

Digital, Culture, Media and Sport Committee

Oral evidence: Economics of music streaming, HC 868

Tuesday 23 February 2021

Ordered by the House of Commons to be published on 23 February 2021.

[Watch the meeting](#)

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

Questions 580 to 709

Witnesses

I: Paul Firth, Director of International Music, Amazon; Horacio Gutierrez, Head of Global Affairs and Chief Legal Officer, Spotify; and Elena Segal, Global Senior Director of Music Publishing, Apple Inc.



Examination of witnesses

Witnesses: Paul Firth, Horacio Gutierrez and Elena Segal.

Q580 **Chair:** This is the Digital, Culture, Media and Sport Select Committee and our latest hearing into the economics of music streaming. We are joined today by Paul Firth, Director of International Music at Amazon, Horacio Gutierrez, Head of Global Affairs and Chief Legal Officer at Spotify, and Elena Segal, Global Senior Director of Music Publishing at Apple. Thank you, Paul, Horacio and Elena, for joining us today. Before our first question, I will go to our members to get their interests.

Kevin Brennan: I am a member of the Musicians' Union and PRS for Music.

Alex Davies-Jones: I am a member of the Musicians' Union.

Chair: Is there anyone else? No, okay. Our first questions come from John Nicolson.

John Nicolson: Thank you so much for joining us today. Horacio, may I start with you, please? We have been hearing a lot about Spotify in the course of this hearing and what we hear consistently from musicians is that they feel they are exploited, underpaid and earning far too little for the amount of work that they put in. That is a consistent theme. When users download music via your streaming service for offline playback, do you still make payments per listen to the musicians concerned?

Horacio Gutierrez: I didn't understand part of the question. Did you say when the music is downloaded?

Q581 **John Nicolson:** Yes, when it is downloaded for offline playback. In other words—for people watching who don't follow this closely—when there is no internet connection required, what are the financial arrangements for paying the musicians under those circumstances?

Horacio Gutierrez: Our agreements with labels and publishers essentially treat the stream in the same way regardless of whether it is listened to while connected to the internet or listened to while the device is online, so the economics are exactly the same.

Q582 **John Nicolson:** Okay, that is clear. Does the user retain access to that after the subscription ends?

Horacio Gutierrez: No, they wouldn't have access to it. They would have to be authenticated into the application to be able to access the music. As you know, our model is not a download model. It is an access model. The music streaming subscription requires the subscription to be active for the content to be accessed.

Q583 **John Nicolson:** In other words, as a user I am renting the music. I am not getting permanent access to it in the way that I would if I bought a record or a CD, for example?



Horacio Gutierrez: It is different than an ownership model. I am not sure that it is quite the same as renting per se. It is a different figure. It is hard to find analogues in the physical world of what streaming is. It is an ephemeral right to enjoy a stream and you have access to the full catalogue that is made available in exchange for an all-up subscription fee. Renting has certain economic and legal connotations that I think are not 100% applicable to our scenario.

Q584 **John Nicolson:** You used the word “ephemeral”, and that is exactly right. The music is passing through my house without me being able to continue to enjoy it after I stop handing you money monthly—a bit like renting a house itself, in fact. I am allowed to enjoy the house on a temporary, ephemeral basis as long as I am paying my landlord but as soon as I stop paying my landlord I have no more access to the house. It is ephemeral and it is renting. I don’t see how it can—

Horacio Gutierrez: When you refer to it as a service, which is the example that you used now, I think the comparison is more apt. It is harder when you are talking about a single track. For example, with your electricity service you are not renting power. You are paying utilities and, therefore, have access to power and you consume it as you need it. I believe the context that you are referring to, which is access to the service as a whole, is more apt. It may be a technicality whether it is a purchase or a rental or some other kind of agreement.

Q585 **John Nicolson:** I am not sure power is a very good comparison. If I am cooking on a gas cooker and I am using the gas, after I use the gas it is no more. The gas is finished, it is out of existence, whereas the music continues. It is just that I don’t have access to it. But if you had sold me an MP3 file I would be able to play it back as often as I wanted, wouldn’t I, even after I had stopped giving you money?

Horacio Gutierrez: In that case it is a model in which you essentially purchase a right to perpetually listen to that one track.

Q586 **John Nicolson:** An especially contested part of this inquiry has been how streaming should be classified under copyright law. Can you tell us who decided how streaming should be classified when your service first emerged?

Horacio Gutierrez: I wasn’t at Spotify when that happened; I know a little bit of the history from what I have read and heard from some of the participants. I think at the time what the Spotify founders were trying to do was to provide a legal alternative, from a copyright perspective a licit alternative to enjoin online music. This was all in the wake of the Napster debacle litigation in the US and The Pirate Bay in Sweden and the others.

The model was one in which users would be able to have access to the music catalogue online but instead of having to go to services that did not have a proper licence or to go to foreign sites or have to go into music piracy, they would have a fully legal, paid service where the rights



HOUSE OF COMMONS

of the rights holders were assured and creators would be fairly compensated.

I think that the legal structure was created to accommodate the realities of the service and the technical characteristics of the service as opposed to trying to fit it into one of the existing categories.

Q587 **John Nicolson:** That is all very well, but musicians are mostly miserable because of the system and the way that it operates. Do you understand why they are so miserable?

Horacio Gutierrez: This is definitely a difficult time and it is particularly difficult because of the circumstances and so many of the sources of revenue that are normally available to musicians are not available now.

Q588 **John Nicolson:** I know, but this predates Covid. Covid has certainly made things much worse but this predates Covid. On the whole, the musicians we have heard from—and we have heard from a lot of people—hate the Spotify model and they feel totally ripped off by it.

Horacio Gutierrez: Well, I would take issue with the fact that every musician hates the model.

Q589 **John Nicolson:** I didn't say every musician. I am sure at the very top of their game, the really wealthy musicians, are content with the model, but I said most musicians, the overwhelming majority that we have spoken to, hate the model. They feel cheated by the model and many of them say they simply can't afford to live off music despite the fact that some of them are very successful and winning awards for their music but your model keeps them in penury.

Horacio Gutierrez: I think it is useful to put some data on the table to be able to talk about that because it becomes just a matter of opinion. If you look at a number of datapoints you would see that on the whole the industry is at a point of growth and recovery from a low point that was brought about by online piracy.

The membership of PRS for Music has grown from 65,000 songwriters to 140,000 songwriters—that is 140%. If you look at the revenue that has been generated, the industry on whole has recovered billions of dollars of revenue. If you look at artists in general, in 2015 only 16,000 artists made up 90% of all streams, a relatively small group of people.

In 2020, 57,000 artists made up 90% of the streams. Four times the number of artists are at the top because of streaming, because of discovery and the ability of artists of all kinds to find an audience on the service.

Q590 **John Nicolson:** Yes, more artists may be being streamed but there is not a correlation between streamed and earning money. That is what our inquiry has discovered. Given that, a lot of people have said that the model should be changed so it becomes a user-centric payment system.



HOUSE OF COMMONS

In other words, the more I listen to a bit of music, the more my favourite artist gets paid. I think a lot of people are astonished that is not the way the system works at the moment. A lot of people don't know that. Would you be receptive to that were this Committee to recommend it as a changed model?

Horacio Gutierrez: We are definitely open to looking for alternative models and considering them. The user-centric model is one that we are open to. We recently participated in a study of the French model. The initial research of the user-centric model does not really show a dramatic shift in the way that many thought it might, but on the other hand if musicians and artists in general prefer the model, we would support doing the additional research and moving to that.

Keep in mind that a transition to a model like that would require not only a decision on the part of Spotify. Every licence agreement that we sign with every right holder all over the world would have to be transitioned into that model. It is not a trivial transition but to the extent that people felt that that is a model that would be more equitable and more beneficial, we would be absolutely openminded about it.

John Nicolson: That is interesting. Thank you.

Q591 **Damian Green:** Let me pick up on alternative models and perhaps this is to Elena to avoid it becoming a completely one-sided session. It is perfectly clear from looking at the figures that streaming is going to kill radio. More and more particularly younger listeners prefer to get their music through streaming services like yours or Spotify's and in the long run that is going to change everything.

One of the things it will change for musicians is that in the UK they get paid much more for a song played on the radio than a song played on a streaming service. Would it make any difference to you if the law was changed so that they were paid as much for every time I played one of my favourite band's songs on your service as they get when played on a radio station I am listening to?

Elena Segal: I don't know the detail of the economics of broadcast radio. I am not enormously familiar with the economics of it. My understanding is that there are various different models and rates applicable to commercial radio versus public radio, so it is a little bit difficult to comment on that.

If you are telling me it is a much larger number, that would dramatically affect the economics of our service. From our standpoint, the most important thing is to have a healthy overall creative ecosystem that is sustainable into the long term, so something that requires a dramatic shift in the economics such that it is no longer a viable business would have a negative effect for all stakeholders. I am not sure that is really what anyone should be aiming for.

Q592 **Damian Green:** Is it that delicate? Are Apple's finances so delicate that if



HOUSE OF COMMONS

songwriters as well as artists were paid a small percentage more that would upset the economics of the whole system, the way people listen to music now and increasingly in the future?

Elena Segal: Apple Music frankly pays more than other services. I think that has been fairly well discussed in the past and it is a narrow margin business. It would not take that much to upset the so-called apple cart.

Q593 **Damian Green:** A suggestion we have had from one of our previous witnesses is that you could split the way it is paid. If it came from a curated or playlisted basis for listening you could treat that one way as though it was like listening to the radio but user-selected music could have the split of revenue, as it is currently. Would the system work? Could you identify how users are consuming music in that way? I do Apple Music. Can you tell when I am listening to a playlist or when I have chosen a song or an album to listen to?

Elena Segal: Yes, we can tell.

Q594 **Damian Green:** You could feed through the system, splitting the income that way?

Elena Segal: Theoretically, yes. We have not examined that in detail and I imagine there would be operational complexities, but certainly we can identify where it comes from.

Q595 **Damian Green:** Thanks. Is that true for Spotify as well?

Horacio Gutierrez: There is a policy question that is really for the Committee and the Parliament to decide what is the equitable way of distributing revenue. I will make two points. Not every music streaming company is fortunate enough to have Apple's economics. Some of us are struggling to turn a profit and if you think of SoundCloud who participated in a prior hearing or Deezer or some of the other pure-play streaming companies I think it is important that whatever solution is developed is not based on the economics of other companies who can afford to subsidise the music industry because they have profits coming from unrelated industries.

To your question specifically, what is happening with personalisation in streaming is that what used to be a static playlist with a sequence of tracks that were selected by some editor and played in a linear fashion is giving way to more dynamic playlisting that responds to what the user does on the playlist. Does the user skip a track? Does the user save a particular track? Instead of there being just a single playlist, let's say a RapCaviar playlist that everyone around the world listened to, the playlist that is presented to me is different to the one that is presented to the next person because it is reacting to choices that the user makes. Increasingly there is not going to be just a single radio-style, linear presentation of music. It is constantly going to be personalised.



That adds an element of complexity in developing a solution like the one you are articulating that would have to be taken into account. Where is the line drawn? There is a lot of issues of nuance and interpretation that would have to be dealt with.

