

Written evidence submitted by PRS for Music

**PRS for Music Submission to the DCMS Select Committee Inquiry
Economics of music streaming
November 2020**

About PRS for Music

PRS for Music is a collecting society with more than 150,000 songwriter, composer and publisher members from the UK and around the world. As a membership organisation, we work to ensure that members are paid whenever their musical compositions and songs are streamed, downloaded, broadcast, performed and played in public. With over 100 representation agreements in place globally, PRS for Music's network represents more than 10 million works and 2 million rightsholders to a wide range of businesses from local shops to global online services.

In 2019, we distributed £686 million to our members. Online royalties, which includes streaming services, video-on-demand, downloads and online video games, represented £115.7 million of distributions.

PRS for Music Submission

What are the dominant business models of platforms that offer music streaming as a service?

To understand how the online streaming market is impacting the economics of the whole music industry, it is essential to look further than just the sound recordings sector. The musical compositions and lyrics of UK writers and composers are universally present on the internet, whether via music streaming services (such as Spotify, Deezer, Apple Music etc), television programmes and films (via Netflix, Amazon Prime etc, these productions generally contain multiple different pieces of music), video games, user-generated content and user-upload platforms (such as Facebook, TikTok, Twitch). For all these categories of services, the use, access to and inclusion of music is a vital part of their product offering.

2020 has seen an acceleration of the take-up and usage of online services in the UK and around the world, an impact of near global lockdown measures. For example, in Q3 2020, Spotify's worldwide subscribers increased by 31 million from the same point in 2019, whereas in the same period between 2017-2018 and 2018-2019 growth was approximately 25 million.¹ While many parts of the music industry that have suffered loss of revenues due to the ongoing COVID-19 will bounce back well, the significant transition of consumers to digital services as the primary access point for TV, film and music is almost certainly permanent.

There are two business models in the streaming market: subscription and free at the point of access (services which do not charge a fee to use, but often display advertising or monetise the data collected). The distinction between these categories is not clear and simple, there is often cross-over and mixing of the models. For instance, Spotify is a subscription service that also operates an ad-funded free tier; SoundCloud features both "official" and user-uploaded content and offers both free-to-access and paid-for tiers. Additionally, users upload both audio and audio-visual content to certain platforms, such as YouTube or Twitch.

¹ <https://www.businessofapps.com/data/spotify-statistics/>

Services which host content uploaded by their users, generally alongside official releases, often called 'user upload platforms', hold significant power in the online music market. According to MIDIA, YouTube dominates the global music streaming market with 47% of weekly active users engaged, far ahead of Spotify in second place at 29%.² YouTube has 2 billion monthly active users worldwide, TikTok has 800 million and Twitch has more than 15 million daily active users. By way of comparison, at the end of September 2020, Spotify reported 320 million monthly active users, while Apple Music has around 60 million subscribers.

Important to understanding the business models in the market is the question of how user upload services have come to be such a dominant force. Many of these services enter the market with no immediate route to profitability, but they rapidly build their customer base (as establishing a large user base is essential to their advertising funded model), by offering comparable, in some instances identical, content as subscription services but at zero cost to the user. This is possible because they often pay little or nothing to the creators and producers of that content, claiming they are not responsible for those works or that it is the uploader who is liable for the clearance of copyright.

Subscription music services have seen phenomenal uptake since their inception. However, it is impossible to assess the true value of the subscription market as these services are forced to unfairly compete with the free at the point of access services. This is evidenced by the downward pressure on pricing in the online music market: the standard price of a subscription to Spotify, for example, has not increased for a decade, not even in line with inflation. The measure of growth has been principally focused on growth in their userbase, largely delivered by introducing new packages and offers, such as family plans, that have the unfortunate consequence of diminishing the effective Average Revenue Per User (ARPU).

