals—to all sorts of different deals within the traditional deal, because there are label deals, joint ventures and development deals. There is such a wide choice, so that was the first point I was going to pick you up on, Kevin.

The other one is the idea that advances are repayable. They are not repayable: they are investments, and we give them to artists on this knowledgeable, informed basis that an artist can make a choice on.

Q316 **Kevin Brennan:** But they are recoupable, Tony, aren't they?

Tony Harlow: They are recoupable, but they are not repayable. They do not bear any interest, and if they fail to recoup, we take the cost and the risk of that.

Q317 **Kevin Brennan:** Going back to my example of 458.3 million streams being necessary to make a net profit of £1 from streaming, because we are looking at the economics of streaming in this inquiry, the same app tells me that the total label profit, which obviously includes the advance and so on—it is a net profit, so the total label net profit—if 458.3 million streams is achieved, is not £1, but £1.19 million. Does that sound about right to you, David?

David Joseph: No. I am sure you will understand it is difficult for me to comment, but on the numbers, the answer is no. For us, 1 million streams is about £5,000; that is the artist's royalty, but obviously I cannot comment on something I have not seen.

I would like to say something, Mr Brennan, and I want to speak on behalf of our teams. We are the principal supporters and finders of our artists at the first point of their career, and these recoupment sums go on to tour support, touring, and so on. I do not recognise the figure you have given, but if you were an artist on the deal you have talked about—£300,000 advance, £250,000 on A&R—I would tell you that you would probably get a publishing deal of around—

Kevin Brennan: I accept that there are other things involved. We will explore publishing and so on separately.

David Joseph: I hope so, but please understand—I am sorry to interrupt, but this is so important to me, our artists, and the people who I work with. I cannot tell you how important it is that we understand this.

Kevin Brennan: I understand that, but all I am trying to do—

David Joseph: We are taking 100% of the risk, and they will get money from merchandising, from publishing, from live and from broadcast income, and they deserve it all.

Kevin Brennan: And you have made that point. *[Interruption.]*

Chair: Order. Kevin.

Q318 **Kevin Brennan:** You have made that point, David, and there are plenty of opportunities to make it. I am simply trying to understand how that deal would work, and my point is that according to this tool that was put together to help artists make the decisions we are talking about, in that instance—for that kind of deal—they would have to have 458.3 million streams to make £1 in profit, and the record label's net profit on that would be £1,191,674.

I am not expecting you to be able to confirm that now, but you can look at it later and challenge it, and we as a Committee will by all means accept that evidence. If that were true, wouldn't that be the economics of music streaming in a nutshell—that by the time the artist earns £1 in net profit from the deal, the record label earns over £1 million in net profit—or is that totally unfair? Tony, you look like you want to respond.

Tony Harlow: It is difficult to comment on the specific numbers. I am not sure, when they talk about the label in that situation, whether they are allowing for what we provide for that and the huge infrastructure that involves them being in 70 countries, which we all are.

The specific point is that the advance is an up-front payment. It is an interest-free investment in that artist, and they've had that money already. When you talk about the £1, the recoupment is returning the up-front investment in the artist.

Q319 **Kevin Brennan:** Just remind us, Tony, what you are getting for that advance is the life term of the copyright, isn't it? How long does that last?

Tony Harlow: Lifetime of copyright? It depends what market you are in.

Q320 **Kevin Brennan:** If you give an advance in the UK to an artist of £300,000, how long is the copyright that you are buying out with that advance? How long does that last?

Tony Harlow: Fifty years.

Q321 **Kevin Brennan:** So, from the artist's point of view, they are giving you something that will last 50 years. That is simply the point I'm making. It isn't just a one-off payment to blow down the pub, is it?

Tony Harlow: David has made the point that we are mutual investors together in a career, which is often starting from almost nothing, and building up over time. We make an up-front payment, and that's what you're talking about when you talk about recoupment. That is not repayable and that is interest free. It is by nature of an investment. We continue to hold the stake in the investment.

Q322 **Kevin Brennan:** Jason, I think I should give you a quick opportunity to say what you want to say.

Jason Iley: Briefly, you are also assuming that an artist wants to recoup. Many artists are not interested in recouping.

Kevin Brennan: We haven't got time to explore that now, but I take the point. Back to you, Chair.

Chair: Thank you. Damian Hinds.

Q323 **Damian Hinds:** Thank you, Chair. Tony, there has been a lot of focus on the share of streaming revenue that goes to record labels. I want to ask about the share that goes to the streaming platform, which seems to be remarkably high. I wonder why you allow that. Is that in gratitude for having been saved from the pirates? Or is it more to do with the market dominance of a handful of leading platforms?

