

# Digital, Culture, Media and Sport Committee

## Oral evidence: Economics of music streaming, HC 868

Thursday 4 February 2021

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

Questions 331 - 416

### Witnesses

I: Rupert Skellett, General Counsel, Beggars Group; Paul Pacifico, Chief Executive, Association of Independent Music; and Yvette Griffith, Co-CEO and Executive Director, Jazz Re:freshed.



## Examination of Witnesses

Witnesses: Rupert Skellett, Paul Pacifico and Yvette Griffith.

Q331 **Chair:** This is the Digital, Culture, Media and Sports Select Committee and our latest hearing into the economics of music streaming.

Today we are joined by: Paul Pacifico, CEO of the Association of Independent Music; Rupert Skellett, general counsel, Beggars Group Limited; and Yvette Griffith, co-CEO and executive director, Jazz Re:freshed. Thank you all for joining us today.

**Yvette Griffith:** Thank you for having us.

**Chair:** Before we start with the first question, I am going to go to any members who have any interests to declare.

**Kevin Brennan:** I am a member of the Musicians Union and the Ivors Academy, and I received support at the last election from the Musicians Union. I have also in the past received hospitality from AIM.

**Alex Davies-Jones:** I would like to declare that I am a member of the Musicians Union.

Q332 **Chair:** Mr Pacifico, how does your section of the industry's business model differ from the majors?

**Paul Pacifico:** Our community, which represents around 25% of the UK recorded market, is made up of an extremely diverse array of businesses from quite well-established independent record labels through to distributors, self-releasing artists and other associated businesses. The practices of our community are both culturally and commercially pluralistic and diverse.

Q333 **Chair:** Could you outline the key ways that the main parts of your community differ from the majors in terms of their interactions with artists and streaming services?

**Paul Pacifico:** Our community is characterised as an array of specialist boutiques. Our members generally have genre or geographical specificity. They attract artists through the community practices of fair dealing and expertise specialisation. They tend to offer what are perceived to be, thought to be and recognised to be fairer and more equitable deals with artists, including, for example, an array of 50:50 net profit shares and other practices such as those.

Q334 **Chair:** You have given us one example. We know the make-up of the major labels, how they interact and who takes what share. I still do not quite have a full picture. You have given me the 50:50 model. Is that atypical? What are the other predominant models within your section of the industry?



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**Paul Pacifico:** The entire spectrum. There are members within our community who will be doing fairly traditional royalty and advances-led deals.

Q335 **Chair:** Sorry to cut in. I want to get this very clear. If they were traditional ones, would they be very similar in terms of who gets what, as with the majors?

**Paul Pacifico:** That is a good question. It is probably a difficult one to answer. Let me explain why. It is easy to talk about headline royalty rates, for example, but with our evidence we submitted an appendix called the Fair Digital Deals Declaration, at the top of which there is a great Tom Waits quote, "The large print giveth and the small print taketh away." When looking at headline royalty rates, independent labels tend to pride themselves on the fact that what you see is what you get, and you are treated fairly and transparently. That is not always the case in other areas of our sector, I understand.

Q336 **Chair:** Okay. I am very grateful for your evidence, but I do not feel you are being particularly direct. When you say that what you see is what you get in the contract, and that you are punished in the small print maybe with other players in the industry, the majors, what specifically are you talking about and what impact does it have on the bottom line for the artist?

**Paul Pacifico:** Specific examples that are good to point to would be, for example, the commitment from our community to share the proceeds of non-attributable revenues like black-box revenues, which I know have been discussed in previous evidence, and also the proceeds of any sales of equity. All of those are other revenue streams, which artists add value to but are not necessarily captured in the detail of the contract, are shared.

Q337 **Chair:** In a standard major contract, that devil in the detail is often there in terms of the black-box earnings, whereas in many of the contracts in your grouping those black-box earnings and other modes of income streams, so to speak, are more transparent. Would that be fair?

**Paul Pacifico:** Yes. The small businesses in our community have a much more direct relationship with the artist. You are dealing with an artist who is a creative entrepreneur in their own right and dealing with a creative commercial team whose success is predicated on their joint endeavour.

**Yvette Griffith:** In the first instance, I want to echo what Paul is saying. There is such diversity in the independent market. We all have very different ways of working.

If I can give you my organisation as an example of quite a dramatic difference, we are a small, niche, indie label. The label has been running for the last 10 years. We have had five years of really intense releases. Our focus is on providing opportunities for the artists and getting the first



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step into their recording careers. We very often work with the emerging artists.

Bearing that in mind, we do not want them to be walking through the first part of their careers with the burden of heavy recoupment packages that need to be addressed. The recoupment pot is a shared pot, so you might call it a profit share. The recoupment comes from everybody's income, not just the artists, and then it is a straight 50:50 split. We provide a lot of in-kind to our artists, so the recoupment pot is not that big.

We have an interesting nuance in that we are a not-for-profit label. Any of our royalties go straight back into the business to support the next artists we are going to work with. We have salaries. We are Arts Council funded. We get some money from the PRS Foundation because we are clear that we are there for the artist and for the step-change in their career that is going to help them be noticed by the majors, which may then want to have those bigger deals with them and may want to pay the advances. We do not pay advances, for example, because we want to make it as cost-effective and cost-efficient for the artists as early and as quickly as possible.

Q338 **Chair:** I get the idea that there is more of a mutual model. It is probably an area I understand much more. You are like a wine society of music, if you like, which is something I understand much more.

When you said that in-kind is effectively a means of recoupment, what do you mean by that? Give me an example.

**Yvette Griffith:** We will make music videos for our artists for one or two of the tracks we release. They will not have to pay anything back on that. We have the manpower and the talent and the creativity. We will create all of that. We will storyboard that. We will record it with them, whether it is an animation or something they are actually in. There is no cost to the artist for that. We will do all the photography for their press releases, which they can use when they move on into the world for additional gigs and so on. There is no cost to the artist for that. There is no charge for the artwork for the release of the album itself.

There are a lot of things we do, and we do not want to burden the artist with the cost. Really, when we have deals with the artists, it is more about the manufacture and some of the PR, fundamentally, a bit of producing, mixing and mastering and, if necessary, the recording. Very often the artists come to us with the recording already done, to be honest with you.

It is a very different model. We give a lot because we really want to support that first step in their career. We do not want them stepping out into the product catalogue recording world having this big financial burden around their neck.



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**Rupert Skellett:** A traditional points deal is often appropriate where risk investment is involved. You see it a lot if you have very large advances and very large recording costs and an artist without a track record of success.

To a large extent, nowadays, if the artist does have any success, they can choose not to do that kind of deal. They can forgo the big upfront payments and choose to have a net receipts deal or a distribution deal. As long as they have had some degree of success, they can pretty much choose any deal they like.

For new artists with no track record at all, often a points deal is the way to go because there is a balance between the risk investment and the split, which obviously favours the label.

Q339 **Chair:** When you say “a good deal of success”, normally, would that be on social media and, if they have made an impact there, it means they are more marketable and can say, “We have already done some of the base work of putting our name out there, so we do not need a traditional approach and we are more minded towards a more flexible type of arrangement”?

**Rupert Skellett:** Yes, that is the wonderful thing about the market today. Young UK kids can very easily get a career going. They can make recordings on their phone or at home. They can upload those recordings to a UGC platform like YouTube for no charge. Once they have developed an audience over a certain size, they can pretty much get any deal they like or they can self-release and pay a digital distributor an annual fee and keep 100% of their revenue.