Q596 **Damian Green:** But technically you know when I am listening to a playlist and when I have chosen all the music myself and the order in which I am playing it?

Horacio Gutierrez: Yes. That basic level is very easy to determine. When you go into a playlist, what comes from the user preferences versus what comes from somebody else curating a playlist is increasingly more difficult to determine.

Q597 **Damian Green:** This is an unrelated area, but a point that witnesses have made to us is that none of your prices have gone up for a decade, which is hugely unusual when you look at things like Netflix who put their prices up like people do and you don't. Why not?

Horacio Gutierrez: As a matter of fact, prices have gone up in some areas. They have begun to go up in some markets, particularly when it comes to a family plan, and I think we would expect to do that. You will see in the history of Netflix that price increases did not come about until many years after the streaming service was launched. The balance that we have to strike is one in which music does not become unaffordable to consumers and we are pushing them back into online piracy scenarios.

The economics of every market are different. Yesterday we announced the introduction of a new high fidelity service that will command a higher price. What you will see over time is that the menu of options that are available to users is going to be more robust, there will be higher-priced offerings for users and on the whole prices will rise, but we have to do that also being sensitive to the perspective of users because the role that we play is to be the bridge between artists and users. We have to be able to find demand. We have to have music for everyone in the system to benefit for the whole pie to continue to grow.

Q598 **Damian Green:** Elena, do you agree with that? As a consumer, it feels like this is an area where prices never go up and it is interesting that there have been surveys that show that if people thought more of the money was going to the artist they would be prepared to pay a bit more. I am conscious people always say they are willing to pay taxes or higher fees for things that they desire until you actually try to charge them. Putting cynicism to one side, do you think prices will go up normally in future?

Elena Segal: It is hard to predict the future. I am not going to really speak about the future but it is true, as Horacio said, that we are competing with free. We have been competing with free, whether legitimate or illegitimate free, since the beginning of iTunes in 2003, or 2004 in the UK, and competing with free is always very difficult because consumers have a choice to move to free.



HOUSE OF COMMONS

The other challenge with prices and what differentiates music from Netflix is that when it comes to the pure music, the pure songs, we all have a similar catalogue. If you are looking to find specific music that you love, all of our services have very similar things so we have to look for other ways to differentiate ourselves. In our case that is to do with human curation and ours is a service made by humans for humans, having case makers who can put music that we believe people will love in front of them. But you make it challenging to put prices up in a vacuum, just by yourself, because people can opt to go to free or to another service that will have the same music.

Q599 Damian Green: I have one last question, probably for Horacio. One of our witnesses was the Spanish collecting society and in Spain equitable remuneration is paid out by the streaming services rather than the record companies. How does that model influence how you operate in Spain and what are the economic consequences of it?

Horacio Gutierrez: It basically created an incremental path. We already as a general matter pay, as you know, 70% of all our revenue to rights holders. In Spain they chose to create this additional right on top of it and labels have been reluctant to make it whole for that price. That means we have had to carry the burden of that, which has further increased our losses for our service in Spain. We have not degraded the service in any way. We continue to offer in the same way and we look for other ways of trying to make up the margin that we lost as well as the margin pressures that we are normally subject to, given the general cost structure of music streaming.

It has not really affected the way that we operate in Spain but it has made it harder for us to have a path to profitability and margin expansion. That is the challenge that those of us who have to live off the music and the audio business specifically and don't have other businesses have to contend with.

Q600 Chair: Mr Firth, we haven't forgotten about you, you will be very glad to know. I want to put a question to you that I have put to previous panels. We know that musicians take risk to follow their dreams and their ambitions. They may go round Europe in a dodgy old van and they accept the fact that to have their music played and catch on they are going to have to invest their time and their emotions and perhaps give up another career as a result. We know that record labels take risk, particularly with new talent, and we know that there is only a percentage of that new talent that hits off for them and they will very rarely reclaim lost money that they have paid out to promote someone else's career. What risk do you take as a streaming service?

Paul Firth: Thanks for inviting me along and for the opportunity to contribute to this important inquiry and thank you for coming to me with that question. I think this is an interesting one.



HOUSE OF COMMONS

I appreciate the point you make. There is risk being taken by musicians and by record labels too but there is also risk being taken by any streaming service that launches into this very competitive market segment. We have to invest in advance to build a great customer experience. As Elena was saying earlier, although most of us have the same catalogue or thereabouts, you need three things to be able to build a streaming service. You need to be able to have access to the music that people want, you have to invest in marketing so that people understand your streaming service and what is different about you, and you have to invest in the customer experience.

It is the customer experience that people end up paying for. It is the customer experience that we built as streaming services that persuaded people to pay for music again when they were previously accessing it through file-sharing sites or piracy. It is about the advance investments that we have to make to build the streaming services at scale, to build the customer experience and to keep up with the ever-increasing customer demand. We are investing ahead and we are taking some risk in that as well.

Q601 Chair: Spotify launched 11 years ago and you are a more recent entrant into the market, a giant global brand. A lot of the work was already done; people understood the idea of music streaming and that side of the marketing. Why do streaming services feel that they should take 30%?

Paul Firth: The 30% is about in line with what we have always taken as a retailer. It is a similar margin to selling CDs and vinyl, which we still do at Amazon of course, or our download store where we sell MP3s to people. I think we have to do quite a different piece of work as a streaming service. It is very focused on the customer experience that I talk about, making sure that we are building an experience that customers find delightful and are happy to pay for. A customer will only remain a streaming subscriber if they enjoy the experience, if they can find the music they want quickly, easily and are able to enjoy it. That is the way they stay a subscriber the following month and the following month, that is how we grow our business and how we grow the total amount of money that we pay to the rights holders.

There is an investment to be made there. There are other more mechanical things in the background like servers and credit card fees and payments and customer service and so on, but really it is the customer experience that we have to invest in and that is where the risk sits and where the majority of the investment goes.

Q602 Chair: Is there a limit to the marketplace for streaming? There has been some discussion about whether or not there is a finite number of streams and with current economics whether or not they are hitting a certain ceiling. As a massive player and a relatively newer entrant, you were probably aware of that. Why do you think that there is still space in the marketplace?



HOUSE OF COMMONS

Paul Firth: I am convinced there is still space in the marketplace, the market segment. We launched about four and a half years ago with Amazon Music Unlimited, so we have come into this much later. We came into streaming with a different approach. Yes, of course we compete head on for the same subscribers with other streaming services, but our approach from the outset was: can we take music streaming to a different group of customers? Can we try to extend the overall market segment so that more and more people can go into streaming and we can grow the overall pie? As Mr Green said earlier, growing the overall pie is an important part of this.

Our view was that you can take music streaming to a much more mainstream music fan. Looking back at data from our CD and vinyl and MP3 stores, we could see that about 70% of our customers would spend £30 or less a year on music, so they were buying one, two or three albums a year maybe. It is quite a big step for them to go into £120 a year. We decided to try to approach that in another way, tried to move customers through into streaming and build a streaming service that my nearly 18 year-old son and my 82 year-old mother-in-law would both want to use by not making it particularly for one segment or another but making it for everybody.

Q603 **Chair:** Is this Amazon's bid for, rather cheekily here, global domination, because you have the Prime services, your TV, your music streaming? I know that we are going to touch on smart speakers very shortly. YouTube is deemed as being the biggest streaming service; Spotify was a trailblazer, which is a huge service but at the same time is a small player and I think they made reference to that. What role do you see music streaming playing in that suite of Amazon products? What do you think that offers not just consumers but those who create?

Paul Firth: The offer to the consumer is to make streaming really easy and accessible and to take away any friction they may have seen about whether music streaming was for them, it was too hard to use or maybe it was focused on genres they didn't like. We have entered into streaming with a view that music streaming should be for everybody. It should not be focused on a certain group who are perhaps earlier adopters or people who are very tech savvy. It should be available to everybody and we can attract that more mainstream fan by the way in which we choose to position our service, focusing on a customer experience that makes it really easy to use but also thinking about what genres of music you want people to listen to or we can help people find, because they should choose what they listen to.

What we see in the results is that Amazon Music Unlimited subscribers are more likely to listen to rock music, indie music, pop and country than the market segment as a whole for music streaming. We can see that we are bringing in a different type of customer. Why that is good for creatives is that a much broader suite of creatives can see their music being streamed on Amazon Music and all types of musicians can see that



music streaming can be good for them as well. It brings in more money to the overall market segment, so rather than just chasing the same group of consumers we are expanding the reach, which we hope grows the overall pie.

Q604 Chair: It is not just about Ed Sheeran. It is about many different parties. How is your offering enabling that to happen? I have some concerns, I will be honest with you, about these algorithms, more generally actually but within this space. I wonder whether or not it narrows choice rather than increases it and you end up listening to the same music all the time. How is yours different?

Paul Firth: We do use algorithms and I would love to talk about those in a moment, but first of all we also use human curation. We have heard from other services that they like to focus on one or the other while we are doing both. We have teams of music specialists in every country. We have a team right here in London who create most of the playlists that are listened to on Amazon Music and these are not the sort of dynamic playlists that have been mentioned before. They are almost more like compilation albums. You can open them up, you can look through them, you can choose to start at track 5, you can skip tracks as you wish. They are much more interactive like that. As I say, they are like a compilation album.

Q605 Chair: Pardon, Paul, but that does not appear to be very different to what I have seen. I am a user of one of these streaming services and exactly the same thing occurs with them, that there are playlists and you can go on to them. They tend to be relatively similar along a similar genre or period of time. I don't quite get how what you are saying is any different to the others. Surely the reason you are in it is because you doing a cross-media offering and you are such a big player in all those other areas that you can cut out your own piece of this market.

Paul Firth: We believe we can build a meaningful business for Amazon Music Unlimited as a standalone P&L. We are in it to drive it through its own business. It is not about other things that it can do for Amazon. The reason I mentioned playlists is to highlight the fact that we don't just use algorithms. We are using human curation. I know you see that in other services too, and many people take different approaches to how you choose what to programme. It is whether you choose to programme for a particular type of genre, you want to programme for all genres, you highlight music from certain genres. That is how we have thought about it—make this accessible to everybody.

We use algorithms with really one aim in mind: to give a great customer experience. As I have said before, we believe strongly that a great customer experience means the subscriber is more likely to come back again next month and is more likely to pay again. We will grow and we will pay more money to rights holders. Algorithms are there not for any sinister reason at all but just to drive great customer experience and to play you what we think you want to listen to based on what you have told



HOUSE OF COMMONS

us you like from what you have listened to already. That is the only reason that algorithms are there.

I know one particular type of algorithm playback that has come up a few times from Committee members is what we call autoplay. That is when you play an album and at the end of that album we may play you something else based on what you have been listening to. We are able to measure that.

One of the advantages of having lots of customers listening to lots of music is that you can measure the impact of everything you do. We can measure at the total level whether that means that customers stay longer and they listen to autoplay and we can show that it does, but we also recognise it is not for everybody. We have made it possible for you to turn that off in settings. If you go into your settings in Amazon Music you can turn off autoplay. Some customers don't like that and we put the power into the customer's hands to be able to change the way the overall service works.

