

Written evidence submitted by the BPI (British Phonographic Industry) (PEG0226)

Introduction

The BPI is the representative voice for the UK's recorded music industry, including the three major record labels (Sony Music, Warner Music and Universal) and over 400 small, independent labels. Our members account for more than 85% of all recorded music consumed in the UK. We organise the BRIT Awards and the Mercury Music Prize, own the Official Chart and through our charity, the BRIT Trust, support a range of music related charities and organisations, with the biggest benefactor being the BRIT School, a state school in Croydon focusing on music and the performing arts.

The BPI is part of the extraordinarily successful British music industry – worth £5.2 billion to the UK economy as well as giving the UK enviable 'soft power' around the world. Up until COVID-19, record labels had experienced five years of successive growth, and 7.3% growth in 2019 alone, generating trade revenues of over £1bn, plus overseas export earnings of around £500 million.

The success of the recorded music sector is vital for the broader music industry – and, indeed, to the wider economy. After a number of very difficult years for the recorded business, recent income recovery in the last five years means that we are on a path to recapture and possibly surpass the levels of income achieved before digital disruption. This means we can invest more to unearth and develop new British talent which, although it remains a high risk process, builds the fanbases and artist brands that then generate revenues for the rest of the music sector, including live music and festivals, recording studios, session players and enabling money to flow to the grassroots. The creation of new music and the fanbases this engenders is also a vital part of the UK's success in punching well above its weight on the global stage. The UK is already the world's number 2 exporter of music (behind only the US).

The BPI therefore welcomes the Committee's focus on exports as a key driver of economic recovery post the Covid-19 pandemic. We have already been planning a strategy for bolstering music exports in the years ahead, and agree that in a post-Covid-19 context, the potential for recovery and growth through exports becomes all the more important. This export strategy also requires measures to strengthen the UK's domestic music market – as only by stimulating as much investment in new music creation as possible will it be possible to grasp the full global opportunity. This includes ensuring the UK has a strong IP framework and robust enforcement against IP infringement with more accountability from tech platforms. We also believe there is a strong case for a tax credit for music to bolster UK production.

The global music industry is set to grow very significantly in the coming decade (from \$15bn to \$45bn), particularly as a number of major markets adopt music streaming in greater numbers. Building on the UK recorded music industry's historic success as an exporter – the second biggest music export market in the world – there is a major opportunity to be grasped to at least double UK music export earnings with the right policies and support mechanisms in place. This includes:

- A refreshed and ambitious music export strategy – supported by extension and expansion of the Music Export Growth Scheme (MEGS) with the recorded music sector and Government working in partnership
- Establishment of a tax credit for music production to drive inward investment and encourage the creation of more new IP content in the UK
- Ensuring that the UK’s strong IP framework is prioritised and protected – including in future trade agreements; and through sustained efforts to reduce piracy to stimulate legitimate, monetised demand.

These priorities form the basis of the BPI’s response to this welcome and timely inquiry and are outlined in more detail below.

Section 1: Impact of Covid-19 on the UK’s music sector

COVID-19 has had a significant and damaging impact across the UK music industry - affecting businesses and artists and musicians in the live and recorded sectors. As has been well documented the live and audience reliant part of the sector has been particularly hard hit with the closure of music venues and events.

For the recorded part of the sector represented by the BPI, there have also been significant impacts:

- There has been a significant decline in the sale of physical music products – while sales have started to return, during the peak of the pandemic, year on year sales in February were down 15%, March sales fell 31% and April was down 60%, with a particular impact on many of our independent, SME members. In addition, the closure of independent and specialist music stores has had an impact on record labels and performers, as well as on local music communities and the vitality of the high street.
- The creation of new music and its promotion has also been impacted and record labels have had to find new ways to record and promote their music. Recording has been maintained where possible using innovative techniques, and with new production guidance in place studios and video production are beginning to return. However, there remain challenges, and while some releases have continued many have had to be delayed, particularly for those artists more dependent on live tours to promote their work or on selling CDs or vinyl.
- There will be a major impact on royalty payments to rightsholders and performers for broadcast and public performance, as a result of the closure of shops, bars, restaurants and nightclubs; and as a result of the slowing of TV and film production and the associated licensing and commissioning of music.
- Rates of piracy have increased during the Covid crisis, with the combined drivers of more entertainment consumption and pressures on household budgets. BitTorrent sites - which account for over 95% of P2P usage in the UK – witnessed increases in usage during March, April and May to levels 18.7% higher than in all of January and February 2020. In less than a month (in April) there was an average increase in music piracy of nearly 8.5%. We have also seen increased cases of content leaking, for example including Dua Lipa’s latest hit album, ‘Future Nostalgia’. It is therefore important that IP protection remains a priority area of policy and industry focus to reduce illegal and infringing content sharing and boost legitimate consumption.