The inequalities in the music streaming market are harming competition and innovation, ultimately to the detriment of users. The market is dominated by a few massive entities that have significant control of a once dynamic marketplace. Many major music services, both user upload and subscription, are owned by large technology companies that have less incentive in optimising the value of music, for themselves or the industry, as music services are a secondary function intended to keep their consumers within the vertical business model.

The culmination of these factors is that the market for music streaming, though seemingly very buoyant and vibrant, is in no way attaining its full potential and is characterised by a lack of meaningful competition, which is chilling growth and innovation. If the UK is to continue to enjoy a world leading music sector, it is more important than ever that we have a well-functioning online music market and a strong copyright framework that ensure revenues flow efficiently and quickly back to the music industry.

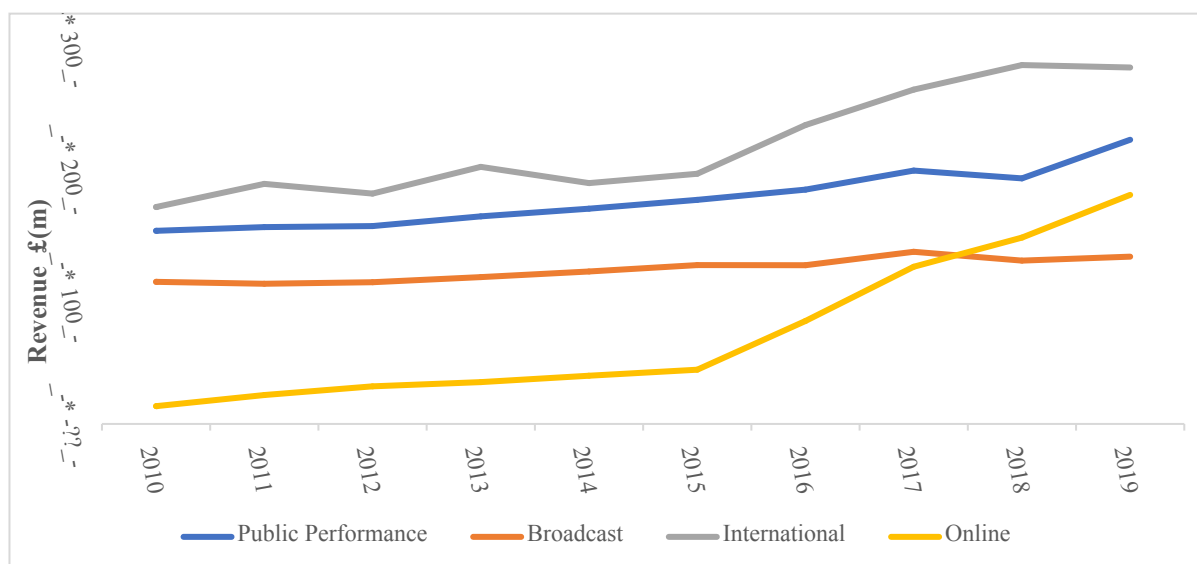
² <https://www.midiaresearch.com/reports/state-of-the-youtube-music-economy-30-end-of-the-beginning>

What has been the economic impact and long-term implications of streaming on the music industry, including for artists, record labels, record shops, etc?

Changes to the Landscape

The emergence of online platforms has shifted the economics of the music industry. The decline of physical media (vinyl, CDs etc) was driven initially by download services, only for those to be quickly superseded by streaming platforms. The relationship between consumer and content is now primarily one of access rather than acquisition.

Over the past ten years, *PRS for Music* has seen year-on year growth in the royalties it collects on behalf of members. The chart below illustrates the varying degrees of growth in PRS revenues since 2010 across the four key categories of income.³



Income from online has grown consistently, in the past five years it has been the revenue stream that has seen the greatest increase, but, as a share of members income, it remains less than the royalties from public performance and international. International income, outside of the EEA at least, will include online from those territories. There are, however, many factors at play behind the growth in overseas income, not least improved copyright frameworks, the development of emerging music markets and improved efficiencies in the collective management networks.