Tony Harlow: It is a difficult question to answer because every single streaming platform and our relationship with them is subject to an individual negotiation.

Q324 **Damian Hinds:** There are a small number of very large ones, aren't there?

Tony Harlow: Absolutely. What I was going to go on to say was that it is a two-way negotiation. We have rights and music; they have their interests. We get the negotiation, which is not hidden in any way, and governed by the market, to the best place we can for our artists.

As David says, the difference as I see it is our interests are 100% aligned with our artists. We are interested in licensing our copyright, albeit on fair terms. We will make the odd decision around something like freemium, or free music, where we think we can expand the market, and that pull that I've talked about several times before.

Platforms support music, but ultimately they are delivering for the economics of their platform. I can't really speak to whether they are getting the right amount. I've seen public comment on some of them not making money. They won't argue it themselves. When you speak to those platforms, you should ask them about the amount they take.

Q325 **Damian Hinds:** Don't worry, Tony, we will. I want to come on to freemium in a moment. Do you recognise the figure of about 30% of total revenue going to the platforms? Given everything you have on your side—all the content, talent and entertainment—does that level of remuneration for the platform not suggest something of an imbalance in power?

Tony Harlow: It's the result of a market-led negotiation. I don't think I can comment on what I think about that level. They have substantial and huge costs. They also run globally and have many staff. You really have to direct that question towards the DSPs.

David Joseph: Mr Hinds, I would like to say that we have fierce negotiations with the DSPs. They are ongoing all the time. It is important to say that when our artists win, we win, and when we win, our artists win. We'd do anything we could to make that as big a share as possible. I think you will find some comments from them. One may be about safe harbour and article 17 and the fact that it can be free on YouTube. One may be that they have lots of overheads and lots of data and technology. It's a bit like the old record store days when they had a margin.

I am all for the platforms to get remuneration for what they put into the market. I'd like as many services and tech platforms as possible for the fan. Yes, we argue all the time over how much of that should be for the labels and the artists.

Q326 **Damian Hinds:** We are very short of time. I want to turn to Jason and ask about freemium. Back in the old days that David talked about, you would not give away your client's work for free, apart from the occasional flexi disc sellotaped on the front of a magazine. With freemium, aren't you effectively financing the expansion of these platforms? Why would you give away your client's work for free like that in the interests of the platform?

Jason Iley: Services such as Spotify are ad-funded. My personal view is that we would much rather the ad-funded model was not there and that people literally went to subscription straight away, because 95% of our revenue comes from the subscription model. Spotify argue very strongly that that ad-funded model is the funnel into subscription.

Q327 **Damian Hinds:** Of course Spotify say that. That is how they grow their market share: by giving the product away for free, financed by this massively reduced royalty that goes to you and your artists, and then they can convert some of those people in time to paying customers. Of course they say that.

Jason Iley: The revenue from the ad-funded model is 5%. The subscription model is 95%. If their model says that as a result—I understand your point—

Damian Hinds: By revenue, not by volume.

Jason Iley: I don't disagree with you. Frankly, if the ad-funded model went tomorrow, I would be delighted. But Spotify's business model says it works for them. Again, I think that is a conversation you should have had with them. I sympathise with your point. I am not disagreeing with you, but that is what their business model says: that part helps increase subscribers. I am with you.

Q328 **Damian Hinds:** Let me turn to Tony for my final question. You could say that this situation works very well for most people. It works well for the platforms that are growing and growing their income. It works well for record labels because you get stable income from subscription services. Arguably, it works very well for the consumer because you can get an awful lot of music for an affordable price. But, arguably, it does not work so well for consumers in the medium term if artist development and new talent have not shared in that success in the same way. How do you react to that?

Tony Harlow: I am assuming that by this situation you mean the current balance.

Damian Hinds: Yes, the move to streaming, the move away from piracy, but also the move away from physical sales back in the day. You have now got consumers paying a fixed monthly price, a very predictable revenue stream for the label, and a relatively affordable price for most people in terms of the vast amount of use that they can get for it.

Tony Harlow: I think our answer to that would be along the lines of: it is still a pretty new industry. Someone spoke about this earlier. The balance is still there. When we talk about share of digital music, in reality across the world digital music is about 65%. It has been a thing for, as we have said, maybe five or six years. If you consider the lifespan of the CD or vinyl—30 years—the economics are working their way through. As I said in my answer to Mr Brennan, increasingly we see larger and larger numbers of artists who are getting to the million stream, the billion stream, the multi-billion stream, and we are seeing that grow all the time as the economics of this industry work better and better. They are all about how much consumption there is.

