Impact of Digital Technology on Consumers Mode of Consumption and Content Protection

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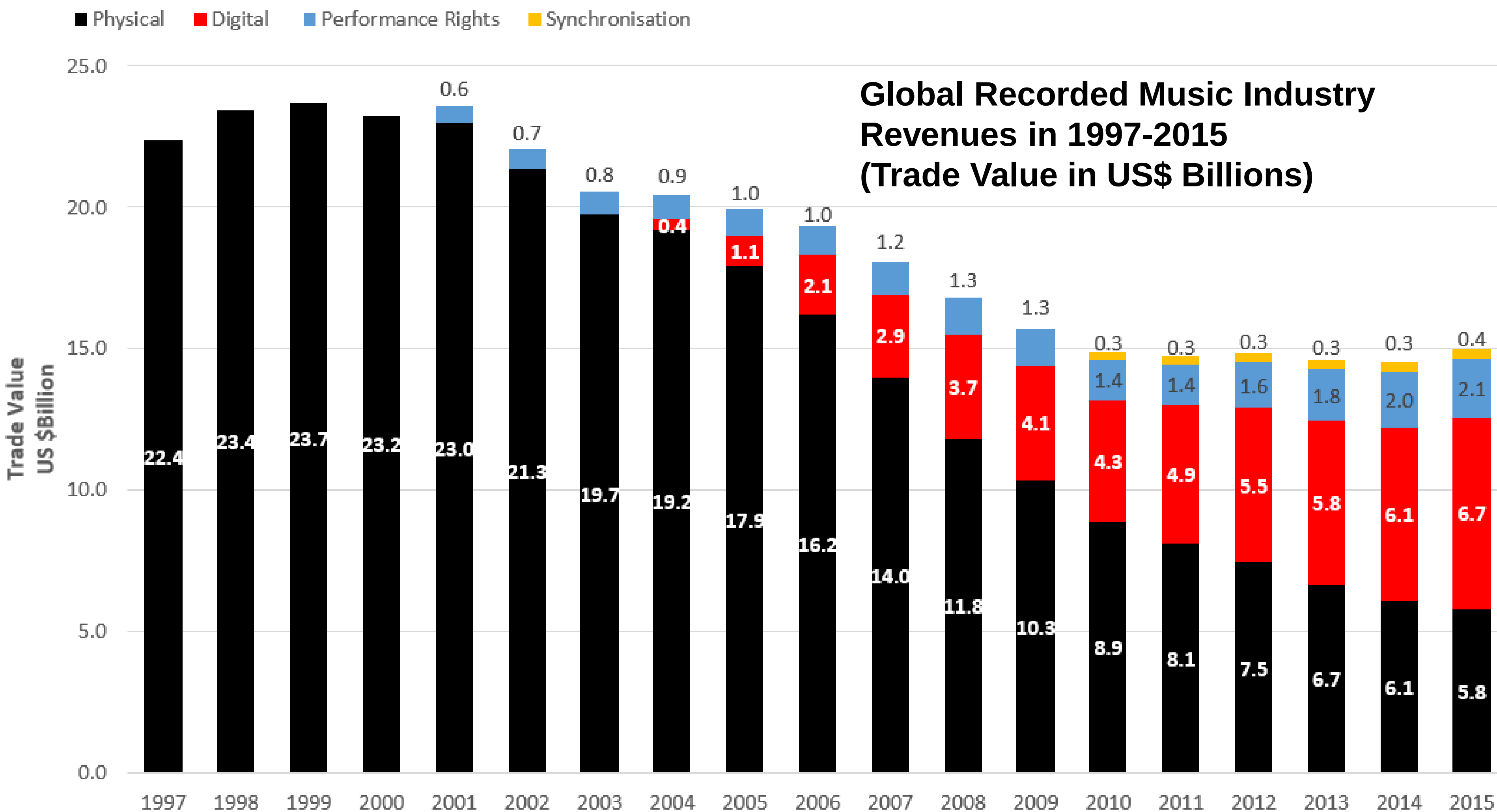
Impact of Digital Technology on Consumers Mode of Consumption