We at Beggars do not look so much at the data on the socials. We sign music we love and we think is interesting. But I know certain other major labels do look very closely at those metrics. You can see why. Their focus is streaming. Most major labels are probably not interested in artists who do not have streaming potential, whereas independents are quite happy to have physical records.

Q340 **Chair:** Finally, on that point that major labels are not interested in artists who do not have streaming potential, is that because the profit margin is much greater if they have the streaming potential than if they do not? Do they get a bigger slice of the pie, so to speak, when it comes to streaming?

**Rupert Skellett:** The potential profits of streaming are very great if they have an artist royalty of around 20% and it explodes because they will invest in advances, in recording costs and also in marketing costs. That has not come across in the evidence so far. That is a label cost completely. For instance, if we look at Beggars’ figures, we spend 29% of our gross revenue from new releases on marketing. The profit margins of streaming are better than probably physical records at the moment



because physical records have distribution costs, freight costs, storage costs and so on.

**Q341 Mrs Heather Wheeler:** I am interested in comparing how music is licensed from recording to publishing. The major record labels have told us that licensing directly with the streaming services allows them to command better prices for access to their catalogues, and then that benefits the artists. Is this an assessment you agree with?

**Paul Pacifico:** We would concur with that assessment. In most markets across the economy, you would expect smaller operators to suffer when negotiating with large organisations. If you are a small food supplier dealing with a big supermarket, you do not expect to get great rates.

In the independent music community, we have addressed some of those challenges, for example, with the formation of a licensing partnership in Merlin, an international organisation that licenses on our behalf and enables us to take advantage of the best available rates in the market.

**Rupert Skellett:** Licensing and publishing rights are very complicated because, with streaming, they split the publishing rights into performance and reproduction. Half of the performance will go to the PRO and the other half will go to the publisher. The reproduction will go to the publisher. That means there are two entities to contend with. The PRO will have all the performance rights and will be able to pay the writer directly, but the publisher or the publisher's licensing entity will still have a live negotiation with the platform. There is no industry set rate, although the rate in the UK tends to be around 15% for streaming for publishing.

**Q342 Mrs Heather Wheeler:** It has been a fascinating exercise for us to go through all this, and we have heard from all sorts of different people. Do the majors' licensing deals and equity stakes in streaming services involve any deals regarding playlisting or algorithmic curation for their catalogues?

**Rupert Skellett:** We do not know. The deals between the majors and the platforms are top secret. We cannot even speculate.

**Paul Pacifico:** Certainly, we absolutely hope not. Consumers subscribe to streaming platforms and, when they are made recommendations to, they want those recommendations to be based on their listening habits and what the platform genuinely thinks they might be interested in, rather than potentially some other deal that has a commercial interest.

**Yvette Griffith:** I would echo exactly what Paul and Rupert have both said. We do not know. We hope not. We would like to think these platforms are working in a way that responds to users' listening patterns as opposed to investment going in from the majors.

**Chair:** I am struck by the fact that you hope that is the case but actually no one knows, which may prove to be a bit of a vain hope, frankly.



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Particularly when we deal with any form of data on this Committee, we hope it is not used in a way that could be considered unfair.

Q343 **Kevin Brennan:** Rupert, you were talking to the Chair earlier about Beggars, which is a big player in the independent sector. Are you really that different from the majors?

**Rupert Skellett:** Yes, we are, because we are not commercially driven. That is not our main focus.

Q344 **Kevin Brennan:** That seems like a strange thing for a business to say.

**Rupert Skellett:** Yes, I suppose it is, but we are also much more than a business. We are in this business because we love music. We are not in this business because we love making money. At many other labels, there is a very clear process by which, when you are signing an artist, you model out the financials, even with new artists. We do that with artists who have track records, but with new artists it is very much by gut instinct still.

Q345 **Kevin Brennan:** You stick your finger in the wind and trust your instincts, basically. Is that what you are saying?

**Rupert Skellett:** It is a feeling. It is whether you really love the music or not.

Q346 **Kevin Brennan:** I know you offer a variety of deals, but is there anything essentially different about the way you would treat artists inside a traditional type of record deal than the majors?

**Rupert Skellett:** Yes, our royalties are higher than the majors' on the traditional deal, in my experience.

Q347 **Kevin Brennan:** Do you tend to wipe out unrecouped royalty balances more quickly than the majors would?

**Rupert Skellett:** Yes, after a certain period of time, we wipe unrecouped balances for artists. We have a minimum digital royalty rate for our artists.

Q348 **Kevin Brennan:** If they have an old record deal that had a pretty low rate, you will offer them a higher rate on streaming to reflect the more modern practices?

**Rupert Skellett:** Yes, we have now done that across the board with all our artists.

Q349 **Kevin Brennan:** Do the major record labels do that?

**Rupert Skellett:** No. Our chairman and owner, Martin Mills, has tried to persuade the majors over a number of years to adopt at least a minimum royalty rate for streaming, because it is unconscionable that some artists with legacy contracts are getting a less than 10% royalty rate for digital. That is nonsense. We would urge the majors to adopt the Beggars



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company policy of having a minimum digital royalty rate and wiping the unrecouped balance after a period of time.

Q350 **Kevin Brennan:** What sort of rate ought that to be, and what ought to be the period of time when a major label writes off an unrecouped balance?

**Rupert Skellett:** Our policy is 25% in 15 years. We are the benchmark and they can follow that.

Q351 **Kevin Brennan:** If the majors did that, what difference would it make to artists?

**Rupert Skellett:** In some cases, it would double their royalties from streaming. Some older artists on legacy contracts would have a direct benefit from the streaming economy.

**Yvette Griffith:** I want to echo the beginning of what Rupert was saying in the context of the reason why a lot of indies exist. It is, first and foremost, the music. The commerciality, if that exists, comes second. It really is about identifying talent. For us, it is a vocation. We are doing it because we believe in the music. We believe in the artists we are working with. It is not just about whether this artist can make us money. It is about making sure there is a varied, creative and diverse sonic landscape out there and a constant pipeline of new talent coming through.

**Paul Pacifico:** To build on that idea, when in the first question I talked about specialisation of independent labels and this idea of boutiques, I very much reflected that. It is not just about signing anyone so long as their data looks right. As a consumer, you go to a specialist retailer for great advice. You get a very different experience at a family butcher than at a supermarket. At a specialist record shop, you get advice, you get insight and you get expertise. That is the hallmark of the independent labels.

Q352 **Kevin Brennan:** I want to pursue one other thing rather than pursue it later, just quickly, and that is the whole notion with regard to streaming, which is after all what we are here to investigate, that there should be a user-centric model for streaming. Would that be something you would favour?

**Yvette Griffith:** In a very short answer, no. User-centric is not going to work for the indie sector. The people who are going to listen to a lot of indie music want to discover new things and are going to be streaming broad amounts of different varieties. They are going to be listening to their favourites, but they are also going to be doing a lot of discovering. That means that £9.99 will be spread very thinly across quite a broad expanse of artists and streams, so that payment will be quite small.

Q353 **Kevin Brennan:** Is that not happening already? It is already getting spread very thinly.

**Yvette Griffith:** It would be worse. It would be even thinner.



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**Rupert Skellett:** We are not sure user-centric is a panacea, but it certainly feels fairer to us philosophically. If a fan just listens to a certain artist, all the money goes to that artist. That feels fairer.

There are issues with it, like the cost of implementation. It is very difficult to audit, because you have to look at each listener's monthly listens. That is probably impossible. I am not sure.

Q354 **Kevin Brennan:** Paul, do you agree with Rupert or Yvette?

**Paul Pacifico:** I agree with both.

Q355 **Kevin Brennan:** That is not possible. They gave different opinions.