When you go back to your freemium answer, it is all about the maximum number of people encountering music and falling in love with music, like David, Jason and I did 30-odd years ago, and enjoying music, and then gradually saying, "Music has value." We as a company are always fighting for the value of music. That is how I would look at that situation. This is an evolving situation. It is being well governed by a market that is efficient and nimble, and it doesn't need any change. Any disruption could diminish UK competitiveness at a time when I feel the UK needs to be the home of recorded music, just as it is by providing one in 10 streams around the world by being the No. 2 export business. We need to be getting on with making the UK the absolute best place to invest in music.

Damian Hinds: Thank you, Tony. Thank you, Chair.

Chair: Thank you. I call Damian Green.

Q329 **Damian Green:** David, Universal did not sell its stock when Spotify went public. Do you understand why these cross-holdings and so on give rise to the thought that the biggest players in this industry are, if not a technical oligopoly, something close to it?

David Joseph: I can only speak on behalf of Universal. In terms of your question on equity, some record labels were awarded small shares of equity in some streaming services when those services were first set up. Some labels, as has been discussed, have already sold that equity and shared the proceeds with their artists. Universal has made it very clear to our managers and artists that if we were to sell any equity, we would also share the proceeds with its artists. That is something we discussed with all our managers. We have made it very clear that the equity would be shared with the artists. It is good for the artists. The fact that we managed to get it and the fact that it will be shared with the artists puts another form of income or revenue straight into the artists' hands. I think that is a very positive thing for the market.

Q330 **Damian Green:** But the suspicion will arise that it could lead to anti-competitive influences when it comes to licensing or playlisting and so on. Can you assure us that that kind of thing does not happen?

David Joseph: Absolutely. Streaming has democratised the entire industry, Mr Green. I mentioned before that a majority of the artists we sign already have some of their musical footprint on these services. It is hugely competitive in terms of licensing, but we obviously want the best deals we can get for our artists and our investment, from all the platforms. If I may say it again, we have had 15 years of decline, and I have lived through that decline and what it was like to work in the music industry. We are starting to grow. All our artists—this is essential—are global from day one. It is a growing industry. I think we are great at it. We are less than 1% of the world's population and 10% of the world's music consumed.

I do not think streaming services are perfect; I think there is lots more we can do for the artist, and that is stuff that I want to discuss. It is hard against this backdrop of YouTube and 70% of our artists' music being consumed and giving us only 5% of our revenues. I would love to get more for our artists from any service, all the time. That is the point of all the deals we do, representing our artists in a growing UK economy and, to add, an export business that we should be deeply proud of.

It really is a growing industry, and I must say we have had 15 years of piracy and decline, and the music is still available for free. We are losing around £200 million a year through piracy, so if there is anything we can do on that side or if that is something you could look into, I think you would find our artists incredibly grateful for it.

Q331 **Damian Green:** I am sure that's right. Steve Brine talked about the evidence we had from Nadine Shah, but looking at an artist from another generation, we have all had an email from Sandie Shaw saying that with British record companies being bought up, "our crown jewels…are gone" and, "there is currently no such thing as the UK record industry". It is interesting that, for all you say, across the generations the artists are, to put it mildly, clearly deeply suspicious of the majors. What can you say to them to try to reassure them?

David Joseph: I can only speak on behalf of our artists. I think—I will have to check and submit it to you—Sandie did a deal with us a few years ago, which she seemed happy to make. I can only speak to the artists we are talking about. Mr Green, the business has been going down and down and down. We have been up against the ropes. We have been told so many times by tech companies and live companies that there will be platform disintermediation: "Artists don't need you. We'll go directly to the platforms." It is like being asked, "What are you doing? Why do you exist?" We have bounced back, because when—for 15 years—people in an industry that you love and want to support say, "You're going out of date. You're behind. You're not listening," it makes you lean into technology more. It makes you fight more. I have a team of people, and I have to say there is often a depiction of Slytherin rather than a company of Gryffindors. These people, who for years have been told, "You can't do—

Chair: I think the performance has been more Hufflepuff today, to be honest, Mr Joseph. Damian Green, was that your final question?

Damian Green: Yes, it was. Thank you.

Chair: That brings to a close our session. I thank Tony Harlow, Jason Iley and David Joseph for their evidence today.