1997-2015: Global revenues of recorded music industry has transformed from purely physical to multiple sources – physical, digital, public performances, broadcast



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Revenue	**22.4**	**23.4**	**23.7**	**23.2**	**23.6**	**22.1**	**20.5**	**20.4**	**20.0**	**19.3**	**18.1**	**16.8**	**15.7**	**14.9**	**14.8**	**14.8**	**14.6**	**14.5**	**15.0**
		4.8%	1.0%	-1.8%	1.4%	-6.4%	-6.9%	-0.5%	-2.4%	-3.1%	-6.4%	-7.2%	-6.3%	-5.2%	-0.9%	0.5%	-1.8%	-0.4%	3.2%

2015 Global Music Industry Revenues

(Trade Value in US$ Millions)

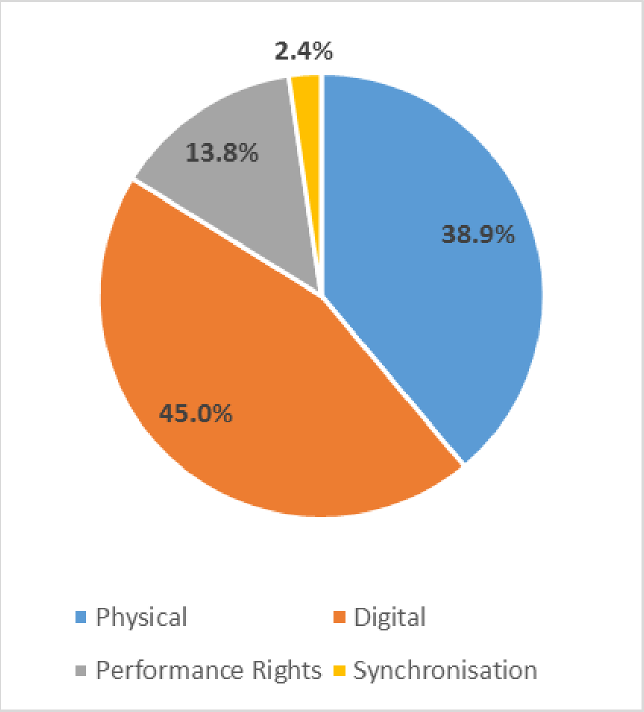
	2014	2015	% change
Physical	6,098.6	5,823.9	-4.5%
Digital	6,108.4	6,731.0	10.2%
Performance Rights	1,974.6	2,064.0	4.5%
Synchronisation	333.4	355.4	6.6%
TOTAL MARKET	14,515.0	14,974.4	3.2%

In 2015, revenues from digital sources was 45%; overtaken physical sales revenues of 38.9%

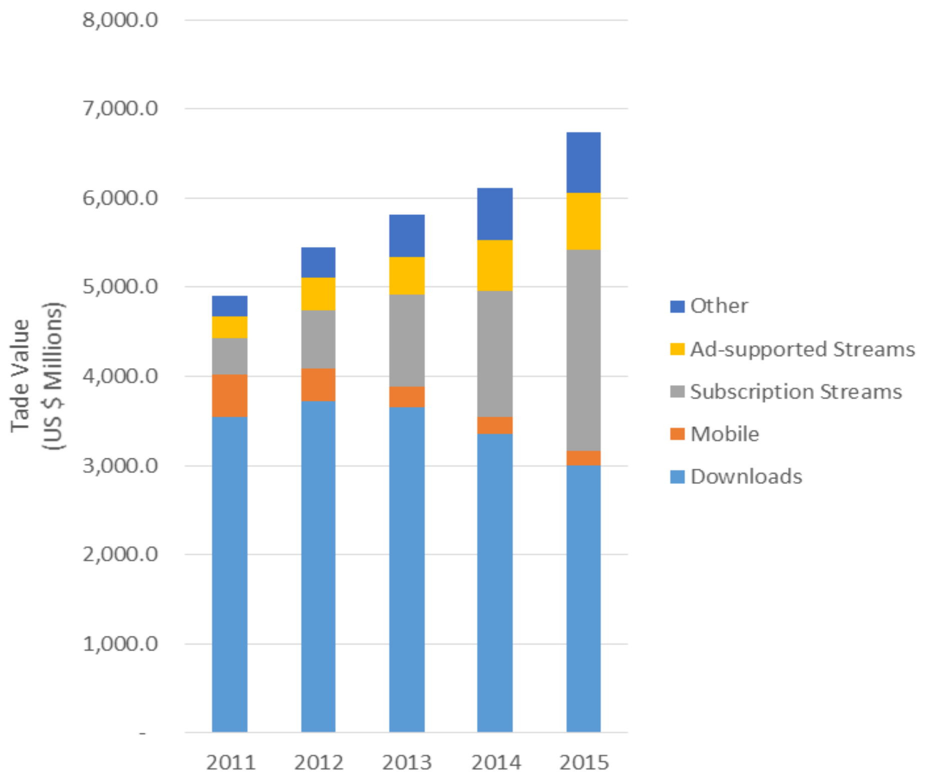
All revenue sectors registered growth except for physical sales