**Paul Pacifico:** I know. Let me try to walk that tightrope, if I may. It does feel fair and it does feel like there is a connection. Good arguments are made in terms of combatting some types of fraud in the streaming economy.

However, it does bring us to a place where music discovery, interest and curiosity become devalued in the streaming economy. I worry. Put it this way. In my evidence, I said the winners will probably be bands like the Eagles rather than the Eagles of Death Metal.

The pro rata thing we have at the moment is very much a winner-takes-all. That is not the right answer either, but with the winner-takes-all there is a linear relationship between the number of streams you get and the amount of money you expect. With user-centric, there is not. You would have to explain to an artist why in one month they had 1 million streams and it was worth £5,000 and in the next month they had 1 million streams and it was worth only £500. It depends on the user behaviour rather than the number of streams.

Q356 **Kevin Brennan:** It was always inevitable with the opening up of the means of production and distribution through digital technology that we would end up with a huge supply of music into the market compared with the previous analogue systems. That will mean in fact a large number of artists will not be able to make a living out of recorded music. We all accept that. What we are talking about here in this inquiry is enabling quality artists who gain a substantial following to benefit from the economics of music streaming. By putting all the money into one pool in this way, it disadvantages that.

To give an example, in a market there are two consumers, the Chair and me. I spend all my time listening to Adele, and the Chair, being much cooler, spends his time listening to Nadine Shah. But he is a very busy man, so he could listen to only 10 streams a month, but I listen to 500 streams of Adele a month. We are paying our £10 a month subscription, £5 of which goes not directly to the artist but to the publisher and the record company. Half of it goes into the music industry, leaving out the streaming services. Most people might think and the Chair might think his £5 ought to go to Nadine Shah, but in fact £4.80 of his £5 would go to



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Adele and my £5 would all go to Adele. Adele would get £9.80 and Nadine Shah would get 20 pence.

Is that the essence of why, ultimately, pooling all the money in this way is unfair not just on the artist but on the consumer?

**Rupert Skellett:** I would say Adele is cool. I take objection to what you say there.

**Kevin Brennan:** She is half Welsh, so I have to say she is, yes.

**Rupert Skellett:** She is an extraordinary and incredible talent. Yes, philosophically, it does feel fairer. The reports that have been done into user-centric do not necessarily move the needle massively. They shave a bit off the top.

It is good that it reconnects the listener with the artists they are listening to. That is a good thing.

**Kevin Brennan:** We are not talking about moving the needle right around. We are talking about moving it a little bit to make sure that quality artists with significant followings who get lots of plays get some reward from streaming. That is my view at least.

Q357 **Damian Hinds:** Rupert, you pay a higher royalty rate, you are fairer, you have a more personal way of doing business, you have a vocation and a belief in the power of music, and you are also a pretty big organisation with access to marketing resource. Why are artists still signing with the majors?

**Rupert Skellett:** The majors have deeper pockets than we do, sadly. They dominate the singles market. Bear in mind that streaming services are centred around individual tracks. The big winners of the new streaming economy are those in the singles market, which we are not really because our focus is on the albums market, and those entities with big catalogues. The majors tick both boxes.

Q358 **Damian Hinds:** You do not want more acts that would be more focused on the singles market, or is that just the way life has turned out?

**Rupert Skellett:** We find the situation is very competitive at all levels. It is competitive between artists. It is competitive between content. It is competitive between platforms. It is very competitive between labels. We have had artists who are successful in the singles market, like grime artists. When they come to the end of their deal, the majors swoop in, offer them silly money and that is it. Fair play to them. They go for the big money, which we cannot fault them for.

Q359 **Damian Hinds:** Whether we talk about Beggars or any other organisation, there is one big unanswered question in all this. If the deals the majors are offering are so unattractive to artists and so bad for music, why does somebody else not offer a better deal? What are the barriers to entry for indie labels or anybody else, frankly, who could come



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into this market and split that margin in a fairer way? They, presumably, could then sign up a lot of great acts and make a lot of money both for the act and for the label and be making great music. Why does that not happen?

**Paul Pacifico:** We highlighted three key problems in the market: access to capital, access to skills and access to scale.

In terms of access to capital, we have proposed the idea of a creative industries tax incentive, which would sit alongside the one that already exists for film, computer games, TV, animation and others. That would really help independents make investments.

Also, how do credible artists get to a point where they can have a sustainable career, have people investing them and get a return on capital, particularly in credible niches where they are not going to have hundreds of millions of streams a month but may have tens of millions of streams a year?

We have a suggestion for how that might be addressed and have put forward the idea of applying a degressive scale. Your first 1 million streams will become the most valuable streams and, by the time you get up to 100 million streams, they might be worth a little less.

Q360 **Damian Hinds:** Forgive me for interrupting you. All of those are important points. On the specific question of what stops Beggars getting bigger or having an offshoot or other companies that deal in other parts of the media or indeed other parts of music coming into this arena and growing in this arena and offering a service that is better for the artist, still good for the consumer and fairer all around, we are not clear why that does not happen.

**Paul Pacifico:** It does happen. We see it happening. When those businesses scale, they tend to be acquired by the majors, which grow by acquisition, whereas the independents grow by investing directly in artists. This week we saw the announcement of the acquisition of AWAL by Sony. It has a client base of tens of thousands of artists and independent labels accessing the market through its systems. New businesses come to market all the time, grow and have success in spite of the obstacles we have articulated.

Q361 **Damian Hinds:** Does anybody else want to add to that? What stops others growing in this market?

**Yvette Griffith:** It fundamentally boils down to capital. The majors have so much more money to do what they do. That is ultimately what it boils down to. There are indies punching above their weight and doing phenomenally well, working with different models.

Because the majors have so much more money, on a very basic level, the majors will pay quite sizeable advances. Some artists, in all reality, are not looking to recoup because their advances were that great. That is



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very attractive to a lot of artists who are coming through on to the scene. Whether they recoup or not, it is very attractive to have those large amounts.

As a boutique, niche organisation, we have on a couple of occasions had majors approach us, basically wanting us to be A&R to slot our artists into their organisations and suck all the goodness out of us as an organisation and take all the rights from the artists in perpetuity.

There are lots of different facets. There is not just one answer, but money and capital are absolutely the key ones.

**Q362 Damian Hinds:** On a different line, the different money flows and splits of revenue in this industry are incredibly difficult for any normal person to get their head around. In the streaming world, you run up against this distinction between whether something should count as a physical sale in old money terms or whether it should count as radio play, rental or whatever. The majors want streaming to count as physical sales, because the maths works out better for that part of the industry. Should streaming count as a sale, or should it count as rent?

**Yvette Griffith:** I am going to answer in a reverse way. There needs to be a modernisation and review of the landscape as it exists.

In answer to your specific question, it is a sale. In the same way as you would go into a shop and buy a CD or vinyl, when you are streaming, you are buying permission to listen to that track for the period of your subscription for your own personal use.

**Q363 Damian Hinds:** That sounds a bit like the distinction between buying a car at a dealer and getting a car at Hertz. You are buying in both cases, but in one case you are buying time and in the other you are buying a metal asset. When your subscription ends, you give the thing back. Is that the definition of renting, not buying?

**Yvette Griffith:** You have had it for that time.

**Paul Pacifico:** I might be able to help here. It is a good question to debate and it is absolutely right and proper that this is an area for the Committee to inquire upon. It is a hot topic in the music industry.

There are two things. One is the legal status of what is actually happening, and the other is the contractual implications and how people get paid. If people cleaned up their legacy contracts and did the sort of thing Rupert has talked about Beggars doing, the discussion about rental or sale becomes a lot easier to have because it is a clearer conversation rather than a vested interest of what that means and how you get paid.