Section 2: Opportunities for growth

Exports

Export opportunities

The music industry is one of the UK's industrial success stories. It generates £5.2 billion annually in GVA, exports of £2.7 billion and employs over 190,000 people. It has been hugely successful on the world stage: in terms of recorded music, the UK is the second largest exporter of music in the world, with 1 in 9 records sold globally being British; and the best-selling album globally has come from a British artist in 9 out of the last 14 years.

Recorded music companies are the engine of this performance: identifying and developing new talent, building fanbases and establishing artist brands that subsequently generate value through music publishing, live touring and "synchronisation"¹, as well as global consumption of music on CD, vinyl and (most of all) streaming services such as Spotify, Apple Music and Amazon Music. The UK recorded music industry is experiencing significant growth, with total trade revenues rising 7.3% in 2019, the fourth consecutive year of growth. The UK's global income from recorded music reached a record high in 2019 of nearly £500m – more than doubling within a decade.

Significant growth in recorded music is predicted over the next decade, with Goldman Sachs forecasting that global record label revenues from recorded music will increase from \$20bn to \$45bn by 2030, as more developing markets adopt music streaming. There is therefore a very significant share of this growth to be captured, with the UK starting in a strong position to reap the benefits with the right policies and support structure in place. The BPI estimates that with this the UK stands to at least double this export record to over £1bn.

The challenges

However, there are challenges as other countries' music markets develop too and compete to seize export opportunities, particularly those with strong local music markets, for example in Latin America and Asia. This means the UK will need to work even harder to break through. Signs of this challenge are already apparent: while the UK labels' have seen impressive growth in recent years (as referenced above) in revenue terms, their share of the global market has declined in recent years - UK artists' share of worldwide music consumption fell to an estimated 10% in 2019. This follows a pattern in recent years – down on the 11.3% in 2018, 12.9% in 2017 and has declined significantly since the modern era high of 17.1% (in 2015). This demonstrates the scale of opportunity available and that further action is needed to ensure the UK can capitalise on the biggest possible share of this export opportunity.

Discovering, nurturing, launching and sustaining talent in the music industry is a risky business. For every Adele, Ed Sheeran and Coldplay there are many investments in talent that don't succeed. IFPI

estimates that breaking an artist internationally typically requires an investment of \$1-2 million. Predicting consumer tastes is notoriously difficult, even for expert music companies and even among

¹ Synchronisation is the use of a musical composition in a TV Programme, film, advert or video game

highly experienced labels, typically only 10-15% of projects “recoup” the initial investment within 3 years.

Although the UK’s domestic consumption of music is strong, we are relatively small in size compared to other markets such as the US and so to generate a return on investment across a pool of UK talent, record labels need to generate success for their artists internationally. In addition, the UK music industry is asymmetric. There are three major international labels with a strong UK presence and track-record of investment and many hundreds of independent labels ranging in size from one-person concerns to multi-million pound businesses. The level of financial commitment in talent is high: A&R investment into new releases and marketing expenditure represented nearly 45% of industry revenue in 2019.

Both the major labels and independents invest in new and emerging talent and deploy significant amounts of risk capital to support them. The major labels clearly have an international footprint that gives them the presence, contacts, expertise and funding to take UK talent with global potential and market and promote that talent internationally, so as to build a global fanbase and revenue streams. Independent labels typically do not have these same resources and may miss the opportunity to break a UK artist with potential internationally. The Music Export Growth Scheme outlined below was devised to address this market failure.

While the opportunity from exports pre-exists Covid-19, the pandemic presents an additional level of importance and urgency as part of the recovery effort: in supporting UK artists from across the UK to have their work heard globally and generate international revenues; for that work to drive re-growth in the creative industries and wider economy; and to reinforce the UK’s soft power position.

The BPI has developed a proposal for a ‘**Music Export Accelerator**’ to support this music export potential.

Music Exports

The BPI’s proposed Music Export Accelerator is comprised of three component parts aimed at ensuring the UK can derive as much benefit as possible through music exports: Expansion and extension of the Music Export Growth Scheme (MEGS); Programme of talent showcases; creating an exports industry adviser. Our comments here focus largely on the future of the MEGS scheme.