Across this same period, *PRS for Music* has also seen a substantial increase in the number of members, recently reaching 150,000. Digital technologies have made it easier than ever to create music, and to self-publish and self-release that work, and this is reflected in that surging membership and a consequential increase in the repertoire we represent. Although this does not mean that all works and all writers will experience commercial success, the number of PRS members receiving royalties from online use has increased significantly from 2009 to 2019.

	Number of Writer Members	% Increase
2009	49,965	

³ Public performance encompasses the licensing of shops, pubs, clubs, live music, hotels and restaurants, industrial premises and cinemas. Broadcast encompasses TV and radio. International revenues are those returned to *PRS for Music* from our sister societies for the use of members work overseas. Online includes streaming, video-on-demand, downloads and online video games.

2014	93,470	87.1%
2019	126,266	35.1%

Operational and structural changes

To meet the challenges of a growing and ever-evolving online market, the music industry has had to innovate and adapt its licensing and processing systems. The traditional jigsaw of licences administered by the national collecting society in each territory has been supplanted by online licensing hubs. The blanket licensing models, where a fixed fee for access to the entire repertoire is distributed across the works used, sits alongside usage-based invoicing, where claims are made against matched individual usage.

PRS for Music has played a fundamental role in the transition to a more digital market, not least by launching the world's first fully integrated multi-territory music licensing and processing hub, ICE. This a joint venture with our German and Swedish counterparts, GEMA and STIM, offers state-of-the-art online licensing, processing and copyright database services. It currently licenses the works of more than 250,000 rightsholders across over 130 territories.

The necessity of the re-aggregation of rights into online licensing hubs is well evidenced in the sheer volume of data which is now processed by *PRS for Music*. The table below illustrates the rapid increase of music uses processed by *PRS for Music* over the past 10 years. Big data is one of the most profound implications of the streaming market.

Year	Music Uses processed (Billions)
2009	3.87
2014	974.92
2019	18,886.57

In the case of the large online music service the licensing hubs, such as ICE, are often required to match their repertoire against enormous data files including information on all the works used on the platform in the licensed territories. The burden, including the cost, is very much on the rightsholders to match ownership and only when those links are made can royalties be claimed and distributed to rightsholders.

PRS for Music, in partnership with its licensing hubs, has been leading the market in the development of processes and technologies to improve efficiencies and accuracies in data matching online uses. We employ a three-stage matching system. First, the uploaded data is run through Auto-Match, generally this matches greater than 90% of uses, then any remaining works go through a manual matching process. Finally, where even this two-stage process is unsuccessful, the data is uploaded online where members can claim their works.

Obviously, the matching process requires a robust record of all the works, the copyright database, represented by the licensor. When a work is registered with *PRS for Music*, that work is assigned a unique identifier to ensure the work can be correctly identified whenever it is used. We also provide a second phase process of works registration, cleaning up any erroneous or duplicative data. In addition, ICE is developing world-leading cloud-based and machine-learning tools to integrate existing copyright databases, to ensure a single source of truth in the ownership of rights.

While rightsholders are investing in new technologies to record and track musical works, the impact of these initiatives is always limited if the quality of the data received is poor. Too often the quality of data provided by user upload streaming services is incomplete,

in particular failing to properly identify compositions in film, TV and video games. Audio recognition technologies, including those which identify melodies as well as sound recordings, have dramatically improved and are affordable to even the smallest services. However, the manner in which technologies are deployed by services often limits their effectiveness, meaning that music uses are not properly reported, and royalties cannot be collected.

An online market in which royalties flow efficiently from platform to creators, performers, and producers requires an effective and accurate flow of data.

How can the Government protect the industry from knock-on effects, such as increased piracy of music? Does the UK need an equivalent of the Copyright Directive?