When it comes to rental versus sale, when you rent something, you pay and you get it for a period of time and you give it back, like the car you mentioned or a Blockbuster video for those of my generation who remember. Streaming is more like a mobile phone package. You buy a



certain number of minutes, you use them and you buy them again. You can choose to have the same conversation with the same person over and over again, but you are still buying new minutes each time. Streaming is a bit more like that.

Q364 **Damian Hinds:** It is more like an all-you-can-eat buffet because, with a mobile phone, you get a finite number of minutes and then you are in for buying more. That is not the way it works with typical streaming.

**Paul Pacifico:** With a typical phone contract, you can buy an infinite number of minutes in the same way.

Q365 **Damian Hinds:** That is a different contract, true. This illustrates the point. We are trying to fit a new medium, a new way of doing business and a new way of consuming media, hearing music and loving music into old-world terms. Is it radio or is it buying a record? Clearly, it is neither. It is different. Do we need a new and different way to reflect this new and different world?

**Yvette Griffith:** I completely agree. That is where I was coming from when I said there needs to be a modernisation, with regular review of how the industry is currently working in these areas. It is not exactly one or the other. Streaming has become the largest area of focus for listeners and for streamers. That is where the majority of the business is happening. We need to find a way to redress that balance so it is fairer for everybody all round.

**Paul Pacifico:** A big concern in the analogy with broadcast, if we go too close to it, is that broadcast operates under a blanket licence. Any radio station can play any song it likes, so long as it has a licence from PPL. That represents a loss of rights to the rightsholder, whether that is the artist directly or a label. You are into a blanket licensing position that is paying compensation for lost rights rather than a commercial negotiation for the best possible price. Our concern is that, on a per-listener basis, radio pays out up to something like 100 times less than a streaming platform at the moment.

We would like to see revenue maximised for the industry, but making absolutely sure and clear that that revenue is shared appropriately and properly.

Q366 **Clive Efford:** Is there a difference in the way you approach or use A&R? You described a difference in philosophical approach between your companies and the big majors.

**Paul Pacifico:** Independents tend to build value through direct investment in artists and their careers, whereas majors tend to build value through acquisition of those catalogues. We are not data driven. We do not sign anything so long as the social media metrics are going in the right direction. We sign something because we really believe there is something to build there with the artist.



Q367 **Clive Efford:** Yvette, you were saying you are sometimes approached by the majors to use you as A&R, to sign your artists and use you. Do you feel at times like you are a stepping stone for artists towards bigger and greater things, or is that a cruel way of describing it?

**Yvette Griffith:** To be honest with you, that is our intention. We are more than a label. We are live promoters and we do a number of other things as well. If we have an artist who has been through the Jazz Re:freshed machine and at some point in their career moves beyond their debut release with us and is then signed by a larger organisation, that is the objective. We want them to grow and progress in their career.

We will never be a major. We do not have aspirations to be a major. We always want to work on that pipeline of talent coming through. We do not sign multi-release deals. It is about providing opportunities.

We want to do what we do fiercely and independently, and then let the artists and their music out into the universe. That is how we are. We do not want a major coming in and trying to swallow us up, just using us because we are very good at talent spotting.

Q368 **Clive Efford:** Is there a difference in the proportion of A&R in terms of revenue you would see invested between a major and one of the indies?

**Yvette Griffith:** I can only talk for myself. Rupert can speak for Beggars and Paul has a broader view of the rest of the indie community. Certainly, the majors put a lot more money into A&R than we do.

Q369 **Clive Efford:** More money is inevitable but, as a proportion, do they put more in?

**Yvette Griffith:** I do not know the inner workings of the majors.

**Rupert Skellett:** Sorry, Mr Efford, I do not actually know the answer to that question.

**Paul Pacifico:** If I can contribute, I remember from the evidence session given by the majors that they did indicate some figures. On a proportional basis, it would be in line with the data we get back from the independent community. I see, though, that the efficiency, the sweat equity and the specialist knowledge in the independent community means it is not really an accurate barometer. £1 invested by an independent is probably worth £1,000 invested by a major.

Q370 **Clive Efford:** Has there been a shift between what is invested in A&R for established artists and for up-and-coming new talent in the last 10 years or more?

**Rupert Skellett:** There is a lot of financial modelling going on right now. If you have a track record, you are able to bring financial models to bear and work out, not on an accurate basis, what you might be able to afford for an advance. Companies like Hipgnosis become involved because it has



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come to the attention of the City and private equity and that sort of thing. It has moved to become a liquid asset.

Q371 **Clive Efford:** What is included in A&R by the big majors that you would say should not be or is not appropriate to be? Is it appropriate to include advances, royalties and ancillary costs? Is that an appropriate way of calculating what is actually invested in, effectively, the industry's research and development?

**Rupert Skellett:** Advances, certainly, yes, would be A&R. I would definitely categorise them as that.

Q372 **Clive Efford:** Is that similar for you? Would you include exactly what is included by the majors in the same way, and would you use it in the same way?

**Rupert Skellett:** I do not have their list of categories, but if you supply it to me I can certainly check it against the one that we have.

Q373 **Clive Efford:** Maybe we can do that. Does it include production costs? Are they expected to be covered by the artists themselves, or are they covered by things like the advances part of A&R?

**Rupert Skellett:** By production costs, do you mean recording costs or physical production costs?

Q374 **Clive Efford:** Whatever is appropriate in the circumstances of whatever the artist is producing, whether it is production costs for performing or recording. Is it appropriate for those costs to be included, or are they included in A&R?

**Rupert Skellett:** Recording costs, yes, are categorisable in the A&R category. Production costs of, say, physical records are not categorisable as A&R.

**Paul Pacifico:** I was going to comment on the important distinction between what is recoupable from the artists and what becomes the label's investment. You might find differences in practice between independents and majors in that regard. Yvette has touched on that already.

I would hope that catalogue acquisition costs are treated as separate from A&R in the period of investing directly in artists and their careers.

Q375 **Giles Watling:** Earlier, Yvette, you mentioned the recoupment packages, which clearly are payable by artists through contracts of one form or another. This might be a silly parallel, but could they be regarded somehow like student loans inasmuch as you pay them back only if you start getting money in? Therefore, could it be regarded as fair dues?

**Yvette Griffith:** That is a really good comparison in terms of student loans. From the first sale, there is recoupment taking place. There is a point at which, if that recoupment has not happened, it is written off. We have recouped on the majority of our releases over the years, so we have



not been in a position where we have had to do that as yet. We try to keep the costs down low. The sales and the recoupment happen at the same time. As soon as those costs have been recouped, the artist and the label—from our perspective—can then enjoy the royalties that come in for those sales, streams and so on.

**Q376 Giles Watling:** Like a student loan, is there a point when you write it off if it does not recoup as you would wish?

**Yvette Griffith:** Yes, the entire industry is probably the same in that sense. In terms of indies and majors, there is a point at which it is written off.

**Q377 Giles Watling:** Are you vulnerable to losing out on a potential income stream? For instance, what proportion of artists in your repertoire are “upstreamed” by major labels?

**Yvette Griffith:** Goodness. In terms of percentage, a healthy percentage. We are still comparatively quite a young label. We have had some real success stories with our artists. We work in a different way from a lot of the other indies, and certainly the majors, in the sense that we recognise our place in the ecosystem and it is that first opportunity. Perhaps there is something we could or should be doing in terms of getting some guarantees of future life success for those artists, but currently we work almost as a development organisation. The cherry on the cake is the release we give that artist, and the spotlight and international showcasing we can give them. All of that puts them in a really wonderful position for the Concords, Impulses, Blue Notes and Deccas of this world, all sublabels and imprints of the majors, to fly higher.