Q606 Mrs Heather Wheeler: I have a question for Amazon and Apple, Paul and Elena. Thank you very much for coming this afternoon—or is it morning where you are? Sorry, yes. Both of your companies have developed smart speakers and voice assistants. Are your streaming services the default streaming services on your speakers? If so, do you think that is going to give you a competition implication and maybe infringements of that? I don't mind who goes first.

Paul Firth: I am happy to go here, and it is afternoon for me as well. I work in the Amazon Music business. Our Alexa and devices teams are run entirely independently and that is important because Alexa is a voice service that works with many streaming services. It is important that I can't see all the things that Alexa can do. In fact, both Apple and Spotify are available on Alexa as are some other streaming services. We make it very clear to people who buy a device, buy an Echo in particular, that other streaming services are available. It is even listed on the outside of the box and when they set up their device they are able to choose which streaming service they set as their default.

One of those options is Amazon Music, of course. If a customer does not set their default and they ask Alexa to play some music there will be a fallback option that means in that case we will play Amazon Music because we are focused on giving the customer a great customer experience. But we will also make it very clear, by what Alexa says to them, that we are playing Amazon Music just to ensure that they have not done so by mistake. We want to make sure that Alexa is available for use with all streaming services. We think that is what gives the very best customer experience.

Elena Segal: My answer is very similar to Paul's. Our HomePod division is also completely separate from Music and you can use Apple Music on HomePod but you can also use other third-party services on HomePod.



Equally, you can use Apple Music on third-party smart speakers. That all feels like very healthy competition to me. I believe the default initially, if you haven't told it to use a different service, is Apple Music but that is changeable.

Mrs Heather Wheeler: Thank you very much. They were very clear answers. Much appreciated.

Q607 **Giles Watling:** I am looking at some amazing figures here. I want to speak to Horacio first. In April 2019 Spotify reached 100 million worldwide paying subscribers and in the first quarter of 2020 Spotify reported that it had reached 286 million active worldwide users in total. They are incredible figures. Spotify UK has been profitable since 2013—it has been doing very well—but historically globally you have operated at a loss. How long do you expect that to continue and, to a layman like me, how on earth is that sustainable?

Horacio Gutierrez: Clearly that is a challenge. We are working very hard to try to break even and then make a profit. We believe that it is possible to do so and we think we are on a path to do that. Yesterday we announced that we were launching in 85 new countries that we were not present in. Our performance that you are referring to over the last decade is a result of how well we have done, first in the European market, then in the US market and then some of the other key markets around the world.

We are still in expansion mode. We are launching a new market, finding new users, developing new advertising revenue generation mechanisms and we are working very hard to convert more of the users in the ad-funded tier into the subscription tier. As we have grown, because our arrangements with labels and publishers around the world are a revenue share, the more the pie has grown the more the slice for artists and their intermediaries has grown too.

The way we are looking to expand margins is we try to bring a number of marketing and promotional services that artists and labels would have had to pay for outside of the service and try to create more effective, better performing audience expansion mechanisms within the service. You may have heard that we have made significant investment in other non-music audio segments, particularly podcast, which has a very different cost structure that we believe has the potential to put us on a more solid path forward as well. But it is clear that the cost structure of the music streaming side of the business is very challenging because over two-thirds of every pound that we generate goes straight to rights holders and ultimately to the musicians and artists they represent.

Q608 **Giles Watling:** It would appear from what you are saying that you are depending on an ever-expanding buy to keep going or look for another buy with the podcast. How sensitive are your growth figures to the cost of your service? Is endless expansion the only way forward for you?



Horacio Gutierrez: It is not just endless expansion. There are only so many countries in the world, even though it might appear that a new one gets created every few years, and there is a limit to how many of those you can be in. We are still growing. The 85 markets that we announced yesterday represent an addressable market of about 1 billion new users, so there is significant headway in our ability to grow there.

But market expansion is not our only margin expansion strategy. We are trying to bring new services, new tools that users can take advantage of but also that creators can use. We think of ourselves as much as a platform for users to consume music as a platform that can provide tools for artists to understand where their audience is, what they react to, how to structure their live tours, what is resonating in what market. Those insights were not there before the advent of these technologies that can be super useful in the planning and development of an artist's career.

Q609 **Giles Watling:** All that is very laudable and I absolutely support you in that but from just a pure business point of view, do you see Spotify ever becoming sustainable on the customers that it has? Can you see that happening?

Horacio Gutierrez: We hope we are going to have more customers than the customers we have and that over time we will have more services and a menu of services at different price points that we can target to different users. A company like ours, when you have tapped into a market or are close to it, thinks how we can redefine the market to continue growing. I expect that we will continue to do that. You saw us doing that in our investments with respect to podcast. We are committed to the audio scenarios but there is a number of scenarios within that, that we think we can get better at.

We live in a world and we compete in a world of what is called attention economics. We are competing with gaming companies, Netflix, all of these other things for a consumer's attention, and what we are trying to do is that when it comes to audio that a user will think of us first, and then when they are in our service we are going to keep them there listening to music on our service, listening to content related to music, listening to podcasts, because the more engaged our users are the longer they stay, the long-term value of that user is bigger and that translates automatically into benefit for everyone in the ecosystem.

Q610 **Giles Watling:** Believe me, this Committee is very familiar with attention economics. We have looked into that in various ways before. You do not foresee a dotcom bubble-type thing bursting? Do you think there is room for ever expansion? I would like to move on very quickly. Is the cost of music, i.e., payment to artists, songwriters and so on, one of the softer costs you have? Is it easier to squeeze that area to achieve profitability? That was for you, Horacio, sorry.

Horacio Gutierrez: This notion of squeezing one area versus the other—we have the agreements that we have in place. In some cases there are



HOUSE OF COMMONS

compulsory licensing regimes and so we really do not look at that as an opportunity for us to squeeze the margin for that. We look to create new opportunities, to create wealth for everyone in the system and expand the pie and in the process ultimately expand our margins.

From the beginning of the company our determination was to launch a service only after we had deals in place that respected the intellectual property rights of musicians and creators and everyone, and that is what we have done. More than squeezing anyone in the system we believe that because we are connected in the industry, and this also relates to a previous answer as to the relative contribution of a label or another part of the equation, we are an industry.

We need a number of actors in this industry. We need the songwriters, we need the performing artists, we need the managers, we need the agents, we need the tour managers and we need the labels and radio and everyone. We are the link in the value chain that connects demand all over the world of people who we have found and we have persuaded that it makes sense to pay for music. We connect them to the content and the creators of that content. That is the value that we bring about. The more we do that, because music is so compelling, the more we can continue to expand this pie and for the benefit of everyone, not just us.

Q611 Giles Watling: Thank you. I just worry that like theatrical producers of old, and I cast no aspersion there as there are many excellent theatrical producers, they rely on the absolute loyalty of their artists and they rely on the fact that the artists are desperate to create and use that and do not necessarily pay the money they should really be getting to expand that creation in future.

I would like to move on now to Elena if I may. We have had several stakeholders say to us that app stores like Apple and Google often host illegitimate streaming apps that host unlicensed music and are—here is the point—slow to remove them. How do you respond to those concerns?

Elena Segal: I would respond by saying we have a very large number of people whose responsibility it is to review every app before it goes up, check for compliance with our app store guidelines, which require that people have licences for any music that is used, and there is a very large number of apps that do not go up because the apps are found not to comply with those guidelines.

There is also a monitoring process to check that apps have not been changed without us knowing, and any update to an app gets checked as well. On top of that we also have a robust notice and takedown process, so we are trying to hit it as hard as we can from both ends. It is something that we care greatly about and I think we are doing a great deal to prevent a lot of harm.

Q612 Giles Watling: This industry has historically suffered from piracy, even back in the days of vinyl, and the problem I see is that now with this



HOUSE OF COMMONS

mass expansion, we have been talking about this ever-expanding pie, and it can do an enormous amount of damage very quickly. I think speed of response is the issue here. Do you think you are doing enough?

Elena Segal: I think we are doing as much as we can. I think it is very difficult for us to sit as judge and jury. If someone has a complaint we put them in touch with the person about whom they are complaining or the developer about whom they are complaining and ask them to have some discussion between themselves. We cannot just take one person's word over another and there are a lot of legitimate music apps and we cannot easily determine which ones are good and which ones are bad.

Q613 **Giles Watling:** That is what might be causing you delay in your processes, to bring these illegitimate apps to heel?

Elena Segal: Yes.

Q614 **Giles Watling:** I would suggest you need to find a quicker way of resolving those issues.

Elena Segal: It is something we are constantly iterating on and looking at. The App Store, as with HomePod, is outside my area of expertise but I can certainly assure you that piracy is something that we have fought against. The entire genesis of the iTunes store was to combat piracy, essentially.

Giles Watling: Thank you, Elena. I think I have hit that drum enough. Thank you so much.

Q615 **Chair:** Elena, on that point you said the point of the iTunes store was to combat piracy, obviously it was not just there to make money. There is a regular refrain from the industry that is effectively they were in real trouble and then the likes of Spotify came along and then you and iTunes and now Amazon have rode in behind you. You saved the industry by effectively killing off piracy. How long do they have to be thankful to you for and how long do they have to pay in terms of that for what you did 11 years ago?

Elena Segal: First, we are not asking anyone to be thankful to us. That is not something that we have ever said. There is also a little bit of revisionist history that goes on, because iTunes was founded in 2003 and came into the UK in 2004, and that seems to sometimes get written out of history a little bit.

Like I said, we are not asking anyone to be grateful. We believe very strongly that creators should be paid for their art and we have striven to do that ever since 2003, when we came into this business. I think we have gone further than anyone else in trying to ensure money flow. There have been numerous ways in which there were complications moving to a legitimate digital world, because you had lots of players who just were not ready for it in terms of receiving money and dealing with the money, and we have worked really hard to push people to work with us on processes that enable money flow as best as possible from us on the



HOUSE OF COMMONS

composition side for example to collecting societies, to songwriters and we have done that because we do not want to hold on to the money, we want the money to get to the people that it is supposed to get to.

It is something that we have worked really hard at and we are not asking for anyone's gratitude. We want there to be a healthy, creative ecosystem. We want creatives to be able to create; we have always said that music is in our DNA and we really mean it.

Q616 **Chair:** I do remember when you did launch because I had a nano iPod at the time with a mighty 2 gigabytes of storage space. Of course at that time the only stream you could do was 30 seconds and then you had to pay for it, which was obviously a very different model and you were working at the same time as we had Napster and The Pirate Bay. They no longer are out there. I do wonder whether or not the actions that were taken against them does preclude piracy going forward, potentially. I do not know whether that is the case, but I do wonder.

YouTube. Are they getting away with it?

Elena Segal: As I said earlier it is challenging to compete with free. It has always been challenging, whether it is legitimate or illegitimate. It is challenging to compete on an unlevel playing field.

Q617 **Chair:** Specifically what is the main way in which it is a completely unlevel playing field?

Elena Segal: The fact that they do not necessarily have licences for all of the music that they use and that they do not need to. Even where they do have licences the amount they pay, because of the way their business model is set up and the way the tariffs work, is less.