MEGS was created to offer small and medium-sized music companies the potential to achieve increased international success through the opportunity to apply for grants ranging from £5,000 to £50,000 that support their marketing overseas and the promotion of specific artist releases. Such funding can be absolutely critical in helping a British artist “break” internationally and reach the next level of their career. Since it was launched in 2014, MEGS has awarded over £4 million in support for 262 diverse British music projects across a variety of genres including pop, rock, grime, jazz, folk, electronic, and classical.

Acts who have received MEGS funding include artists such as Wolf Alice, Young Fathers, Kate Tempest and Anna Calvi who have gone on to win or be nominated for the Hyundai Mercury Prize;

and BRIT Award winners and Welsh indie rock band Catfish and the Bottlemen, Dave, new wave jazz sensations Ezra Collective, grime artist Ghetts, and the London Symphony Orchestra.

This funding has helped artists from across the UK to travel to countries in Europe, America, Asia and Australia. To date there has been a return of £12 for every £1 invested through MEGS.

The MEGS scheme has a good track record in investing in diverse music acts and performers. Forty per cent of the funding awarded by MEGS has gone to female music acts or acts featuring female artists in their line-up, while nearly a quarter (24%) went to artists with a BAME background. 48% has supported artists who were born outside of the South East. And over half of the grants are made in the UK's Nations and Regions – notable given that many acts register London as a base with the majority of record labels, management companies and other associated music companies being based in London, even though many artists supported originate from the UK's Nations and Regions.

The grants provided by MEGS are matched in every case by a contribution of at least 30% by the label making the application, and in the last three rounds of funding the average label contribution was 67%. This is in addition to the hundreds of thousands of pounds that is typically invested by the label into each artist in their first year of signing alone.

The current funding settlement expires in 2021 and the BPI is seeking continuation of the scheme from then, and in order to make the most of the post-Covid export opportunity, the BPI is proposing a doubling of the scale of the scheme in 2022-2024. This would enable the scheme to double its reach and impact, providing more artists with international potential the ability to develop a global fanbase and generate more revenue back to the UK and the Exchequer. The scheme is expected to be submitted for approval as part of the anticipated Spending Review, and support from the Committee for the scheme as an important driver of economic growth would be welcome.

We also envisage a regional dimension to the scheme that would support the 'levelling up' agenda – which could be marketed and spread more widely across the UK, ensuring every region of England, and the devolved regions benefits. We believe that greater funding would also encourage more applications for developing markets with most significant potential for growth, which are typically more expensive to take artists to.

To further support our music export ambitions, we also propose the creation of a series of **showcases for established and emerging British artists**. Alongside MEGS, these would help to promote the UK, its culture and its music industry, enhance the UK's competitiveness as British music faces a stronger challenge from US, Latin American and domestic repertoire, and support the UK Government in its diplomatic efforts in key markets. This is not only beneficial as the UK transitions post Brexit and seeks free trade agreements around the world, but also post Covid-19 in reinforcing its music credentials and particularly competing with countries who may be emerging from lockdowns and able to stage showcases for their artists sooner.

To deliver this, the BPI would work in association with the GREAT campaign for a series of showcases in countries where trade negotiations or trade missions are underway. In addition, BBC Music has offered to become a partner in the programme, capturing performance and interview content at the events and publishing that content on various platforms. This could include UK and International BBC platforms such as bbc.com, BBC World Service, BBC Global News and where appropriate, domestic UK services. BBC Music will also help scout and provide artists for the showcases, utilising curation expertise and quality of the BBC Music Introducing artist network.

In partnership with GREAT/Government funding for the showcases, the BPI would provide production and promotional support and look to secure big-name music stars for the events.

Finally, the Accelerator package proposes a **Music Exports Adviser** role is appointed and based at the BPI to provide expert advice to SME and independent companies across our membership and the wider music industry, providing insight, advice and contacts to companies who may not otherwise have access to knowledge about other markets.

Fiscal incentives

Music tax credit

The UK currently provides fiscal incentives for film, animation, high-end and children's TV, video games, theatre, and orchestras, and these have been as successful, attracting inward investment and supporting UK production. However, the commercial music industry continues to be a notable exception, with no credit available to encourage additional investment.