**Q378 Giles Watling:** Are you happy with that? From the evidence you have given so far this afternoon, it appears you are very comfortable with where you are. You do not want to move or expand. Is there movement and expansion for you?

**Yvette Griffith:** We want to expand in the context of what we already do. We would love to be able to support more artists in the way we do. We may even look at some point into two- or three-release deals. At this point for us it is about expanding, if we have greater capital, to do more of what we do on this level. We do not want to be a major. We are not looking to do that.

**Q379 Giles Watling:** Rupert, as you know, in the US any artist who was signed after 1978 can recapture their rights after 35 years. That is not the case here. Have any of your artists recaptured their copyrights after 35 years in the US?

**Rupert Skellett:** Yes, they have, I am sad to say. Legally, there are a lot of arguments you can throw at this issue, especially if you have an English law jurisdiction contract, with sound recordings. It is pretty clear for music publishing with the song rights.



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If that happens, if we get a termination notice, we will not get into litigation with our artists. That is not where we want to be. We will try to persuade them to stay with us by offering them improvements to the existing deal we have with them.

**Q380 Giles Watling:** I understand that in this country either the company has to go bust or there has to be another major upheaval for artists to recapture their rights. From what you are saying, Rupert, you are not in favour of us introducing a similar system here?

**Rupert Skellett:** No, because we still try to get, wherever possible, life-of-copyright deals. We are in the business of recordings on a long-term basis. I have been at Beggars for 21 years. There are many people who have been here for over 30 years. We have been going for over 40 years. We sell a long-term vision in terms of the recordings we make with our artists when they sign to us. We are partners for the life of the copyright of the recordings. If we were to suddenly lose that right here in the UK, it would be pretty disastrous for us. We can accommodate the US termination because the US termination applies only to the US and we are still free to offer enticements for the rest of the world for them to stay with us and not terminate the US rights.

**Q381 Giles Watling:** Is it fair for the artists to be able to recapture their rights at some point, even if it is not for 35 years?

**Rupert Skellett:** Quite often, we are involved in making the recordings with the artists. We definitely see it as a partnership. There are alternatives that artists can explore. They are free contractually after a certain period of time to rerecord the recordings. Sometimes that is not practicable but, sadly, we have a few artists who have done that. It is not like publishing rights where once you have them you have them and you cannot duplicate at all. There is nothing to stop someone duplicating a sound recording, sadly, as a record label would say.

**Yvette Griffith:** I want to build on what Rupert is saying. As commercial businesses, there has to be that income coming into the organisation from historical deals and so on. As long as the artist is absolutely clear on what they are signing up to, as long as there is constant dialogue and all the transparency around that, I am in support of that.

As Jazz Re:refreshed, we made a different call. Some of our releases are licensed, and some of our releases we have the copyright to and we own the masters. We made a decision fairly recently, because of our position in the ecosystem and because we are a not-for-profit and are not a commercial organisation and we receive some support from the likes of the Arts Council to recognise the work we do in the landscape for emerging talent. Parcelled up into our trying to encourage artists to fly into the wider recording world, we made a decision to become a licensing label. We do not own the copyright, and we license the copyright for a period of time. At the end of that period, we can negotiate with the artists and they may choose to let us license for another period or they



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may fly and take it elsewhere. It is a risk and it is a gamble, but it is the choice we have made.

We are probably fairly unusual in that context, but it gives you an example of the diversity of deals that exist within that indie landscape.

**Paul Pacifico:** It is really interesting hearing from both Yvette and Rupert on this, because they represent such different facets of the very broad spectrum of independent businesses. Yvette's business does licensing deals and those are very prevalent in the independent community, more prevalent than life-of-copyright deals on the whole. That does leave independents that are trying to work for the long term with artists vulnerable to upstreaming from the majors when they come in and offer very large advances that independents cannot compete with.

I am not sure Yvette was quite correct when she said the majors write off unrecouped balances. I am not sure that is their practice. If they were to follow Beggars on that, the conversation about the 35-year rule becomes an easier one.

Q382 **Giles Watling:** I would imagine so. Yvette?

**Yvette Griffith:** I thought that was the case. I thought I heard it in the earlier hearing with the majors. If I am incorrect, I am incorrect.

Q383 **Giles Watling:** Understood. What impact would it have on the industry if the UK mirrored the US in this regard with the 35-year rule?

**Paul Pacifico:** It would vary by label. Labels doing licence deals would presumably not be impacted by it. There is an important but minority part of the independent community that does life-of-copyright deals. They would rebalance the calculations they use for the size of advances and the other elements of the deal accordingly.

**Rupert Skellett:** It would severely inhibit our ability to invest in new artists. Generally speaking, a new artist is quite often a loss-making proposal. Our business model relies on the fantastic catalogue we have been so lucky to acquire over the last 40 years. If we were to lose that, if that was terminable, it would have a massive impact on our business and would definitely dry up our ability to invest in new artists.

Q384 **Giles Watling:** What impact would it have on the industry as a whole? Do you have a view on that? Would you have to change your modus operandi?

**Rupert Skellett:** We would need to come up with some other—the role of the record labels is principally to fund new artists. They are the engine or the foundations for an artist's career. If record labels cannot do that, who will step in to provide that risk investment? I do not know the answer. Publishers do not have the margin. The live industry does not have the margin or the inclination and, even when live was doing great, it



did not really dabble in that. They will be thrown at the mercy of the tech platforms.

**Yvette Griffith:** I would not add anything different from either Paul's or Rupert's response, to be honest with you. For us as a licensing label, it would make absolutely no difference. For those who have life-of-copyright deals, things would have to change. It would reduce the opportunity, potentially, for new artists.

Q385 **Chair:** To clarify, Yvette, you were correct. We were given the impression by the record labels that they routinely write off advances. It is probably a similar position within publishing. They hold the threat of recouping advances as a means of keeping the other side honest and making them do what they say. It is a similar position in publishing.

On the life of the copyright and who owns it, is it a big benefit to the UK music industry that the record labels own such an amazing back catalogue and are able to leverage that to bring that income forward and develop new talent? Does it perhaps stem the pipeline a little bit, so that maybe we all end up listening to stuff from 30 years ago? I am talking from my own experience there. Paul, you are smiling. What is your perception of that?

**Paul Pacifico:** It is highly nuanced. I love the fact that you can listen to all music from all time at any point with anything right now. That is a phenomenal force for democratisation. It creates an amazing meritocracy and allows us to explore music in ways that would not have been possible before.

Of course, the downside is how new artists and incredible niche artists cut through the noise to be heard. Again, that comes back to one of Mr Brennan's questions earlier about how we accelerate developments to make sure those artists can make a living and reinvest in their careers to make them sustainable.

Q386 **John Nicolson:** Thank you all for joining us. Many of the subjects that I wanted to cover have been very well covered hitherto, but I would quite like to go back to basics. What struck all the members of this Committee is just how miserable a lot of artists are. So many artists who have appeared before us seem terribly unhappy, and we have all been contacted, or I know I have been, by lots of artists who say how trapped they feel and many are worried about money. They just want to work, to enjoy their craft and to earn enough to pay for their rent. Rupert, what do you think the industry can best do to improve the quality of musicians' lives?