Performance revenues now account for 14% of recorded music industry's global incomes

Global Market Shares by Format in 2015



2011-2015: Global Digital Revenues

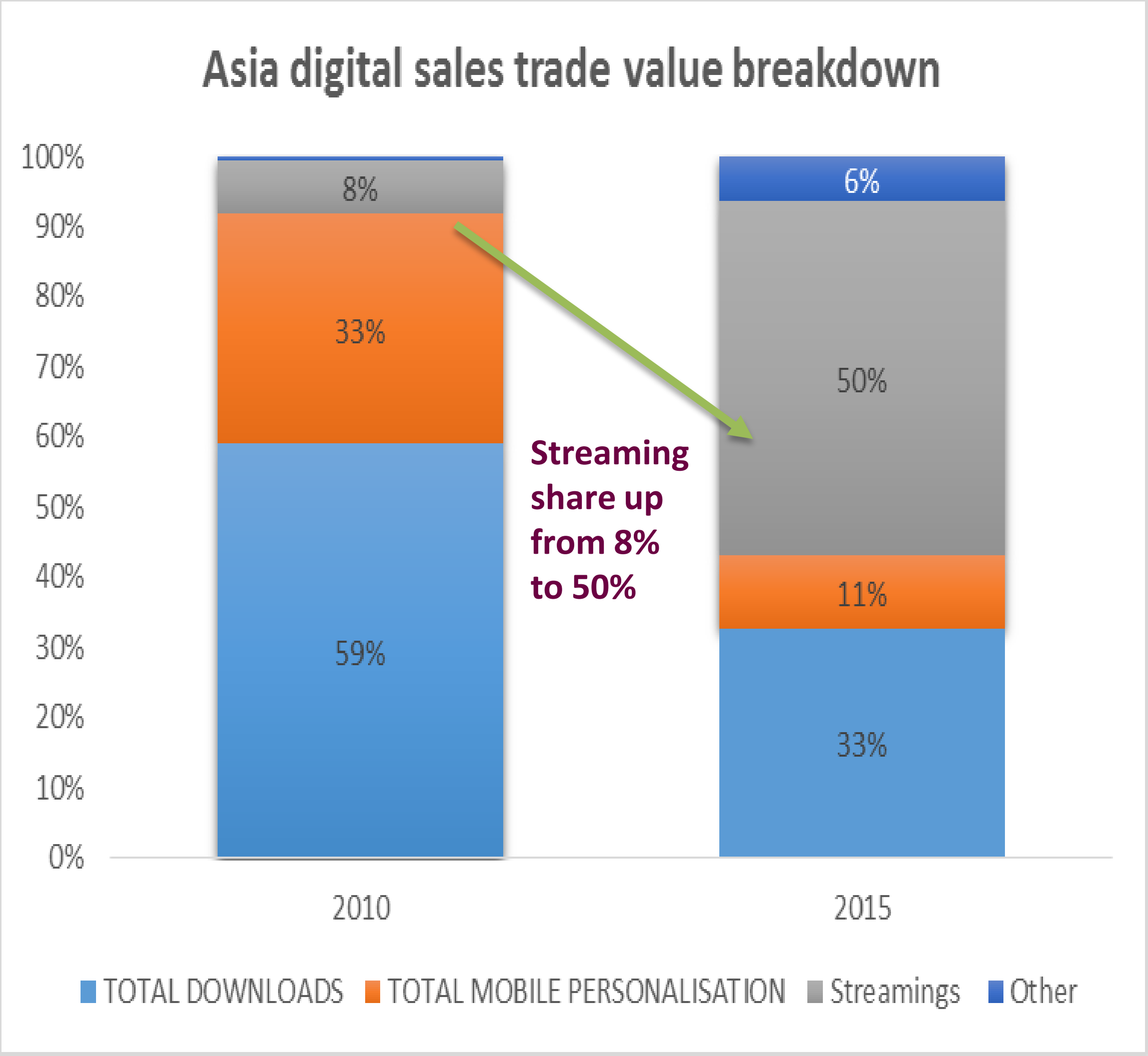


***_Total digital revenues grew_ 10.2% in 2015 & _37.2%_ over 2011**
***_Downloads_ is _largest contributor_ at 44.6% (USD3B) _but fell_ 10.5% from USD3.4B in 2014**
***_Biggest & major driver of growth in digital revenues was_ in paid _subscription services_ –grew 58.7% to USD2.3B; total subscription services was 42.9% of digital revenues, with paid subscriptions at 33.5% (1/3) of total digital revenues**
***Mobile revenues fallen 65% over 5 yrs**

	2011	2012	2013	2014	2015	2015 % change	2015 Share
Downloads	3,537.9	3,726.9	3,653.1	3,353.6	3,000.2	-10.5%	44.6%
Mobile	482.0	358.2	232.6	189.0	167.2	-11.5%	2.5%
Subscription Streams	404.4	660.5	1,035.4	1,419.9	2,254.0	58.7%	33.5%
Ad-supported Streams	253.3	365.4	410.3	569.5	633.6	11.3%	9.4%
Other	228.7	341.8	474.9	576.5	676.0	17.3%	10.0%
Total Digital Sales	**4,906.3**	**5,452.7**	**5,806.3**	**6,108.4**	**6,731.0**	**10.2%**	**100.0%**

Change in Modes of Consumption in Digital Sectors
Changing Industry Revenue Sources in Asia

- **The download share of digital sales** dropped from 59% to 33% in Asia from 2010 to 2015.
- **Streaming's share** increased from 8% in 2010 to 50% five years later in Asia
- **Mobile revenues** was a third of digital sales in 2010; in 2015, the share was 11%



Source: IFPI National Groups. Translated at 2015 foreign exchange rates.