The music industry, like most cultural sectors, is largely dependent upon copyright to generate value from its work and investments. The ability of rightsholders to control how and where their works are used, to set the terms of licences and tackle infringement is determined by the rights provided for in copyright. Therefore, the success of the music industry is dependent upon governments around the world ensuring that copyright systems remain robust enough to protect the value. This is increasingly important as the shift to online continues to accelerate: it is easier to access and use music than ever before, but this explosion in consumption and usage will only result in a strong UK music industry if the copyright framework is capable of capturing the new technologies and markets.

Over the past five years much has been written about the so called 'value gap' and the European authorities' attempts to address the problem. At the heart of this issue is the clear recognition that there is an unjustifiable gap between the enormous value certain online platforms derive from music and the royalties which they return to the music community. The reason for this stark disparity is a failure of the current systems to properly allow rightsholders to exercise their basic rights: the ability to authorise, or not, the use of their works.

The hosting defence, established in Regulation 19 of '*The Electronic Services (EC Directive) Regulations 2002*', was intended to provide protection from liability for the underlying infrastructure of the internet, where it was necessary to merely store information. The protection was dependent on those storing the information having a) no actual knowledge of "unlawful activity or information" and b) if becoming aware or notified of illegality they act to remove or to disable access to the information. These rules were devised years before services such as YouTube, Facebook and TikTok were even conceived, yet these user upload platforms seek to claim these protections, arguing they are not responsible for the works which they make available, actively categorise, and promote to hundreds of millions, sometimes billions, of users around the world.

The UK government has recognised the problem and set out a clear commitment to resolve the harm in the Creative Industries: Sector Deal, stating:

'We are committed to addressing the transfer of value from the creative industries through use of their works online and closing the value gap. At the EU level, government is participating fully in the DSM copyright negotiations and championing targeted measures that address fairness in the online value chain, seeking to increase revenue flows to creators. We are seeking to clarify when online service providers might be liable for content uploaded by their users without the permission of rights holders and ensuring that proposals support creators without creating unnecessary burdens for businesses.'

It is essential the Government fulfil this commitment. It is equally important that they avoid the pitfalls of this debate, including those which plagued the development of the EU Copyright Directive. Ensuring the music industry is paid properly when their works are used by user upload platforms does not engage questions of fundamental rights or of censorship: *PRS for Music* has always been clear of its willingness to develop licensing solutions that provide the rights needed for all types of use, whether that be covering songs from your bedroom or the first dance at a wedding. The acquisition of a licence or the challenges of identifying works are not meaningful barriers, certainly not for some of the largest global corporations in history; they become obstacles only because these platforms can avoid responsibility, claiming it is not their problem. The Government's commitment to address the transfer of value can be achieved only by ensuring that all online platforms that provide their users access to music are made responsible for those actions, and thus required to play their role in supporting the sector from which benefit.

There are other aspects of the online market on which the government must focus, not least in its ongoing review of the IP Enforcement Framework.

Music player apps, which stream music illegitimately, directly undermine the success and sustainability of the online market as they offer access to comparable content and functionality to consumers free at the point of access, possible because they pay nothing to the creator, performers and producers of those works. Stream-ripping apps allow users to download copies of music from streaming services such as YouTube and Spotify, often stripping out any advertising, leaving the users with a permanent high-quality free download. Obviously, once a user has access to a library of free downloads, with easy access to any new releases, there is little reason to ever pay for music. Research conducted by *PRS for Music*, in partnership with the Intellectual Property Office, in 2017 found that streaming ripping was the fast-growing part of the piracy landscape.⁴

PRS for Music has been active in tackling stream-ripping apps over the past few years, by seeking to remove illegal music player and stream-ripping apps from app stores. While we have had some success in having these apps removed from Apple App Store, other services, including Google Play, have been less willing to engage and to action our request to remove such apps.

⁴ IPO, PRS for Music (2017) *Stream-ripping: How it works and its role in the UK music piracy landscape*, Incopro, Kantar, London UK. Available at: <https://www.prsformusic.com/-/media/files/prs-for-music/research/streamrippingresearchjuly2017.pdf>