**Rupert Skellett:** It is no coincidence that this is happening at the time it is happening, when the live music industry has basically been closed down. A lot of artists and songwriters have benefited hugely from the streaming economy—principally catalogue and singles artists—but there is a category of artists who have not fared so well in streaming. Some of our releases do brilliantly with streaming and some of our releases do



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not, and with those we need to look at other revenue sources. We obviously need to look at performing live, when that gets going again, and at synchronisation licences, original commissions and physical records. Physical records are a massive play for us still, probably more so than they are for the majors, and it is a very important part of the story.

Streaming is a very long game, so I would say to those artists do not give up. If you grow your catalogue, if you keep playing live when you can, there is a chance that you will build an audience and, over time, you will build the streams higher and higher, and you will get to a point where what you get in streaming will exceed your physical record sales. It is a long game, so it is very hard, because obviously artists have bills to pay right now. I have absolute sympathy with where they are coming from.

**Q387 John Nicolson:** We were very struck by how out of touch some of the big three were when they appeared before us. Maybe they were out of touch or maybe they were not; I was not entirely sure. They had the idea that artists and bands are really incredibly happy and they have a wonderful relationship. One artist wrote to me and just wrote, "Ha, ha, ha, ha!" Is it true that this record company boss really thinks that his acts are all incredibly happy? I am sure the big acts are happy, the ones who have him on speed dial, but the ones who never speak to him, who have really terrible contracts, they are not happy at all.

**Rupert Skellett:** The artists and songwriters who have done really well out of streaming have not been very vocal about it, to be fair. It is difficult because we have a lot of sympathy with artists. We have artists who do not stream that well, and it is very difficult because the streaming units they get are in the tens of thousands or hundreds of thousands, but that is nowhere near enough. You have to have a complete rethink of units so you are looking at tens of millions. We have 41 artists who are streaming over 50 million streams a year, so there is a big category of artists who are happy and the major label bosses are not completely wrong.

**Paul Pacifico:** I think you have cut to the heart of the matter. It has never been a better time to be in the music industry, and it has also never been a harder time to be in the music industry. Getting those artists and, to be completely honest, independent businesses to the scale that they can really work is a massive challenge. We have 90% of the revenue from streaming going to 1% of the people in the market. This huge concentration of wealth causes quite a lot of issues.

This is about money in, money out and great efficiency in the middle of those two things. We have on the one side the consumer price, which has not changed since the launch of streaming over 10 years ago. That is still at £9.99. We still have the threat of piracy. Consumers still have the choice to pay or not to pay for music, and that has a significant impact on the market. We still have the issue of safe harbours and not quite the clarification of liability for some of the platforms. Would the industry



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benefit from more money in? Yes, absolutely. Would artists benefit from more money out? Yes, absolutely.

We would like to see a combination of factors. We would like to see continued support for anti-piracy. We would like to see clarification and strengthened copyright. The UK is one of only three net exporters of music in the world. We would love to see the UK become the world centre of excellence for copyright and for content capture and all of that revenue, all of those long-time copyrights administered through PPL and PRS and all of our other institutions here in the UK. If we can add to that an accelerated maturity model where earlier stage and niche artists can get to scale, get a proper income stream from streaming, we would have a package to go with.

**Q388 John Nicolson:** You have doubtless been watching some of our previous sessions. We are coming towards the end of this inquiry, and we have heard a lot of witnesses. We as members have some quite clear ideas of what we think we should be recommending. It is interesting that it is not a party-political thing. The views we hold seem to be across the members here and across the parties. If you were telling us what you want to have included in our report in particular to help to help the artists who are talented but struggling, because lots of people are doing well out of the music industry, what would you like us to include in this report?

**Paul Pacifico:** I reach out and talk to members like the Numbers label up in Glasgow or the Leaf Label in Leeds. They are great examples of innovative entrepreneurs in music working in fantastic alignment in the long term with the artists they work with. For me there are three core problems: capital, skills, scale. We need a tax break to help us attract investment. We need to make sure that we upskill and level the playing field, and we need to help artists and labels get to scale so that streaming can become a meaningful part of their revenue mix.

**Q389 John Nicolson:** Yvette, can I ask you precisely that question? What would you like to see us include in our report?

**Yvette Griffith:** I am not sure that my answer would be tremendously different from Paul's, to be honest with you.

**John Nicolson:** It does not have to be.

**Yvette Griffith:** They are three key areas. In addition, I want to circle back to saying there needs to be some kind of modernisation of how we process a lot of this. I recognise that streaming exists as a response to piracy, I completely recognise that, but introducing something like streaming has reduced the amount of income that artists can earn in this day and age. As Paul mentioned, the £9.99 has been the same for the last 10 years on the main platforms that we listen to, and unless you are in that higher echelon of billions of streams it is never going to generate your rent for you. I really do think that there is something that needs to be done in terms of the modern landscape that we are in to change how we work so it is fairer for all. Some people need to sit around a table.



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**Paul Pacifico:** We have to be careful that the cure is not worse than the disease, and we have to be really careful to keep the value of music rights high, keep the commercial marketplace operating and not allow ourselves to lose our rights in favour of mandated compensation through an outdated mechanism like equitable remuneration.

**Rupert Skellett:** I go back to what I said before about advocating that the major labels have a minimum digital royalty rate and wipe unrecouped balances after a period of time.

Q390 **Alex Davies-Jones:** Thank you to the three of you for joining us this afternoon. You have all pretty much touched on this in your answers so far, but I would be keen to get your perspective.

Will Page, the former chief economist of Spotify, has argued that, "For labels, the music industry is thriving...artists, however, have not received proportional benefit." How would you all answer that assertion?

**Paul Pacifico:** That feels like a quote that probably accurately describes the major label landscape more than it does our community. Many of our businesses are not at the kind of scale where they are on the receiving end of lots of passive revenues from massive catalogues. They work very hard alongside their artists for every stream they get and share the proceeds fairly.

**Rupert Skellett:** I noticed this the other day when I was looking at catalogue artists' royalty earnings now compared with four years ago, and in some cases they have doubled. I have said this before, but it is important to state that there are artists who are doing very well out of streaming and are seeing the benefits.

**Yvette Griffith:** I am echoing Paul again. It feels to me that the majority of the challenges are going to be in the landscape of the majors. Obviously there are substantial artists who are doing very well from streaming and from being an artist full-stop, but there are those who are stuck, whether it is in the middle ground or at the lower end where perhaps the royalty splits are inequitable or perhaps they may not have had the best deal, or they thought the deal was great at the time and now in hindsight perhaps that is not the case.

Q391 **Alex Davies-Jones:** That brings me to my next question. We have heard a lot about the lack of transparency in how deals are done, and how the music is licensed. Is there any way for artists in your repertoire or the intermediaries to see the terms by which you license the music on streaming services?

**Yvette Griffith:** I will start as I spoke last. At Jazz Re:refreshed, and I know many other indies are the same, we work with distributors who are part of Merlin, which Paul mentioned earlier. Merlin will negotiate lots of terms with the streaming platforms on our behalf. All of that information is available for the artist to see. When we do our royalty statements to the artists, which we are currently trying to do quarterly, we break down



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all the detail—these are the amounts of sales, and they have a little spreadsheet with the number of streams and their value as well. We try to provide as much transparency as possible, because it really is a partnership.

**Q392 Alex Davies-Jones:** Rupert, is it the same for you? Is it open for artists to see?

**Rupert Skellett:** We obviously cannot show them the deals through Merlin and platforms. We are prevented by NDA clauses from showing our agreements, our licences, that we have direct to artists. There is nothing hidden in them. If you are talking about a subscription streaming service, you will have an amount per month and it will be prorated according to your streams and you will split that revenue with your artist. There is no hidden cleverness or any special outside payments.