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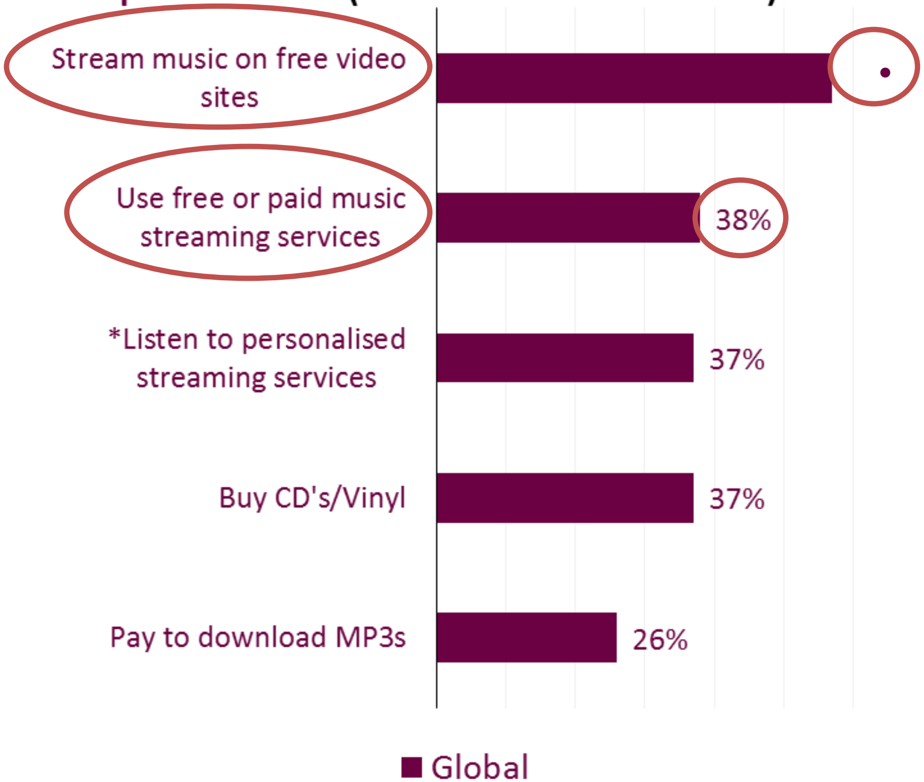
Consumers are moving towards access models

- While we observe a shift towards access versus ownership at global level, the picture is very different in Japan where streaming is much lower

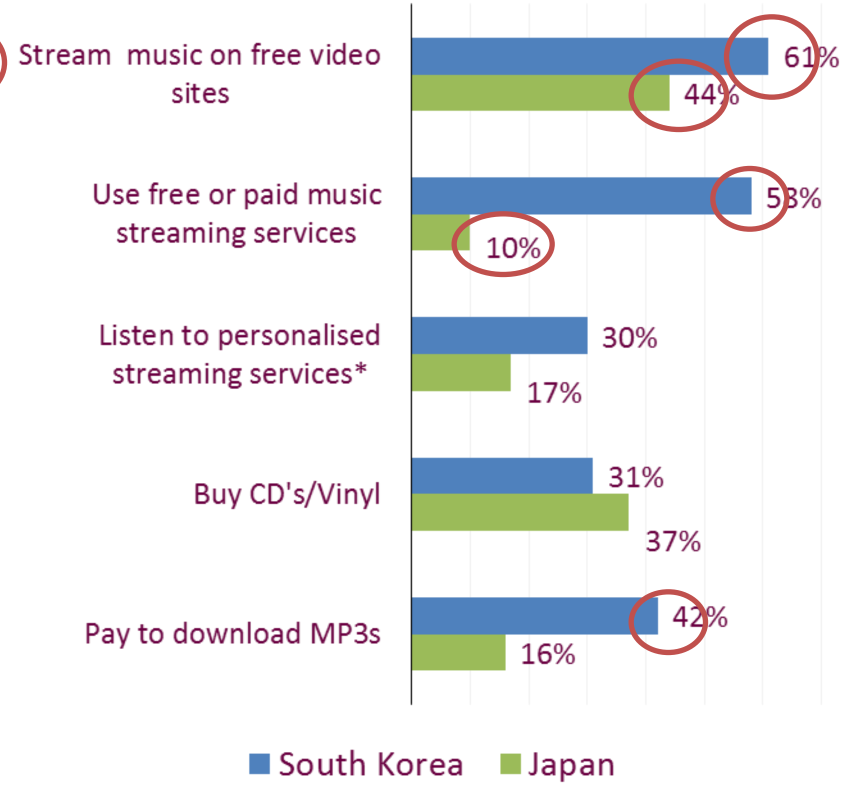
Q. When, if at all, did you personally last do each of the following?