Chair: They would not tell us precisely how much they paid in their last session, of course, nor even give us a range in that respect and then they accused everyone else of lacking transparency. I thought that was a little bit rich. Damian Hinds?

Q618 **Damian Hinds:** In this inquiry to date we have focused mostly on the divvying up of the 70% of revenues from streaming services, but I think what is really interesting in this session is to look at the other half, that is, why the revenue number is what it is and why the 70% is 70% and not 60% or 80%.

We are all familiar with the charts of global record industry sales over the last few decades. There was a huge peak and then a terrible trough. You do not nearly so often see figures that are just for growth markets, in other words take a per capita of your revenue. Do any of you have data on how much the typical music-loving punter is spending on music in somewhere like Britain or North America today, not just compared to the trough but to the peak of the music industry? It is an open question for anybody who has numbers to answer. You will be the first in this inquiry who has been able to.



HOUSE OF COMMONS

Paul Firth: I will share what we do have. Unfortunately I do not have access to full market segment numbers, which I think is what you are searching to get towards. Earlier on, if you remember, I shared some numbers around Amazon and how Amazon could see its own numbers around how—

Q619 **Damian Hinds:** Paul, forgive me for cutting across you. I do not mean to be rude. No, that is not what I am after at all. What I am trying to understand is there is a big debate going on about the way the revenue is being divvied up and whether that is fair, and why musicians are ending up with less money than they used to have. What I am trying to get to is mathematically is that entirely because of the divvying up or is it because of the number that is being divvied up? So far as I can make out nobody seems to have this data. Is that true? Horacio?

Horacio Gutierrez: I have a few figures. I do not know that they directly answer your question but I think might help put some boundaries around it. This may be an area where we could try to come up with some data.

You have to look at the economic impact in the UK from two perspectives. One is the consumption in the UK and the value of the royalties that are generated by consumption by the UK public. Then I think more significantly we focused on UK talent and how much revenue they can generate globally.

In the UK, we know for Spotify alone that in 2020 we generated more than €550 million. Unfortunately because our accounting is in euros I do not have it in pounds, but that is just for consumption in the UK, the royalties that were paid there. We also have numbers that indicate the growth of the British music industry over the last few years.

Since we launched in the UK in 2009 the number of songwriters has increased 115%, the number of artists has increased 145%. There were only five UK major labels 20 years ago. We license music for 750 right holders in the UK today. In a sense what has happened is there were a handful of gatekeepers in the industry and what this new paradigm has created is in a sense democratised access to streaming by allowing a number of other players to have their music distributed on a global basis.

Q620 **Damian Hinds:** Of course, the flip side is that a fixed price per consumer means there are more recipients than to have revenue distributed between.

Horacio Gutierrez: That is correct, and excuse me, but let me just add one thing. That is true, but on the other hand the model has allowed British artists to find paying users in markets that in the past they did not have. For every stream in the UK, four streams happen outside the UK.

Q621 **Damian Hinds:** I am absolutely not here to dispute that. I am just trying to understand the way the numbers work. Staying with you if I may, Horacio, coming on to the 30%-to-70% revenue split, where did that 30% number come from originally?



Horacio Gutierrez: I do not have the historical knowledge on how that happened in the negotiation rooms. I think it happened over time. The reality is that labels demand that a majority of the revenue go to them, and then we had to clear the rights with publishers around the world. The rates of publishing were historically lower than they are today.

I think there is testimony even in the context of these hearings that it has gone from an 8% rate to a 15% rate over the years, if I am not mistaken. Some rates have stabilised; other rates have grown over the years and we have ended up around that area. Some of it was decided in those initial agreements. Some of this evolved over the years.

Q622 **Damian Hinds:** This could go to any of the three witnesses, do you have a sense of what the physical distribution costs are per song compared to what they were in the old days of people going down to HMV or Our Price?

Horacio Gutierrez: I am not quite sure what you mean by physical distribution, since there is not physical distribution.

Q623 **Damian Hinds:** Sorry, the cost of production, distribution, basically getting the music into the hands or in this case the ears physically of the punter.

Horacio Gutierrez: In our case we know that about 10% of our global revenue in 2020 went into research and development. I do not have a specific breakdown with numbers but I know for example there are cloud costs associated with having our content hosted by cloud providers, in our case being Google but other people use Amazon, other people may use other services, those costs are quite significant. Clearly there are sales and marketing costs associated with a launch in a market and the promotion of the content and things like that.

Q624 **Damian Hinds:** That is in a different category. There certainly are, and we may have a chance to come on to market share growth and customer acquisition costs. It is interesting—fascinating, some might say—how, given the relatively low physical distribution costs that exist, your company is not profitable. Presumably this is because of huge amounts of money going into sales and marketing to grow share.

Horacio Gutierrez: If you talk about distribution, the world of physical distribution that existed before, when you had to print the vinyl record, you had to package it, you had to ship it, you had to store it, you had to put it in a retail store, you had to market it almost on a retail basis with radio stations, those were costs that labels undertook.

As the internet has allowed for frictionless distribution, those costs have been driven out of the equation and that for the most part just goes straight to the bottom line of labels that have benefited from that. Of course, on the other hand, they faced other challenges and emerging competition from independent labels and do-it-yourself artists, so they



HOUSE OF COMMONS

also have their own challenges, but the reality is that was not a cost saving that we realised. It was a cost saving that labels realised.

Q625 **Damian Hinds:** Okay, so if the record labels are able to pocket the savings from production and retail distribution, point of sale and all the rest of it, what is the equivalent in the record labels' former P&L? What is the equivalent to the 30% of revenue that is going to you?

Paul Firth: Maybe I could come in here. I have been involved in retail all my working life, all the way back to the time behind record shop counters, selling at Amazon but also now running a streaming service. I can think about this question across a number of different angles. One of the key things to realise is that during that transition there has also been a bit of a transition of who does what. We are a retailer, we still sell CDs and vinyl and really we are fulfilling a demand that is created elsewhere, so the marketing and the discovery, what drives someone to look for that artist, generally happens somewhere else. Someone else carries the cost of that.

With a streaming service we are part of that process too, so streaming services are very much about driving discovery. They are very much about marketing artists as well as marketing their own service, so some of the cost is also transferred into streaming services from what was done before because there is this blurring of the lines over who does what. I think as a streaming service you play a much more active role in helping an artist break than we ever did as a retailer. We play a much more active role in helping music lovers discover artists that they will love and also helping artists connect with their maximum fan base possible. Those are the things we aim to try to do.

I do think that some of the costs have moved around quite a lot in this model from the time when I look at our CD and vinyl stores to when I look at our streaming store.

Q626 **Damian Hinds:** Okay. If we had longer we could probably have a good discussion about what the real cost of introducing people to new music is, if they are already subscribing to your system, but we do not have more time, so I am going to move on, Paul, if I may.

Horacio, I would like to ask you the same question in a moment, but Paul, what percentage of your users are subscription-paying specifically for the music service? Of those who are not paying, those who are on the free service, in any year what proportion of them upgrade to paying a subscription?

Paul Firth: For Amazon Music we have Amazon Music Unlimited, which is our full catalogue on-demand streaming service, the equivalent to the ones that are run by other services. We do already have an HD tier, I know Horacio mentioned that earlier for Spotify for the future, but we have that in place already. We also run something called Prime Music, which offers Prime members access to a very limited catalogue, around two million songs, so quite a lot less than the full catalogue service, and



that comes as part of their Prime membership. They are paying for that as part of their Prime membership.

We very recently, only a year or so ago, launched a small ad-funded tier, which again has a small amount of songs in it, around two million songs. I do not have the precise splits in front of me. We do not have many customers in our ad-funded tier at this stage, it is still quite new. The majority of our customers are in Amazon Music Unlimited.

Q627 **Damian Hinds:** What about Prime?

Paul Firth: What I will do if it is okay, Mr Hinds, is write to you with the more accurate breakdown rather than me trying to do it off the top of my head here. Prime Music has been running slightly longer than Amazon Music Unlimited, but Amazon Music Unlimited is growing much faster.

Q628 **Damian Hinds:** We would appreciate that, and also when you are writing could you say how you apportion revenue? Obviously if you buy Prime you are buying a bundle which also includes films and parcel delivery. How you allocate revenue to the music part of the service would be very helpful.

Horacio, can I ask you the same question about the split between free and subscription-paying? I forgot to press you, Paul, and maybe we will get a chance in a moment, but, Horacio, also the proportion of people in any one year who are not paying who upgrade to the premium service?

Horacio Gutierrez: We have 155 million subscribers. That is a figure that we released as of 31 December 2020 and we have 345 million monthly active users. That will give you a sense of the overall number of users including free as well as the portion that subscribe. It is a number that is quite significant.

We know that about 60% of subscribers were people that started using the service on the ad-supported tier and then were successfully converted into the subscription tier. We know it is quite an effective funnel of users that first begin with the free tier and then convert into full subscriptions.

Q629 **Damian Hinds:** Forgive me if I did not follow entirely. The first part of your answer I think you were saying how many were fee-paying and how many were not. Could you give us those numbers again?

Horacio Gutierrez: Yes, and by the way those figures are public; they are released in our annual accounts but it is 155 million subscribers, that is people paying subscription fees, and then 345 million MAUs or monthly active users, which is a measure that is used in services like ours to measure the total number of users of a service.

Q630 **Damian Hinds:** In life's great Venn diagram, the first figure is a subset of the second figure, is that right?

Horacio Gutierrez: Correct.



Q631 **Damian Hinds:** So I have not done the maths in my head, but it is a substantial proportion but certainly not the overwhelming majority who are paying?

Horacio Gutierrez: Think of it as there are 155 million subscribers and 199 million ad-supported users.

Q632 **Damian Hinds:** Can you tell us a bit more about how the free service works starting with who decides what goes on it? Is that the choice of the record label in every case, which artists are only on the paid-for service and which tracks within each act?

Horacio Gutierrez: In our case with the free service, the selling proposition that we have is that—even though it may be a service that adds more friction, that has ad interruptions and a number of things that make it a somewhat less enjoyable service—we offer the full range of catalogue that we offer in the subscription tier but we offer it free. There are a number of restrictions: users cannot listen offline and there is a limit on the number of times they can listen to certain tracks. So there are a number of restrictions that are there to persuade and incentivise the user to upgrade to the subscription tier.

Over the years we have refined those terms. Those are negotiated with major labels and with publishers. We feel that we have had, and I think our partners would say so too, quite a healthy conversion rate from the ad-supported tier into subscription. A lot of the driver of this is that there is limited on-demand capabilities, the ability of a user to play a particular track or a particular artist on demand is very limited. That is a key feature that drives users to want to upgrade to the subscription tier.

Q633 **Damian Hinds:** How does the remuneration work? Do you effectively pay a different amount to the record label for a song heard through the free versus the premium or is it all just melded together and then divvied up at the end of the year? How does it happen?

Horacio Gutierrez: We have revenue share agreements on both sides. We have revenue share agreements on the subscription side, so there is a pool of revenue that comes from the monthly subscriptions that we receive and those get allocated on a pro rata share among the different labels and then they do in turn the same thing with their creators.