**Q393 Alex Davies-Jones:** Paul, is it all open and transparent from AIM?

**Paul Pacifico:** By and large. My experience of the members is that they are as transparent as they can possibly be. Where in the past there have been complaints against independents, it has largely been because of out-of-date systems, but those systems are rapidly coming up to date, and I think the more people have access to royalty calculation platforms and these sorts of services, the easier that job becomes even for the smallest independents. They save themselves a lot of headaches because their deals are pretty straightforward. When you have a record contract that runs to 100 or 200 pages, it will be far more difficult to figure out what is what than if you have a much more straightforward deal.

**Q394 Alex Davies-Jones:** The BPI reported that last year's record labels' trade income was £1.1 billion, to which you contributed a significant portion, however the BPI has called on the Government to double the funding it puts into the Music Export Growth Scheme and to pump-prime the capital market for music investment. AIM is asking for tax incentives for its investors. Given the profitability of the record industry, why is it that your trade association is calling for increased taxpayer support?

**Paul Pacifico:** Independent music businesses suffer twice in the capital market. They suffer because it is a high-risk business. It is also a very complicated and misunderstood business, so when you talk to investors they very rarely understand or are prepared to take risk on a business that they do not really get.

Access to capital is not an evenly spread problem across the industry. Big corporations with big global parents have access to balance sheets that smaller companies simply do not, and I think a tax incentive is a way of making sure that those smaller businesses, the innovators, the entrepreneurs, those British small businesses, can make a go of it and grow their businesses without having to sell out to a major every single time.

**Q395 Alex Davies-Jones:** Yes, so support for British small businesses. Do you



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think the British Government should stop giving tax breaks and taxpayer support to those big, profitable, foreign-owned corporations wherever they can?

**Paul Pacifico:** I think that British music businesses and British artists have always punched above their weight in the global music economy, and I would like to see that continue. We have said before that we are one of only three net exporters of music. As the streaming economy and the global music industry grow, with more and more people coming to market, more and more countries coming into that global market in a serious way, we need to make sure we do not take our place for granted. We need to work for what we get.

Q396 **Alex Davies-Jones:** Rupert, I saw you nodding heavily. Do you want to come in or add anything to that?

**Rupert Skellett:** I agree that the tax breaks should go towards British companies, evidently.

Q397 **Alex Davies-Jones:** Paul, how does this benefit the British economy if Government funding is benefiting shareholders abroad, as the current model is?

**Paul Pacifico:** I would like to think that that money is directed to British businesses supporting British artists. That would be ideal, wouldn't it? I think we are there to try to help make sure that, both commercially and culturally, we express ourselves as a society, that we succeed in that and that we spread a positive message.

Q398 **Alex Davies-Jones:** Yes, absolutely. I, and I think my constituents back in Pontypridd and constituents around the UK, would rather that their taxpayers' money is going to support local British artists and independent, British organisations rather than those big California companies on the west coast in the sunshine.

**Paul Pacifico:** I could not agree more, and I would say that when we work in partnership with organisations like Wales Arts International, they are going to need more support than ever to make sure Welsh artists can be heard in the global economy, bearing in mind more complicated access than markets closer to home, I should say.

Q399 **Alex Davies-Jones:** Finally, wouldn't supporting British artists, who have a greater marginal propensity to consume and would be doing so within the British economy, have a greater impact on the economy, and wouldn't that be better than supporting foreign-owned businesses? I feel I am making obvious claims here, but it is good to have your expert version of this.

**Yvette Griffith:** Can I ask you to repeat the question?

**Alex Davies-Jones:** Would supporting British artists, who have a greater marginal propensity to consume and would be doing so within the British economy, not have a greater impact on the economy and be better than



supporting those foreign-owned businesses?

**Yvette Griffith:** I think you have answered your own question.

**Rupert Skellett:** I think so.

**Alex Davies-Jones:** It is not to put words into your mouth, but to get you on the record to confirm it.

**Paul Pacifico:** Across the spectrum of different aspects of tax that comes from the music industry, whether that is through national insurance, income tax, corporation tax or all the other taxes that are generated by British businesses investing in British artists with those rights being held in Britain.

Q400 **Kevin Brennan:** Of course Alex represents the seat where Sir Tom Jones was born and brought up, and I represent the seat where Ivor Novello, whose real name was Ivor Davies, was born and brought up. In a way they symbolise two aspects of music, Tom Jones being one of the greatest interpreters of the popular song and still to this day with an astonishing voice into his 80s, and Ivor Novello, of course, was one of the great British songwriters of all time with the Ivor Novello awards and the Ivors Academy named after him. The reason for that preamble is to get into the value of the song, because Paul, within your evidence, AIM points out that 80% of your members also have publishing interests. One of the things that the Committee has been interested in is the way that streaming proceeds are allocated has effectively been decided by the recording side of the industry, the major labels, who also have major publishing interests but, of course, that is less lucrative when it comes to streaming proceeds. The accusation is that the revenue is weighted deliberately towards the recording rather than towards songwriters and composers. Do you think that is correct?

**Paul Pacifico:** This is another good area for debate.

**Kevin Brennan:** I know. That is why I asked you. What is the answer?

**Paul Pacifico:** My view is that these are commercial deals that are negotiated fiercely with experts on each side. I had a very interesting conversation on exactly this topic with a self-releasing artist, an AIM member, who is in the contemporary classical music world. She co-writes all of her material 50:50, but she alone is responsible for the investment in the recording, marketing and promotion of that material. She shares her song writing 50:50 with her co-writer, but she was responsible for the £100,000 investment in her last project. She is very worried that if more of the money goes down the song-writing funnel it would distort the creative recognition she might be able to share with her co-writer, who writes 50:50 and it is absolutely fair to recognise that, but we need to be sure that where investment and risk is taking place, it is possible to recoup sufficient reward.

Q401 **Kevin Brennan:** Of course, it is up to them how they decide to split the



proceeds of the song they have written together, although of course when Burt Bacharach asked for more than 50% of Hal David it ended their song writing partnership, and Burt Bacharach did not have another hit for over a decade. That is not the point, though. The point is the accusation that the major labels—who had equity stakes in the streaming services at an early stage, and therefore market power with the streaming distribution platforms, market power as the major record labels controlling the majority of the market—act, if not overtly, effectively in a way that the oligopolistic theory of economics tells you that big companies like that will act, even though they do not collude, and they also own the major publishing interests. It is not too difficult to follow that chain of evidence and suggest that they might have tricked up the system in favour of revenue being devoted more to the recording. Rupert, what is your view of the way I have characterised what the economics of streaming is today and how that has come about?

**Rupert Skellett:** I suppose that might be true; the majors might be looking at where their margins are highest. We have a publishing company and we have certainly seen a drop in physical mechanicals income, like a halving over the last five years or so, but digital revenue has shot up four and a half times.

Q402 **Kevin Brennan:** Yes, the interesting thing is how that digital revenue is shared, which is what we are talking about here and whether enough of it is going to songwriters and composers. I read an interesting quote recently from Garrett Levin who heads the Digital Media Association, the trade body for Spotify, which almost serves as the word “Hoover” in this streaming world, and all the other streaming platforms. He said in *Music Business Worldwide* in January, “Any honest reckoning of our business must examine what happens to the 69 cents of every dollar that digital music services pay to record companies, music publishers, and PROs.” Wouldn’t any honest reckoning conclude that the majors had used their market power in the way I have described to distribute those proceeds in favour of the recording, in favour of their profits, rather than towards songwriters and composers?