Licensed sources of music accessed in the past 6 months (Global across 13 countries)



Base: All Respondents (11,966)

Licensed sources of music accessed in the past 6 months (Japan and South Korea)



Base: All Respondents South Korea (502), Japan (1,002)

*Personalised streaming services was asked as 'Internet Radio' on questionnaire

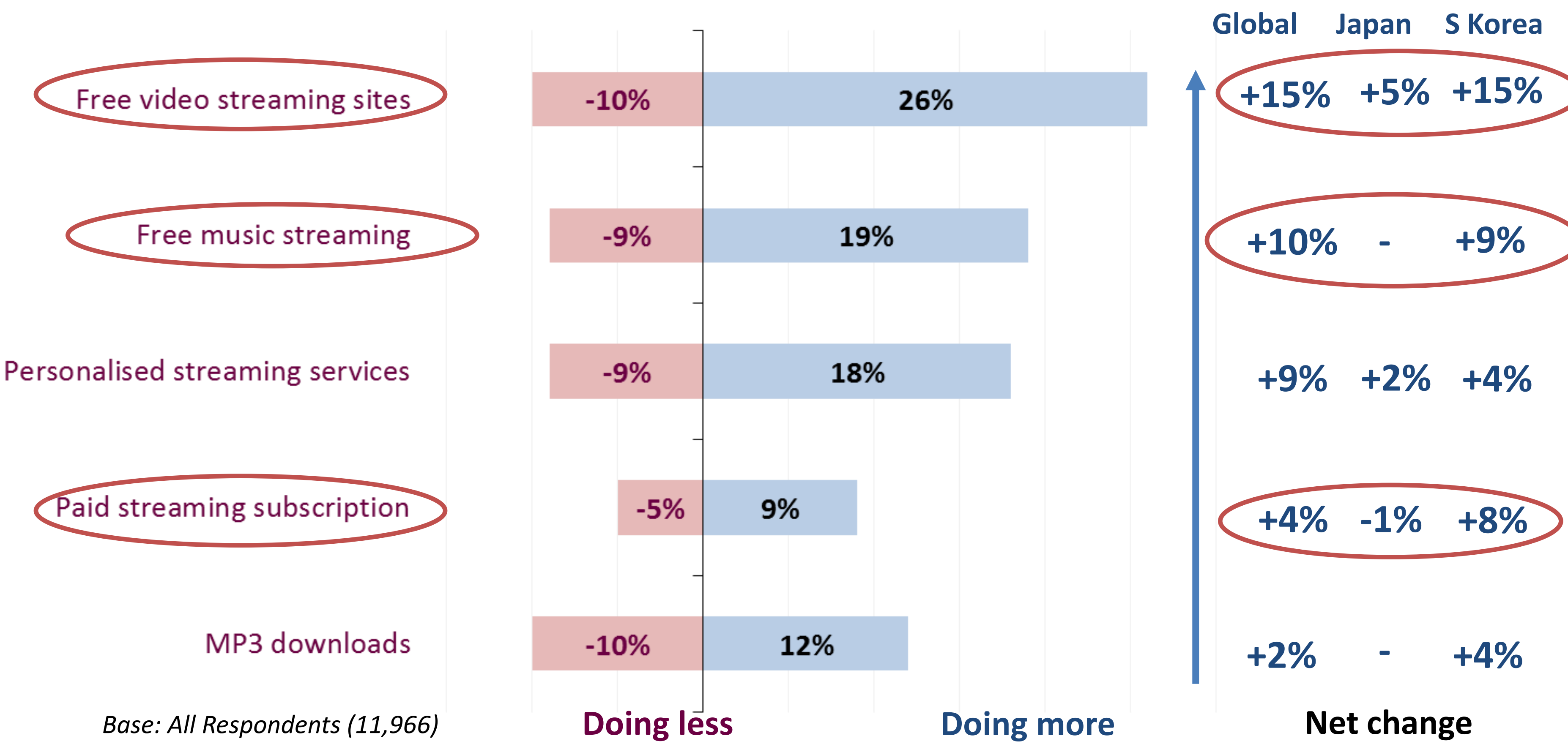
Source: IPSOS. Global includes Australia, Brazil, Canada, France, Germany, Great Britain, Italy, Japan, Mexico, South Korea, Spain, Sweden, US

Music listening habits are changing globally

– Consumer habits changing at global level, but much less in Japan

Digital Momentum – Change of individuals' use of services compared to 12 months ago

Q. How does the amount you do of each of the following nowadays compare to 12 months ago?



Base: All Respondents (11,966)

Source: IPSOS. Global includes 13 countries: Australia, Brazil, Canada, France, Germany, Great Britain, Italy, Japan, Mexico, South Korea, Spain, Sweden, United States. (Net change - % doing more minus % doing less). Differences may be due to rounding.