Likewise on the advertising revenue on the free tier we have revenue share agreements with respect to the revenue that we generate on the free tier and it works the same, except that one is based on the subscription revenue pool and the other one is based on the advertising revenue pool.

Q634 **Damian Hinds:** In terms of the revenue, whether it is subscription revenue or ad revenue per song, what is the difference between how much money you are making for every song played on the paid-for and on the free?



Horacio Gutierrez: I do not have that. Let me just say, we have public information that dissects all of this in the context of the filings that we do with the Securities and Exchange Commission. We would be happy to submit that. The numbers I do not happen to have right in front of me. The revenue is lower on the ad-funded tier that is sold by definition. The way we look at it and the way we encourage our partners to look at it is, as I said, as a highly successful funnel for finding users that previously were not paying for music to on-ramp into our service and then to go further into subscription.

In terms of the overall split, about 90% of our revenue comes from the subscription business and 10% of our revenue comes from the ad-funded tier.

Q635 **Damian Hinds:** Every person who signs up to the free service, that is in a sense a revenue loss in that you have not signed them up to premium so there is an opportunity cost to that person. Is there any cost to you running a loss lead-in marketing programme like this?

Horacio Gutierrez: The way we look at it is it is a funnel into the overall revenue.

Q636 **Damian Hinds:** We know that is how you look at it.

Horacio Gutierrez: So obviously there is—

Q637 **Damian Hinds:** It is buying you a market share, isn't it? It is funding your market share and you are not taking the risk on it.

Horacio Gutierrez: Unlike other companies who can build on their Prime subscription audience or they can build on their iPhone installed base or their home speakers or things like that, the only thing we have to be able to find these customers and to attract them into our service is our free service, and especially as we launch in markets in emerging economies where there is a high potential in terms of users that are economically challenged.

It is a highly efficient way of monetising music in markets where piracy would have been rampant just a few years ago; in fact, it contributes to growing the pie in a very significant way. Yes, obviously the premium aspects of our service are a critical element for us. We think it was an innovation as important for us as some of the technological innovations that enabled streaming to work and it is a fundamental element of the value proposition that we think has proven successful over the years.

Q638 **Damian Hinds:** Finally, can I ask each of you: if there was no YouTube, would you have a free streaming service? We will start with Horacio as we are with you now.

Horacio Gutierrez: By the same logic that I provided before I think we would, but there is no question that we see YouTube as a competitor, particularly—



HOUSE OF COMMONS

Q639 **Damian Hinds:** Sorry, no question in that you definitely do or no question that you definitely do not?

Horacio Gutierrez: I think we would continue to have it as a way of finding users to put into our—

Q640 **Damian Hinds:** Sorry, forgive me. When you say there is no question that you see YouTube as a competitor, do you mean you obviously do see them as a competitor or they are so different you obviously do not see them as a competitor? That is my question.

Horacio Gutierrez: They are obviously a competitor to our service. People in some markets look at the YouTube service as a substitute for their music consumption, so that is a challenge for us too. I do believe that the freemium service has value on its own—it would be hypothetical and I would be speculating—and I would be surprised if we did not have a freemium model even in the scenario where YouTube did not exist.

Q641 **Damian Hinds:** Paul, taking pride out of it, just looking at your ad-funded free model, if there was no YouTube would it exist? You can be very brief.

Paul Firth: Yes, I think it would.

Q642 **Damian Hinds:** Thank you, and Elena, I know your model is different but how would the world change for Apple if there was no YouTube?

Elena Segal: The world would change in that I think more people would probably be using Apple Music but it would not change our service. We do not think that an ad-supported service can generate enough revenue to support a healthy overall ecosystem and it would also go against our fundamental values on privacy.

Q643 **Steve Brine:** Can I go back to the very start? I want to ask Elena and Paul a question that John Nicolson put to Spotify about the dynamic here. Elena, with regards to your streams, do you see it as a rental or a sale?

Elena Segal: We see it as a licence. We have licences that entitle us to sub-license to consumers, and that has always been true.

Q644 **Steve Brine:** So it is a rental? If I license something I am having that service for as long as I have the licence?

Elena Segal: If you think back to the purchase of a CD, a CD was a licence as well. You are purchasing a piece of plastic.

Steve Brine: It was not.

Elena Segal: Yes, you are, you are purchasing a piece of plastic and you are purchasing a licence to use the music that is on that piece of plastic in certain ways. If you read the small print on the back of the liner notes there are terms and conditions. It has always been a licence. It is, as others have said, a licence that ends when you are no longer a subscriber.



HOUSE OF COMMONS

Q645 **Steve Brine:** Yes, but when I had my CD it did not limit the number of listens I could have, did it, once I bought it? I did not have to licence it or rent it. I bought it. It was a sale. This is different.

Elena Segal: It was the sale of a licence, I would say, and this is a subscription to a licence. Yes, I would say it is more akin to a rental. I am not going to comment on legal connotations of that.

Q646 **Steve Brine:** More akin to a rental, okay. Paul, Amazon? Do you see it as a rental or a sale?

Paul Firth: It is very clear to me that it is neither of those things. Streaming is something different and trying to qualify it to something from an old world is not really helpful; it is a classic square peg, round hole moment.

From our point of view it is neither of those things. I agree with what Elena says there. We run a CD store, we run an MP3 download store and we run a streaming service. We have different agreements with our record label partners for each of those. Right at the top of the agreement for the streaming service it describes itself as a licence and it does give us the ability to make that repertoire available to our subscribers as long as they continue to pay a subscription but I think it is something different from either of those concepts.

Q647 **Steve Brine:** I am not surprised you agree. It has been said before in some of our earlier sessions that you all do hunt together, so it is not surprising to me that you agree.

Let me go back to Spotify, Horacio. Right back at the start of this inquiry we had evidence from Nadine Shah; I am sure you know of her work. This is what she said to our inquiry—it is on the record in Hansard. She said, "As an artist with a substantial profile, a substantial fan base, critically acclaimed, 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 a successful musician but I am not being paid fairly for the work that I make...often artists are encouraged not to ask these questions."

Given that you are the Head of Global Affairs and Chief Legal Officer for Spotify, how do you feel when you hear that from an artist like Nadine Shah?

Horacio Gutierrez: It is unfortunate that she feels that way but I think there are a couple of things that need to be clarified. I do not know what agreements she has with labels and publishers. I do not know what the economic terms are of the split of the revenue that she might have agreed to with her label.

I know what we pay and I know that close to 70% of every pound that we generate gets paid to those intermediaries that represent artists. I also know that over the last four years based on our data the number of recording artists whose catalogues generated more than US\$1 million a



year from a recording and publishing perspective grew over 82% and the number of artists that generated more than US\$100,000 a year grew 79% over the last four years.

I know that streaming is having a positive economic impact on artists, but you have to recognise that when you look at the economics of streaming you have to look at the different actors in the value chain and how the money trickles down from what comes out of streaming and ultimately makes it into artists and musicians in general.

Q648 Steve Brine: Okay. They are good figures, big figures—I will give you that—but let us then break it down. Maybe Ms Shah says that to us because of ARPU, average revenue per user. You talked earlier about growing the size of the cake, the pie. Why then if the size of the economy is getting bigger do the per stream rates go down? This is one of the big claims that is made by the campaigns around this, some of the evidence that we have heard. Why therefore do those rates go down?

Horacio Gutierrez: A large part of it is the result of the introduction of family plan programmes. Basically there are more users that are part of a family that can enjoy it and we tend to pay a fraction of what we would pay if we counted each individual family member as a subscriber. That is no different than in the physical world if somebody bought a record of David Bowie and brought it home—you did not buy a record per family member, you bought a single record for the whole family to enjoy. So from a per user perspective clearly the revenue would be lower.

The other thing that I would say with the per stream rate, and I know there is a tremendous amount of focus of per stream, is that we do not pay out based on per stream, we pay out based on our revenue share. It might be better if we paid out on a per stream basis. We would have better opportunities to generate a bigger margin, but that is not the way the industry has evolved over the years.

Fans do not pay per listen any more; they are paying for access, and this is what happens when you try to use this imputed per stream rate in the context of access. You end up making the wrong decisions. You undervalue the really valuable users. Let me explain why. A user who pays £9.99 per month and only listens to one song is not as valuable to us or frankly to artists as a user that pays £9.99 and listens to 500 songs. A more engaged user is a user that is likely to stay in the service longer, the long-term value of that user is higher, which means that the monetisation value for artists on our service is bigger, yet a user that listens to a track or tracks 500 times would yield a lower per stream rate because you are dividing the £9.99 by the number of streams that they did. The caution that I would offer is we are trying to use metrics that apply to different models and apply them to an access model for music where they really do not work out as well.

I continue to point out the fact that we have paid over €20 billion since the foundation of the company, that we paid €5 billion in 2020 alone, the



HOUSE OF COMMONS

payouts continue to grow, the streaming payouts are what are bringing total music revenues up. You need only look at the empirical evidence to know that the streaming music paradigm is contributing to bringing the music industry back into health.

Q649 **Steve Brine:** This is very interesting. This is why the inquiry is called the economics of music streaming and you have given a very interesting exposition there of the economics of your business model.

Can I ask you finally, this Spotify HiFi that you launched this week at the tech event—

Horacio Gutierrez: We announced that we will be launching it.

Q650 **Steve Brine:** You will be launching it. What is that going to cost?

Horacio Gutierrez: The terms are not defined yet. We have not announced them. It will obviously be a higher subscription price than the base subscription price.

Q651 **Steve Brine:** The thing is when we are talking about artists, one of the writers who has written many big hits told the BBC this week that she knows many people who are driving Uber cars to make ends meet at the moment. You are talking about Spotify HiFi, which obviously will be a big revenue-generator for you. I presume that Meghan and Harry—remember them; we are trying to forget—are not doing it all for free for you, so you are probably paying them quite a lot of money. Can you see how that slightly sticks in the craw of some of the artists that are driving Uber cars right now to pay the rent? Correct me if Meghan and Harry are doing it for free. That would be very good of them.

Horacio Gutierrez: No, they are not doing it for free. Like a lot of our services there is a market for certain talent because they command a certain amount of consumption. We are talking about the podcast market. That is a market that is different than the music market. We do not get to negotiate directly with artists in the music space the way we negotiate directly with podcasters or people who create podcasts so the structure of that market is very different.

I will tell you that the podcast side of the business is not commanding 70% of our revenue either, so podcasters in general, the monetisation has been very poor. We believe we have an opportunity to make it better and provide more opportunities to podcasters to do it, but that is a completely different set of economics. Frankly, one of the things that make it attractive to us is that it does not have the cost structure of the music industry, which means we have the ability to realise better margins in that business than we do in the music side of the business.

Q652 **Steve Brine:** Why do it? Why pay Harry and Meghan all that money?

Horacio Gutierrez: It goes back to attention economics. The product is valued on the basis of how many users it can attract, how many streams it will attract, which in turn determines how many advertisers are willing



HOUSE OF COMMONS

to advertise on the podcast, which determines the economic opportunity. There is a market that is emerging for talent in that regard.