In this context, the UK music industry believes a **focused fiscal incentive** could pump-prime the capital market for music investment, thereby invigorating the digital opportunity for UK music creators and putting them on a more even footing with their international competitors. Such an incentive would also enable labels and publishers to take on some additional risk in backing additional investment in a broader range of innovative talent, expanding the base of original content that we have to export, and establishing the UK as the world's highest quality and most favourable music production ecosystem. It would help the UK maintain and further develop its professional content production sector, including high quality producers, recording studios and sessions musicians. The overall effect would be to expand the roster of UK artists and increase the quality of UK music content production, increasing investment in the creative process and ensure the UK continues to capture a strong share of the growing global music market.

VAT Relief

In light of the impact on physical music sales on the music industry and high street retailers (of which there are some 450 in towns and cities all over the UK), the BPI and colleagues in the music sector suggested the Government introduce a **zero-rate of VAT on physical music for an initial 12 month period**. As it becomes clearer how retail is impacted in the medium to long term (right across the economy) and how consumer spending settles, we believe continued consideration should be given to whether VAT relief for some retail sectors might help stimulate recovery.

Intellectual Property (IP) Protection

The UK has one of the strongest IP frameworks in the world, which forms part of the UK's strength in the IP-rich creative industries. The opportunities for growth outlined above need to be supported by sustained efforts to protect IP in trade talks and by combatting illegal and infringing activity.

Trade Agreements

As the UK looks to negotiate trade agreements with countries around the world, it is vitally important that IP is prioritised and protected, so that it can continue to support the creation and

global distribution of creative content, including music. As a point of principle, UK policy makers and trade negotiators must ensure that IP is a priority area not to be diluted or traded away as talks progress.

For example, with regards to the US, the UK and US have different frameworks, which should be respected for the way they are, by and large, suited to the characteristics of each territory. As such, while there are potential areas for reciprocated changes to be made, we are recommending that the starting point should not be to seek harmonization. We are of the firm view that in respect of music, the UK should be looked to more as a model to emulate than the reverse. This includes matters relating to 'safe harbours' which provide greater protection to tech platforms in respect of content on their services; a much wider doctrine of 'fair use' which reduces protections for rightsholders when content is used commercially; a weaker system of compensation for rightsholders and performers than in the UK in respect of broadcast and public performance of recordings.

Many other countries have similarly divergent approaches to music copyright and it is important that in these talks the UK adopts a strong stance on IP protection.

Piracy

It is well documented that music was amongst the earliest and hardest hit sectors to be affected by digital piracy, with the emergence of pirate sites such as Napster and Pirate Bay. Since then, enormous efforts have been made to combat illegal and infringing sites. However, music piracy remains a significant problem, currently seeing an average of 850,000 UK visits to pirate sites every day.

To tackle the ongoing issue of piracy we would like to see:

- 1) Online intermediaries such as online marketplaces, **social media and user upload sites, search engines, hosting sites and others take greater responsibility** to reduce counterfeiting and piracy being undertaken on, or facilitated by their services.
- 2) Steps taken to reduce the cost of enforcement through the UK civil courts.
- 3) Protection of the IP framework in respect of piracy should be a high priority in trade talks, view a view to promoting **high standards to combat piracy internationally**
- 4) Continuing government support for programmes designed to direct the public to legitimate services (such as the joint CCUK initiative between BPI and Motion Pictures Association to run educational consumer campaigns)
- 5) Continuing co-ordination of IP enforcement through work with the likes of the Police and Intellectual Property Crime Unit.

Section 4: Conclusion and summary of recommendations

The music industry is a major UK success story, creatively and economically. As the UK emerges from the Covid-19 pandemic there is an exciting opportunity to build on this success – through a combination of positive action such as our proposal for a renewed and more ambitious export partnership with Government – and by safeguarding and strengthening the UK’s IP framework. To summarise the BPI’s recommendations for growth post the pandemic, we urge the Committee to consider:

- Supporting and championing the BPI’s ambitions for music exports – aimed at doubling global music export revenues and including the Music Export Growth Scheme’s continuation and expansion
- Recognising the value of a music tax credit to foster further growth in the UK’s music sector and attract more inward investment
- Ensuring that IP is prioritised in trade talks: so the UK’s strong existing framework is not weakened and can continue to underpin creative content creation and growth in the creative industries
- Supporting ongoing work to combat piracy.

The BPI hopes this is a valuable contribution to the Committee’s inquiry into growth post-Covid-19 and would welcome the opportunity to discuss any of these issues or other matters arising in the course of the Inquiry.

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