

Written evidence submitted by IFPI

IFPI Submission to the Digital, Culture, Media and Sport Select Committee Inquiry into the Economic of Streaming

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IFPI promotes the interests of the international recording industry worldwide. IFPI and its National Group network has over 8,000 members across more than 70 countries. There are over 70 IFPI offices, National Groups and Affiliated MLCs. IFPI's mission is to promote the value of recorded music, campaign for the rights of record producers and expand the commercial uses of recorded music in all markets where its members operate. For further information please visit: www.ifpi.org

We thank the Select Committee for the opportunity to provide our input to the inquiry and wish to submit the following.

THE MAIN TAKEAWAYS

- The music industry has transformed itself into a global digital industry. That transformation has required profound changes in the operations of all of the participants in the digital value chain, and significant investments by the record companies.
- The UK is the third largest music market in the world. In addition, and more importantly, it is a key source of repertoire and talent, and the second largest exporter of music in the world.
- The digital music ecosystem is a fragile and diverse system, with creators and artists having more choice and opportunities than ever before. After a long revenue decline between 2000-2015, the recent music industry growth – fuelled principally by the growth of paid streaming – has generated revenue and new opportunities for all participants in the music ecosystem.
- The healthy and sustainable growth of the digital music market is, however, being pulled back by unacceptably high levels of unlicensed uses of music online. It deprives all right holders of revenue and acts as an obstacle for digital music services to grow and create income throughout the value chain.

1. THE MUSIC INDUSTRY IS A GLOBAL DIGITAL INDUSTRY

In 2019 over 60 percent of the industry sales revenue came from digital services and some 56 percent from streaming alone.¹ This fundamental transformation has required changes to the record label's business process and significant investment in information technology and infrastructure. The result is a growth industry that has adapted to the digital environment to the benefit of all participants in the music value chain.

Following 15 years of declining music sales between 2001 and 2015 the transition to digital has driven a return to growth, with revenues increasing 8.2 percent in 2019.²

New digital services have lifted new and emerging markets such as Brazil, China and South Korea into the top ten largest music markets globally, reinvigorating local industries and creating new export markets for creative powerhouses such as the UK music sector.

2. THE UK MUSIC INDUSTRY PUNCHES ABOVE ITS WEIGHT GLOBALLY

The UK is the world's third largest music market, ahead of larger economies such as Germany or China. More importantly, the UK is the second most important exporter of music, second only to the US, calculated in export revenue. To highlight that, IFPI's 2019 global top ten album list included three UK acts while the top ten singles list included two UK acts.

These data show the global popularity of UK music and the global importance of the UK as a source of talent and creativity. That, combined with the global industry growth, translates into significant export potential for the UK music sector and the UK economy as a whole. The direct and indirect value of soft power that a successful UK music industry reflects world-wide should not be underestimated either.

In order for the UK music industry to thrive it is essential that the UK government ensures that the legal and economic framework underpinning the industry supports the continuous development and investment in UK talent. The flip side of the music industry's global digital operating environment is that talent and investment can move easily to countries with more supportive frameworks, those that provide incentives for growth, legal certainty, and a fair competitive digital marketplace. Creating artificial barriers or red tape that would make the UK music industry less competitive, would hurt the entire UK music sector.

3. DIGITAL GROWTH HAS BENEFITED ALL PARTICIPANTS IN THE VALUE CHAIN

While digital recording technology and new distribution channels have provided artists more choice and opportunities than they have ever had before, record companies continue to be the main investors in music and artists. IFPI research shows that in year 2018 alone

¹ IFPI: Global Music Report 2020 - <https://www.ifpi.org/ifpi-issues-annual-global-music-report/>

² IFPI: Global Music Report 2020 - <https://www.ifpi.org/ifpi-issues-annual-global-music-report/>

the industry invested USD 5.8 billion in “artists and repertoire” and marketing (akin to R&D investment in traditional industries), amounting to 33.8 percent of the record companies’ revenues.³

The record industry revenue growth has enabled record companies to invest more in artists and release more music, thereby generating job opportunities along the entire value chain. At the same time recording artists royalty agreements guarantee that the artists benefit directly from the growing industry revenue. In fact, data shows that the growth in artists’ royalties has outpaced the growth of record companies’ sales revenue over the past five years (we refer to the data provided by BPI in its submission in this respect).

The latest revenue reports from CISAC – the international authors’ collecting societies’ industry body – confirms the same positive trend for creators’ revenues. According to CISAC, authors’ CMOs digital revenues grew by 187 per cent over the past five years and by 27.5 percent in 2019 alone.⁴

4. UNACCEPTABLY HIGH LEVELS OF UNLICENSED ONLINE USES CONTINUE TO DISTORT AND HAMPER THE HEALTHY DEVELOPMENT OF THE DIGITAL MUSIC MARKET

The single biggest obstacle to sustainable and balanced growth of the digital music market remains the unacceptably high levels of unlicensed and unremunerated uses of music. According to IFPI’s Music Listening Report⁵, globally 27 percent internet users continue to visit infringing services, depriving UK right holders revenue in their home markets as well as in their export markets. Moreover, the continued existence and wide-spread use of unlicensed services has a chilling effect on innovation. It makes the development of new business models by right holders and digital music services riskier and more difficult. Unfettered access to unlicensed content for free distorts the digital music market and unfairly undermines the value of music rights.

It is important to note that unlicensed uses take place not only on blatantly infringing services, such as stream rippers and cyberlockers, but also on ostensibly legitimate platforms that claim to rely on online liability “safe harbours” provided to online operators in some jurisdictions.

The UK, as a major source of talent and copyright assets, should assume global leadership in ensuring that right holders have access to fair and effective enforcement measures across markets, and that the laws underpinning the digital music market enable right holders to license and negotiate fair commercial terms with all online services making available their music. Currently, the balance of liability rules applicable to online platforms, including to some of the world’s largest companies such as YouTube or Facebook, have been “tilted askew” – to borrow the US Copyright Office report published this year on the US Copyright

³ IFPI: Powering the Music Ecosystem - <https://powering-the-music-ecosystem.ifpi.org/>

⁴ CISAC: Global Revenues Report - <https://www.cisac.org/Newsroom/News-Releases/Global-creators-royalties-expected-to-decline-by-up-to-3.5-billion-in-2020>

⁵ IFPI: Music Listening Report 2019 - <https://www.ifpi.org/wp-content/uploads/2020/07/Music-Listening-2019-1.pdf>

law safe harbours⁶. The UK should ensure that its online liability continues to apply to pure *technical, automatic and passive* online intermediaries, and that services – such as YouTube or the new short form social media platforms – that make available music and use music as a key element in their business cannot claim refuge from copyright liability.

⁶ US Copyright Office: Section 512 Study - <https://www.copyright.gov/policy/section512/section-512-full-report.pdf>