The music market happens at a different level. That tends to happen between artists and labels at the time of discovery of the talent.

Q653 **Steve Brine:** In other words they are box office. Do you see them as box office?

Horacio Gutierrez: Regarding the talent that goes into podcasts, yes. If you were thinking about the video streaming world you would think of "House of Cards" or you would think of "Game of Thrones" or those high production shows that tend to be the temples that attract people into the service and therefore benefit everyone.

Let me just say that there is clear evidence that we have developed that having podcast offerings on the service benefits music consumption, so on the whole there is a virtuous cycle that occurs when you have the full offering of both music and non-music audio available on the service, that people on the whole will tend to consume more on the service.

Q654 **Steve Brine:** So everybody benefits? Harry and Meghan save the music industry? It is a good line.

Horacio Gutierrez: That seems a little bit premature and they are not the only act that we have signed. We have signed dozens of those and will continue to do that. We are trying to create a platform where everyone can find content that they find appealing, whatever their taste.

Steve Brine: That is fascinating. Thank you very much.

Chair: Thank you, Horacio. I really do enjoy the fact that you refer to Meghan and Harry as an act, I have to say. Very apt. Our next question is going to come from Kevin Brennan.

Q655 **Kevin Brennan:** Now we have the royal headlines out of the session perhaps we can go back to music streaming. In fact, I have been streaming during this session. I was quite insulted, Horacio, when you were talking about your low users on Spotify not being as valuable consumers as people who just play it all the time. As a Spotify customer I find that very insulting, but I have been playing it during this session and I started off playing an artist that I like called John Smith who is a very good British singer/songwriter. I played one of his albums and now it is playing someone called Fionn Regan, who I confess I have never heard of. It is on mute, has been throughout the session, I hasten to add; this was a little experiment on my part.

Paul, if I could come to you first. You said earlier that the autoplay, which is what I am featuring here by discussing that, that appears on streaming services, on Amazon, can easily be turned off. Was that a bit of a dig at the other services or do they also have those features, as far as you know?



HOUSE OF COMMONS

Paul Firth: I do not know. It was not intended as a dig, that is for certain. It was more about our focus on our customers, which is what Amazon always tries to do.

Q656 **Kevin Brennan:** Why is autoplay set by default like that? I am playing something I did not ask for.

Paul Firth: Again, you are on Spotify so I will let someone else give you their answer but I will tell you our answer. As I said before we are lucky in streaming to have access to a lot of data as in we have a lot of customers listening to lots of music and that means we can measure the impact of these things. We do not do these things and make them up and think that they might be good and leave them. We always health check and will continue to do that if and when it shows that people are enjoying it.

Q657 **Kevin Brennan:** I do not need a long answer on these. It is just a little opening skirmish, but, Elena, what is your response to that from Apple's point of view? Do you have it set by default and is it easy to change?

Elena Segal: We do have it set by default. We only launched autoplay very recently, I think it was towards the end of last year and it can be changed easily and turned off. The reason we did it was to make it a better consumer experience.

Horacio Gutierrez: It goes automatically into autoplay. Once again it responds to activity on the part of the users, if they skip or change it essentially it keeps adjusting all the time.

Q658 **Kevin Brennan:** I have just left it on. We are on to Matthew and the Atlas now on mine. How do I switch if off, if I do not like it? I quite like playing a record, an album, and when it is finished I would like it to stop. How do I do that on Spotify?

Horacio Gutierrez: I am quite sure there is a way to do it; I can't just off the top of my head tell you how.

Q659 **Kevin Brennan:** Can you write to us and tell us? I have been trying to work it out for ages, how to do that. There is a serious point to my question and that is that we were talking earlier about what it is—is it a radio play, is it a sale and so on? I disagree with Steve Brine. The three witnesses gave three different answers. I think pretty much Horacio you were giving the line that it is a sale, effectively, it is a "making available" right; Elena was saying it is a licence and Paul was saying it is a hybrid, you are trying to fit a square peg into a round hole. I don't need a long answer, but is that an unfair representation of what each of you said? Horacio?

Horacio Gutierrez: I can start. I don't think I was saying it was a sale. I was saying it was a new kind of thing. It is a sui generis kind of right. It is clearly a licence from a contractual perspective and my point is that



HOUSE OF COMMONS

trying to equate it to a lease, a rental or a sale was not really quite adequate.

Q660 **Kevin Brennan:** That is interesting because I felt perhaps you were pushing back slightly on it. What you said was closer to what the record labels say, if I can put it that way, in response to the same question on the Committee. I know Spotify is still partially owned by one of the majors. Does that have any influence on the way that Spotify chooses to answer that question about what it is?

Horacio Gutierrez: Not at all. It is true that a couple of the labels own a very small, passive percentage of our equity but that does not influence the way we think about it.

By the way, I did figure out how to turn off autoplay.

Q661 **Kevin Brennan:** Okay, well, you do not need to tell us now but perhaps you could tell us later so that I do not use up all of the Committee's time with my own personal problem.

Horacio Gutierrez: I did not know myself, but I have figured it out.

Q662 **Kevin Brennan:** I am amazed. You are a wiser man than me, Horacio. Can we move on to talking about the major rights holders who have appeared before the Committee and play a big part in our inquiry? What is the figure of music that is licensed to you—did we established 80% or 70%—that customers listen to that comes from the major record labels, would you say? Paul, do you have any idea of what the answer to that is?

Paul Firth: Sure. I will give you two numbers here, using official chart company data for the overall UK market segment last year a little over 75% of streams came from major labels and for amateur music it was just a bit below that, close to a percentage point lower.

Q663 **Kevin Brennan:** Elena and Horacio, what are the figures for your companies?

Elena Segal: I do not have that figure to hand. What Paul said sounds roughly correct for us as well but I would have to double-check.

Q664 **Kevin Brennan:** You can correct the record later if there is any problem with that. Horacio?

Horacio Gutierrez: Likewise, I think roughly those numbers sound right. I will add the footnote that what you are seeing also is content from independent labels that is breaking into the top most streamed songs has been creeping up over the years quite significantly.

Q665 **Kevin Brennan:** It is fair to say that you would not have a business without the deals you have to be able to use the music of the majors. Is that correct, Horacio?

Horacio Gutierrez: That is correct. The combination of the catalogues of certainly the three largest majors is an indispensable component.



Q666 **Kevin Brennan:** Is it fair to say that it is the majors that really require that revenue share model to be used that we talked about earlier on, where the money is put into one big pool, which some artists have complained about? They think it is unfair, some accountants we have heard think it is inefficient because of unattributable income and other things—digital breakage and so on. Managers and lawyers have told us that it lacks a certain amount of transparency because of non-disclosure agreements and so on.

I will ask Horacio this question. Is it fair to say that basically that revenue share model is used because that is what the major labels want to be used, as a way of divvying up the revenue?

Horacio Gutierrez: To be fair, historically I don't know exactly how the revenue share was adopted. I know that has become the way all the labels do business, which is not to say that if there were an alternative way of calculating revenue different players in the industry would not be open to consider it. I cannot speak for the labels, I can only speak on behalf of Spotify and say that we would be open-minded about it.

Q667 **Kevin Brennan:** We have established then that you would all be fairly agnostic if there was a different means found to distribute the revenue, as long as you have your share, the 30% that everybody seems to confirm as the figure roughly. Is that correct, Paul?

Paul Firth: I think that the time has come now for the UK industry to come together and to openly model and analyse what other distribution models could look like and Amazon would be willing and would be very keen to be part of that. It is time that we did look at how other models might work. Some of those other models are not just the central licensing that you talked about.

Perhaps also the artist growth model, which uses the progressive scales approach that was proposed by the Association of Independent Music, we should take a look at a number of these approaches. They need to be modelled. We need to make decisions like this based on data and we need to see what the impact of applying that model en masse across the whole UK industry could be. We would certainly be keen to see that modelling take place.

Q668 **Kevin Brennan:** With short answers perhaps, Elena and Horacio, would you both be willing to join in that endeavour?

Elena Segal: I would have to come back to you with specifics, in terms of joining in an endeavour and what that looks like. It is certainly very interesting and the key thing for us is that there needs to be consensus among all licensors. It is not a model that you can apply to some licensors and not to others. The only way to reach consensus like that is to get together as an industry.

Q669 **Kevin Brennan:** Horacio, would you be willing to try some reform, or have a look into it, in that way?



Horacio Gutierrez: Absolutely. We would be open-minded and willing to explore and work with others on it. One caveat: it has to be a model that works at scale and also you have to understand that there is a good likelihood that whatever model was adopted would have to be viewed from the point of view of whether a model like that would work globally as opposed to creating unique variations of the model in different markets. Licensing the content on a global basis is an incredibly large challenge as it is today, so making sure that it is an efficient way of doing it, and that it can operate at scale, would have to be one of the key characteristics of it.

Q670 **Kevin Brennan:** Is the main obstacle to that at the moment the majors' unwillingness to look at alternative models?

Horacio Gutierrez: To be fair, I am not sure I would say that. It is a matter of getting people around the table and talking about it and analysing whether artists, in fact, would fare better—where would it come from, what is the equitable distribution of these things? Just keep in mind the market is already at play. There is disruption in the market, competition that is happening in the label space where there is a whole new breed of label services companies and digital distributors and others that are in real time challenging the economic model of the major labels.

Q671 **Kevin Brennan:** Okay, you have pointed that out. In fairness, Universal said they might be interested in this. David Joseph when he was in front of us indicated that he might be interested. It will be interesting to see if the others will join in.

When the Chief Executive of Warner appeared before us he described publishing as "secondary rights". I always thought the song came first, but there we are. He described it as secondary rights. Is that the way it works, that when Warner Music negotiate their rights with you they basically get the first slice of the pie and publishing takes whatever is left? Is that the process, so in effect if Warner knows you will pay out 70% of your revenue they take 55% and you can only give 15% to publishing? Is that correct, Horacio?

Horacio Gutierrez: We negotiate our agreements with two different entities, with Warner Chappell on the publishing side and with Warner Music on the other side. For the most part, the people who are involved are different, and even the people on our side are different in those negotiations.

Q672 **Kevin Brennan:** But they are from the same corporation, essentially, aren't they?

Horacio Gutierrez: Yes. You—

Q673 **Kevin Brennan:** Sorry to cut across you but just to confirm, I think you did say earlier on that 15% is the figure, isn't it, in the UK for publishing with Spotify?



HOUSE OF COMMONS

Horacio Gutierrez: That is probably a global rough figure. I think that would be consistent with testimony that I have heard has been offered in the context of these hearings in the last few weeks.

Q674 **Kevin Brennan:** Do you know what the figure is?

Horacio Gutierrez: Not right off the top of my head. This is something that could be calculated.

Q675 **Kevin Brennan:** Well, 15% was the figure. Perhaps you would be able to tell the Committee that. What about Elena with Apple and Paul with Amazon as far as the publishing goes?

Elena Segal: It is certainly not the way we have ever set things up. We have never gone, "Hey, labels, how much do you want?" and whatever is left goes to the publishers. From our standpoint, publishing is just as important and we negotiate them separately. As with Horacio, we are generally negotiating with completely different people.