**Rupert Skellett:** To be fair to the majors, the publishers’ share of revenue from the predominant format over time has increased. If you look at physical records, which used to be the predominant format, it was 8.5% of wholesale for publishing. That moved up to 12% for downloads and now in the UK we are around 15%, and it is important to point out that that 15% is on retail, so essentially in terms of share of the predominant format the publishers have seen more than a doubling of their take.

Q403 **Kevin Brennan:** Do you think the level it is at now for streaming is the correct level, or do you think it should be higher?

**Rupert Skellett:** I think it is at the right level. I am a record company man.



Q404 **Kevin Brennan:** I understand that, and obviously we have previously spoken to people representing publishing interests, and we will be speaking to people representing songwriters and composers and also to the streaming platforms, et cetera. I know people watching our events sometimes think we are not covering all of the issues, but it is our job to press you and to try to get some evidence that we might be able to use to compile a report.

Finally, Rupert and perhaps Yvette, do you think that very large corporations like the majors should be able to own equity in the streaming platforms, in the dominant record labels that make up the majority of the industry and also in the majority of publishing in the way that they do? Is that a healthy competitive environment?

**Rupert Skellett:** I think it is okay if they share that benefit, if that benefit flows down to their artists and to their writers. It is not okay if it just flows to their shareholders.

Q405 **Kevin Brennan:** Of course the obvious follow-up to that, Rupert, is does it flow fairly? If it does, perhaps we do not need to write a report.

**Rupert Skellett:** If we are talking specifically about equity, I believe that some majors who have sold, say, Spotify equity have definitely flowed that through to their artists. I am aware of Warner having done so and also Sony. I think Universal are the ones who have not sold any of their shares yet. I think they have said on record that they fully intend to share the benefit if they do sell their shares.

Q406 **Kevin Brennan:** That is rather vague, isn't it? "Share the benefit." I would like to know exactly how much will be going into their pocket from this windfall. Anyway, no doubt we will try to find that out.

**Yvette Griffith:** I felt a level of discomfort when I heard this announcement of the majors having these equity shares in the streaming platforms. We do not know how that has or has not affected how these platforms work. For me there was a level of discomfort around that knowledge. However, if they are putting their best foot forward and working for the benefit of the industry, I guess I would concur with Rupert.

Q407 **Kevin Brennan:** They got the shares cheaply in the first place, for a song, and then it was a massive windfall. How much of the windfall should have gone to the artists?

**Yvette Griffith:** The majority of it should have filtered through. Whether it did, we do not know.

**Kevin Brennan:** We will try to find out.

**Paul Pacifico:** I definitely take the argument that, in the early stages of their development of deals with early-stage streaming platforms, it is quite a high-risk proposition. There are costs to doing business and the streaming platform has one of two choices. It can either go to the market



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and raise a lot of money just to buy licences, or it can consider giving an equity stake in its stead or as part of that deal. In principle, on the surface, that should not be problematic, so long as there is a transparent mechanism for that money to flow back through proportionately in the kind of way that we suggest in the Fair Digital Deals Declaration. I think that artists are very much part of the value-add in those transactions and, in a well-functioning market, I do not know that we would take a dogmatic position on it so long as the proceeds are shared proportionately and appropriately.

Q408 **Kevin Brennan:** Should the song get more out of streaming?

**Paul Pacifico:** I take Rupert's point about the growth of share that the songwriters have had. There are complexities in the songwriter market. I still think it is a really hard nut to crack, to stop songwriters having to wait up to two or three years to earn money when it is earned in streaming, and those royalty chains as they have been very well described—

Q409 **Kevin Brennan:** Whether it is a hard nut or not, do you think the song gets enough out of streaming?

**Paul Pacifico:** At 15% of the retail price, it feels about right.

**Kevin Brennan:** Okay, I will leave it there. Thank you very much.

Q410 **Chair:** I think partly what Kevin was trying to get at during the latter part of his questioning is whether this is a competition issue. Is the cosy relationship between the majors and the streamers a competition issue?

**Paul Pacifico:** The market changes incrementally, not in seismic shifts, and our fear is that the Competition and Markets Authority sees each individual transaction as small and insignificant and does not necessarily have the benefit of the big, long-term picture where we see ever greater difficulty and infrastructure being bought out of the independent ecosystem and isolated into the majors. It is something to watch very carefully.

Q411 **Chair:** To paraphrase, are you saying that you think it is a worthwhile investigation for competition authorities to look at the long-term drift of the way in which the majors, along with the streamers, have basically corralled the industry in the way they have?

**Paul Pacifico:** It is fair to say that we are concerned about long-term drift. Whether it is the right time to call an investigation now or to keep a watching is a good debate to have.

Q412 **Julie Elliott:** Thank you, all of you. It has been really interesting listening to your evidence today. I want to go off on to something slightly different.

We have had written evidence to the Committee from Sandie Shaw, about the fact that British record companies are being bought up and, as she said, "our crown jewels are all gone...there is currently no such thing



as the UK record industry.” The majors disagreed with that. Why do you think artists are concerned by major companies’ acquisitions of British record labels?

**Paul Pacifico:** I absolutely understand where Sandie is coming from. I know Sandie well. We worked together very closely when I was chief executive at the Featured Artists Coalition, and the independents fight hard. Together we make up 25% of the market, but individually each business is small. I think it is a concern to artists and entrepreneurs in music alike to make sure that small, hard-fighting sector of the market is given the support it needs to continue to punch above its weight.

Q413 **Julie Elliott:** Would you expect further acquisitions of British labels as we move forward?

**Paul Pacifico:** Only this week we have seen the acquisition of AWAL by Sony. I think it is absolutely expected that independents will continue to spring up, invest brilliantly in brilliant artists, grow and be acquired by majors. That is not problematic in itself, so long as the market conditions enable new ones to spring up and continue to grow.

**Rupert Skellett:** We are a British record company and we are definitely not up for sale, and we will never be up for sale.

**Yvette Griffith:** I echo Rupert. We are a British company and we are not for sale.

Q414 **Julie Elliott:** Do any of you think there is a route to developing a British label to rival the big three? They are all based in America. On top of that, what Government investment and support should focus on this?

**Paul Pacifico:** I would absolutely love to see that happen. I would love to work with organisations such as the British Business Bank and the ScaleUp Institute, which we do, to try to find the best way to make that happen.

Q415 **Julie Elliott:** Do you think it is possible?

**Paul Pacifico:** Yes. Why not?

**Julie Elliott:** Good.

**Yvette Griffith:** I think it is possible, too. We have some strong, big independents already and, as Paul says, with the introduction and the partnership in some of these investments there is absolutely no reason why something that already exists could not be upscaled, or something new come into the world.

**Paul Pacifico:** All three global heads of the majors are British. There is no lack of British talent.

**Julie Elliott:** The Chair is nodding. We have been exported.



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**Rupert Skellett:** Yes, it would be great and it is probably worth mentioning that what happened to EMI, which was a great British record label, was an absolute tragedy. It just makes you cry, what happened to it.

Yes, very much in favour of it. We have the talent, we have the artists, everything. We have the infrastructure, we have the good rights protection in law, so yes, definitely.

Q416 **Julie Elliott:** What do you think should happen to make it happen? What needs to happen?

**Rupert Skellett:** I really do not know.

**Yvette Griffith:** Paul is suggesting money.

**Paul Pacifico:** Money. Levity aside, something like a creative industries tax break could make this happen. That could move the needle and absolutely reboot the British music industry in a way that it could really benefit from.

**Julie Elliott:** Great. That is a good note to end on. Thank you very much.

**Chair:** Thank you, Julie, and that concludes our session for today so thank you to Paul Pacifico, Rupert Skellett and Yvette Griffith. Your evidence today has been most illuminating. Thank you.