Q676 **Kevin Brennan:** What percentage goes to publishing?

Elena Segal: That is something that I would rather provide to you in writing privately, if that is okay, because these are commercial terms of agreements.

Q677 **Kevin Brennan:** Would it be fair to say, though, that it is in the ballpark of 15%?

Elena Segal: Yes.

Kevin Brennan: Paul?

Paul Firth: Of the 70% that we pay out, somewhere between three-quarters and four-fifths goes to the label and the balance does go to publishers, which does put it in that ballpark, yes.

Q678 **Kevin Brennan:** Isn't it essentially the case that the power of the majors in all of this means that you have to operate a licensing model that suits them, which means that they really decide the broad value of all of these rights and how the streaming is divvied up? That is essentially what happens here, isn't it, Paul?

Paul Firth: We joined this market segment slightly later than others. It was an established model when we sought the licences we needed to be able to run Amazon Music. That was the established model that was there at the time, so it is hard for me to comment on how it got to be that way and who influenced it.

Q679 **Kevin Brennan:** One of the issues in the inquiry that has come up is the suggestion that there is really a competition issue because of the majors' market power, given that they own both recording and publishing rights. Some rights are more equal than others, it seems, within the music business so that they favour those that have a propensity to add more to their profit than other rights.



HOUSE OF COMMONS

Ultimately, your businesses are all based here on the creativity of the artists whose work appears in the platform. If this Committee recommended and the Government were to decide to create a legal framework that enabled the activities of companies like yours to benefit British artists, songwriters and performers more equitably than at present, is that something that you would welcome, Horacio?

Horacio Gutierrez: As I said before, we are supportive of any efforts that improve the equitable distribution of revenues in the industry. We would be well disposed to engage in a discussion to that effect.

Elena Segal: “Equitable” is a very complex term because reasonable people can disagree on what it means. Yes, we are happy for the discussion. From our standpoint, artists should be paid for their work, creatives should be paid for their work, and it is what we strive to do every single day. We are absolutely happy to have any discussion on what is and is not equitable because it is not a straightforward question.

Paul Firth: My focus in this would be around making the UK music industry sustainable for the very long term. That does mean that we need to ensure that all the parts of it, be it streaming services, record labels of all sizes, artists, musicians, songwriters, can find a way to earn money from it. I would be supportive of anything that looks at different ways to ensure that is the case. I would like to do that for the long term. I want this industry to be here in 50 years’ time. It has been where I have spent all my working life and I do want to see it having a long, vibrant future.

Q680 **Kevin Brennan:** I want to finish with a couple of questions to you, Horacio, because I was watching very closely what Daniel Ek said yesterday at the Stream On event. One of the things he said was, “we need to...be a lot more transparent than we’ve ever been before”. What do you think he meant by that and what was he referring to?

Horacio Gutierrez: In general, there are certain aspects of the market and the industry that have a high degree of opacity, where data are not really as transparent and where companies are just taking advantage of the lack of transparency that exists. We believe that because of the way streaming works there is a lot more data that can flow to the different actors in the industry, including artists and musicians, and that can be valuable to them.

Q681 **Kevin Brennan:** In answer to the question about whether Spotify is like radio, in a sense, which was what we had at the beginning of our session today—and I think that you were knocking that one back a bit, Horacio—Dawn Ostroff actually said, “Our job is sucking listeners away from radio”. Is that what Spotify’s mission is, to suck listeners away from radio? If that is the case, shouldn’t musicians who get equitable remuneration from radio plays be reasonably entitled to get equitable remuneration from streaming, particularly when it plays to you, as I demonstrated earlier, something based on an algorithm, something that I have not necessarily asked for?



Horacio Gutierrez: I don't think she quite said that we are like radio. I think what she said was that the market opportunity for us includes \$30 billion of advertising revenue in the radio industry that we have the opportunity to tap into by capitalising on what has been the reality in video and in other parts, which is that linear content services tend to give way to more interactive content services, the highly personalised content services like the one that we provide. We think that we can provide an audio content listening experience that is better than the radio listening experience for a user and take advantage of the advertising revenue that is there. In doing so it obviously benefits the creative—

Q682 **Kevin Brennan:** But if you are successful, Horacio, in reducing radio listens, you will also be successful in reducing payment through equitable remuneration to musicians. Is it not an unreasonable point to make that if that mission does succeed, that equitable remuneration, which currently goes to musicians from radio plays in the UK, should go to musicians through streaming plays?

Horacio Gutierrez: Yes. It is not going to happen overnight and there are no guarantees that it will happen completely, but we expect to see some of the same dynamics that we have seen in video. As dynamic personalised content listening on streaming platforms becomes better, people will want to leverage that service as opposed to this radio offering.

Q683 **Alex Davies-Jones:** To build on the last question that Kevin asked, Paul, if I was to ask my Alexa now to play some pop or rock music—and she actually might go off because I have just called her—isn't that exactly like me putting the radio on? Wouldn't that be a communication to the public rather than just making music available to them?

Paul Firth: I think it is different. It is much more interactive. We will base it on what you have listened to before to be able to select what to play you. You are able to skip. You are able to pause. You are able to rewind. You are able to ask Alexa—I hope I have not set her off there—what the name of an artist is and then go and explore more of that artist's catalogue. There are many ways in which it is much more interactive than radio. I don't think it is the same thing at all, but I do understand the point that is being made here. There is some element of similarities that you are highlighting.

Q684 **Alex Davies-Jones:** Horacio, could I come to you now, please? So I can clarify, do you share any of the unique user identifiers with advertisers to help them personalise their adverts in the same way that you personalise the music that you recommend to people to stream?

Horacio Gutierrez: We do not share unique user identifiers with advertisers, no.

Q685 **Alex Davies-Jones:** Good. Thank you for clarifying that. That is good to know.

I would like to ask this of all of you in turn; Horacio, coming to you first



HOUSE OF COMMONS

because I have just finished with you. All of your streaming services have done really well during the Covid-19 pandemic. Many are now posting quarterly profits for the first time ever. Are you confident that these current gains are sustainable or do you expect to see these numbers fall back down when live music can finally return and the bricks and mortar shops are able to reopen?

Horacio Gutierrez: We think we did well under the circumstances over the last year. It was not necessarily a banner year. In fact, I think in the beginning and throughout 2020 we saw advertising revenue suffer. We did prove to be incredibly resilient, and it was important for the music industry and important for artists that that revenue stream continued to be there. We managed to grow, but we believe we would have grown even faster in the absence of the totally extraordinary circumstances that we all had to go through.

As I have said before, we are committed to audience streaming. It is our core business. It is our existential bet. Our business model has proven to be solid and we think that we can continue to grow the pie. We think that we can enable others in the music ecosystem, so to speak, to do better. We have had a growth trajectory that has been very strong over the years and in some sense we are at the beginning of the journey, which is very exciting.

Valuation of the company is not something we control. It is a function of what investors think the long-term potential of the company is. We do not look at it. We do not focus on it. We focus on our operating performance and how well we do. If investors think there is an opportunity for them there in the long term, that is up to them. We are very committed and really excited about the opportunities in the future.

Q686 **Alex Davies-Jones:** Elena, do you anticipate any fall in your revenue as a result of live music returning?

Elena Segal: Honestly, I won't and can't predict the future. If you had asked me a year ago to predict the future, absolutely everything I said would have been wrong, so I am not going to try.

From our standpoint, we feel that if we just continue to provide customers with a great experience, they will come back for more. I would also add on top of that that we desperately want and cannot wait for the live and the touring industries to come back so that artists can create and express themselves in all of the ways that they want to and should have the ability to do, both for themselves and for the whole economy and ecosystem that sits around them. We are just going to keep doing the best thing we can for our customers and for artists and songwriters.

Q687 **Alex Davies-Jones:** You and me both. Finally, Paul, can I come to you, please?

Paul Firth: If we look at the overall data provided by Entertainment Retailers Association and BPI, though music streaming did continue to



HOUSE OF COMMONS

grow in 2020, it grew at a slower rate than it had done in either of the previous two years. That is true for Amazon Music in the UK as well. I don't know that we can say that there was a positive impact or even a negative impact from the situation we found. I think maybe it impacted on what people chose to listen to and when they listened. I know that I used to listen to most of my music on my commute and, of course, not doing that anymore, I had to fit it into other times in my day.

I do not think that there is a direct link. I have seen some interesting data, and I do not know how accurate it would be, that suggests a causal link between the growth of music streaming and the growth in the live business, suggesting that as people discover more artists through streaming they are more likely to go out and see them live. I hope that is true and I hope that the artists people have discovered in the last year can enjoy touring again in the near future.

Q688 Clive Efford: Horacio, can I come to you first? Back in 2017, Universal negotiated a new licence agreement with Spotify, which resulted in you being able to pay less in royalties to Universal if you hit certain targets. Did you achieve those targets and, therefore, pay less in royalties to Universal?

Horacio Gutierrez: The metrics that labels focus on are metrics about addition of subscribers, conversion of ad-supported users into subscriptions, and other metrics like that that indicate the health of the business. In general, with respect to all the labels, we have been able to meet or exceed those targets over the years.

Q689 Clive Efford: So the answer is yes, you did hit those targets. How did the artists benefit from those reduced royalties that you paid to Universal?

Horacio Gutierrez: We have been able to invest in growing the number of users, launching in new markets and adding to the revenue that gets distributed among labels and publishers and ultimately to the creators they represent.

Q690 Clive Efford: In real terms, how does that benefit the artists who have produced the content?

Horacio Gutierrez: We have added tens of millions of users, both subscribers and free users, since 2017, so the performance in terms of revenue generation has exceeded certainly labels' expectations during that period.

Q691 Clive Efford: What they would receive from you would match what you were able to reduce in payments to Universal?

Horacio Gutierrez: In general, because we have grown the business and tapped into users in markets that we were not in before, on the whole they are economically better off by having done the deal. Again, I go back to the fact that Spotify is a representative of a class of music



streaming companies that are in a unique situation. Our only path to sustainability and profitability is through the streaming of music and non-music content audio.

Being able to have enough of an operating margin that allows us to continue to make investments in strengthening and growing the business is ultimately to the benefit of the rights holders and the artists they represent. Otherwise, if there wasn't a path to a sustainable business, then the number of streaming companies would be reduced and that would not benefit anyone.

Q692 Clive Efford: On that deal with Universal, how do you go about negotiations with a company that has a substantial stake in your company without that influencing the outcome of the negotiations?

Horacio Gutierrez: We approach it as a partnership relationship. You emphasise the fact that if we do better, they will do better and the artists they have signed will do better. We try to appeal to the long-term strategic interests of the labels and their artists in doing that.

It isn't an easy negotiation. Sometimes they take months; in some cases, they have taken years. They are very contentious negotiations, but every time we have engaged in negotiations, not only with Universal but with other labels around the world, ultimately we have been able to find common place. You only need to look at the growth of the music streaming segment for evidence that, in fact, we are on to something that is beneficial for everyone in the music industry.

Q693 Clive Efford: Can I move on to data? Did you provide the same user data to the independent sector as part of your licensing deals with indie labels and self-releasing artists and, if not, why is the data only shared with the majors?

Horacio Gutierrez: We provide a vast amount of data to all labels, independent or majors. We make available APIs—application programming interfaces—through which they can have access to that. We provide a service called Spotify for Labels, a service called Spotify for Publishers, and a service called Spotify for Artists, which makes available to each of them relevant data that was never made available before the advent of streaming. I would say that we are right now in an era of transparency of data in terms of how music is performing on the service that I think is above anything that was available before.

Q694 Clive Efford: You say that you provide that data equitably across your platform, whether it is the majors or other providers?

Horacio Gutierrez: Correct. If you look at our Spotify for Artists, it is a very successful tool that we make available to artists with all of the data around real-time information about the performance of their music. That is a free application that we make available to artists directly. I think that has been a game changer for artists in terms of shaping their careers.



Q695 **Clive Efford:** Can I briefly move on to Apple and Elena? Do you use streaming data for Apple Music users for your identifier for the advertiser system?

Elena Segal: We do not have advertising on our service. We are not an ad-supported service. The only ways in which we use data are play data that enables us to pay royalties and in certain ways to allow for personalisation of the service to make it better for consumers. We have spoken very frequently and vociferously about our belief that privacy is a fundamental human right, and whenever we use any data we always make sure the consumer knows how we are using that data. We absolutely do not sell it in any kind of way.

Q696 **Clive Efford:** You delayed the changes to iOS 14 and implementation of that until early next year. How does that benefit the creators in music or was that to pacify app developers who were concerned about the impact on their businesses?

Elena Segal: Our iOS software business is very separate from my part of the business, so I cannot speak for that today at all, I am afraid.

Q697 **Clive Efford:** Okay. Can I ask Amazon: do you use users' streaming data for other Amazon services and vice versa? In particular, when it comes to shopping on your main platform or advertising your delivery for third party websites, how do you protect people's data and their privacy from being abused? You hold an incredible amount of data as an organisation, so how do you prevent people being overwhelmed by just the amount of information that you hold on them and that being abused by people who are on your platform?

Paul Firth: Customer trust is one of the central things we focus on at Amazon. We know that trust is hard to win and very easy to lose. We absolutely obsess over ensuring that customers' data are stored in a way that we know they would be happy about. We do not make any personally identifiable data available to advertisers when they are advertising on our platforms. What we do is we group customers together into people who like certain things and we give people access to those groups. We do not make anything that is personally identifiable available. As I say, customer trust is something that we take very seriously indeed.

Q698 **Clive Efford:** Can I go back to Horacio briefly? In one of the answers you gave earlier on autoplay, is it just data on the individual that drives autoplay and the selections that it makes through the algorithms or are there any other factors that can influence that? For instance, could there be any commercial considerations that would influence what you push towards somebody through autoplay?

Horacio Gutierrez: When it comes to autoplay and radio, we recently announced a couple of services that we make available to artists. One of them is discovery mode. In discovery mode, for those listening scenarios in which the user is not actively picking, we provide an opportunity for



HOUSE OF COMMONS

artists to promote their tracks in those limited scenarios. We obviously take into account a number of factors.

There is a variety of signals that are taken into account. The music has to perform well in those scenarios or it would come off. In fact, one of the paths that we are trying to develop as a platform in order to expand our margins is to make available to artists and their labels the possibility to have their tracks pitched for inclusion in autoplay and things like that.

We do not guarantee placement. Once again, the music has to meet the technical requirements. It has to fit the listening profile of the users, but that is something that we have been experimenting with. That is something that we have also talked publicly about.

Q699 **Clive Efford:** Just so that I am clear, if I am listening to Spotify and I do what Kevin just did and allow what I have chosen or selected to end, what I will get next could possibly be something that someone has paid to be promoted in my direction, is that right? I accept that you would not switch from classical music to heavy metal, it would have to be within that sort of zone, but that is right, is it, that I could receive autoplay that is being paid for?

Horacio Gutierrez: There is no up-front fee whatsoever, but it is possible that some of the tracks in the list that will be served to you are tracks that artists have asked to spotlight. If they perform well, there is, in fact, a discount that we benefit from in terms of the royalties. It is a form of marketing. To be clear, it is a very limited service. It is like autoplay. Where that is available that does not affect the vast majority of the playlist on the service.

Q700 **Clive Efford:** I am just trying to understand it. What would you say the percentage is of what comes through autoplay is people paying for material to be advertised?

Horacio Gutierrez: These are essentially experiments that are beginning at this point so I would expect that at this time the numbers are very small. We have only a handful of participating labels at this time. By the way, that includes independent labels, not just major labels. On the whole, those labels have increased their royalties by using the promotion; otherwise they would not use it. By offering the discount for inclusion in those limited scenarios, they end up making more money. It is a form of marketing and promotion of their music that on a net basis ends up benefiting them.

Q701 **Clive Efford:** Forgive me; I am trying to understand here. Isn't this, though, favouring those that have the resources to be able to pay? Isn't it going to be the majors promoting their artists that are likely to dominate what is played through autoplay?

Horacio Gutierrez: As a matter of fact, it does not because it does not require any up-front fee. You do not have to have money to participate in the programme. We benefit because of the increased streaming of the



track. We get a discount on that as we are being paid for how the track performed. Again, this is in a very early stage of testing. We have seen that in discovery mode, which is what this feature is called, labels have had their streams grow by 30% when they use this, which means they receive higher royalties when they participate in the programme. Independent labels have access to it. All the labels have access to it. They do not need to make an economic commitment up front. On the whole, what we are seeing is that it ends up increasing their royalty.

In a sense, it could be a great equaliser for independent labels to have access to these marketing and promotional tools, for which they would have had to pay someone out of pocket outside of Spotify to get that kind of increased exposure.

Q702 **Chair:** Horacio, I have a final question to you. You have mentioned a couple of times about major labels and passive shareholding. What safeguards are in place to ensure that that shareholding remains passive?

Horacio Gutierrez: They have a very small percentage ownership. They do not have board membership, so they are not present in our board. They are not present in any of our corporate or strategic decisions. They have no influence or presence in our operations. It is, I think, the very definition of a passive investment.

I believe that two of the major labels continue to hold some equity holding, having sold out all of the equity that they had in the beginning. I believe that one of them sold all of the stock that they had in the company. It really does not affect their relationship with us whether they do or do not have an equity participation in Spotify in any way.

Q703 **Chair:** Why do you think that they have it, then? Was it purely just to effectively make the most of your growth?

Horacio Gutierrez: Again, this was negotiated before my time, but I believe it was a way of aligning the interests of those companies. Remember, there was a time in the history of Spotify where our viability and survival was very much in question, where labels were incredibly sceptical about our ability to deliver the number of subscriptions and the economic returns that they are seeing now. I believe that was a way of ensuring that they had a stake in the success of the company that would benefit, once again, the artists they represent.

Q704 **Chair:** Effectively, they were cut in at that point because you wanted their participation as much as possible at that point in order to grow your business? That sounds like the arrangement.

Horacio Gutierrez: Yes, we wanted them to have a stake in the success of the company so that they would work with us to make streaming possible as opposed to working against us in the process.

Q705 **Chair:** Over time, presumably, they have seen it work and, therefore, they have made their money. As you say, one of the major labels has



sold all its stock. I would imagine that in the early days they would have had quite a bit of influence because obviously you would have wanted to effectively keep them on side, but now that influence has declined.

Horacio Gutierrez: I think you yourself mentioned that a very high percentage of the content that gets streamed on our services is still provided by the three major labels. I think that it would be an overstatement to say that their influence has waned, but their influence is exercised the way it is supposed to be exercised. That is, through the negotiation of the terms and conditions of the licence agreements that we negotiate with them, as opposed to in any way dictating or interfering with operational decisions of the company.

Q706 **Chair:** Yes, I take your word for it as the case right now. You state that they have very little influence, they are very small shareholdings and so on. There was a point in time when Spotify was struggling to get the attention of the major labels, and they took a stake in your company. Was that the moment when you came up with this model in terms of the distribution of revenues and is that reflective of their influence at the outset?

Horacio Gutierrez: I do not believe it was the same moment, although this predated my relationship with Spotify. I believe that the rev share arrangements predated the equity arrangements. I am not certain on that. I would have to check the records to confirm that.

Q707 **Chair:** Yes, could you check the records? I am just intrigued as to that relationship at the outset between the major labels and yourselves and whether or not that has led to the ecosystem we now have, the economics of music streaming, which is the point of this particular inquiry. We are willing to take at face value, as you say, that they have no influence on the day-to-day running of your business now, but they may have had quite a considerable influence on the genesis of your business. We would be intrigued to hear about that.

Horacio Gutierrez: Can I just add one short statement with respect to that?

Chair: Yes, please.

Horacio Gutierrez: With all due respect and in all honesty, I think the equity ownership impact has been overstated. They have considerable influence, given that they own the intellectual property associated with their catalogue, which represents the overwhelming majority of the content that gets streamed on the service. I do not believe they need more influence and I personally do not believe that equity ownership in any way enhanced the influence that they had, other than every few years sitting at a table and potentially stating that unless you agree to their terms you would not have a licence to have their content on the service. That balance and that normal tension between a supplier of content and a distributor of content, those dynamics are quite tense as



HOUSE OF COMMONS

they are. I personally do not believe a minority equity stake would have in any way either enhanced or diminished that.

Q708 Chair: The point is that it may not be about the minority equity stake, but it is indicative of a moment in time when you were—how can I put it; there is an English phrase for it—over a barrel. They have basically been able to take advantage of that over a period of time. It is one of the reasons why perhaps the business is not profitable at this time. However, we are probably going to get side-tracked in that respect. I think that it would be really interesting if you could write to us on the matters that you have discussed. Thank you.

My final question is to Mr Firth. In response to my colleague's question concerning data, you said that you package up the data and offer that to advertisers. Could you give me an example of how that would work?

Paul Firth: I may have misinformed you there. It is not that we are offering it to advertisers; we use it to ensure that adverts that are played are relevant to the customer who hears them. It does not leave Amazon. We do not sell our data at all, but we do play adverts to people who match something that we know about them. It is just about their listening habits or what else we know about them. It is more about ensuring that advertising is relevant than it is about anything else. Apologies if I misread that.

Q709 Chair: Presumably, you sell to those advertisers the fact that you have this capability and that they can effectively buy into this group of individuals, say by a certain age demographic or even a band choice?

Paul Firth: We do not do it that way. It is more about fashionistas or coffee lovers or things that we could know about them, not that you can necessarily tell that from their listening. We do not really hold demographic data. I know that it is unusual.

I was asked earlier about the amount of data that Amazon has. We do not hold that much demographic data. It is not something that customers give us when they first sign up. What we do hold is what they listen to, and while you may be able to make some assumptions from that, we can offer people a chance to talk to rock fans or something like that. It is around bringing together what we can know but we do not hold demographics as a whole.

Chair: Okay, great, thank you. Thank you to all of you for your evidence today, Paul Firth, Horacio Gutierrez and Elena Segal. I think that it has been an intriguing session. I know it has overrun but we have covered a lot of ground here. Thank you for that and thank you for your openness.