Global Insight

Profile of Music Consumer in Digital Environment

- IFPI IPSOS Survey of 12,000 respondents in 13 major markets (Australia, Brazil, Canada, France, Germany, UK, Italy, Japan, Mexico, Korea, Spain, Sweden, US) – When, if at all, did you personally last do each of the following?)
  - ***2% digital piracy only***
  - 2% digital piracy + licensed ownership
  - 7% licensed ownership only (CDs, vinyl, paid downloads)
  - ***17% licensed ownership + access only***
  - 17% licensed access only (streaming, youtube, radio)
  - 11% digital piracy + licensed access only
  - ***21% engage in all 3 activities of licensed ownership, licensed access + digital piracy***

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Digital Piracy

- **Recorded music industry shrunk while consumption of music has exploded; Estimated 4 billion music downloads via BitTorrent alone; 1.03 trillion streams in 1H15 - 1,032,225,905,640!!!**
- **Digital Piracy** is biggest obstacle to global music industry
  - – Legal services simply cannot compete with free illegal services that do not pay producers (who invest in the making of the music), performers (their livelihoods), composers, publishers
  - Unlicensed streaming, peer-to-peer (P2P) file-sharing networks, cyber-lockers, aggregators, forum sites, stream ripping and mobile applications
- Digital Piracy also undermines the licensed music businesses across many forms and channels

Measures for Combating Digital Piracy

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Website Blocking

- **One of the main challenges is addressing piracy from websites based outside the jurisdiction, since local ISPs cannot "take down" the infringing material, as it is not hosted on their servers**
- **Website blocking** has been effective to curb the individual use of illegal services *hosted overseas*
- Laws or court decisions in over 20 countries have required ISPs to block users' access to copyright infringing sites through administrative or judicial measures
- Courts have ordered ISPs to block at DNS & IP levels; mostly at their own costs

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Countries with Website Blocking

1. Argentina
2. Austria
3. Belgium
4. Denmark (40)
5. Finland
6. France
7. Greece
8. Ireland
9. Italy
10. Mexico
11. Norway
12. Turkey
13. UK
14. India
15. Indonesia
16. Malaysia
17. S Korea
18. Singapore
19. Russia (1 May 2015)
20. Australia (2015)
21. Portugal (MOU for voluntary blocking by ISPs with govt assistance)
22. Thailand?

Graduated Response System (GRS) Hadopi State of Play September 2015

- 5.4 million first messages sent
  - 8.9% of internet subscribers
- 504,000 second messages sent
  - 10.4% of first messages
- 2,900 third messages sent
  - 0.57% of second messages sent & 0.05% of first messages sent)
- 116 court proceedings
  - 7.7% of third messages sent & 0.004% of first messages sent
- Rate of contact with Hadopi after 1st message: 4.2%
- Rate of contact with Hadopi after 2nd message: 25%
- Rate of contact with Hadopi after 3rd message: 43.5%
- Only 1% of subscribers contest the infringement

Graduated Response System
Hadopi - Impact on subscribers' behaviour

- 70% of subscribers declared they have reduced their illicit acts after the first messages
- 88% declared they have reduced their illicit acts after the second
- 73% declared that they have not moved to other illicit practices
- 23% declared that they have moved to legal platforms
- •45% of those subscribers that have not received any notices from Hadopi declared that they have reduced their illicit acts

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Role of Advertisers on Infringing Sites

- **Advertising** is major funding source for unlicensed music services worldwide: 2013 Digital Citizens Alliance study suggested that US$227 million earnings from piracy
  - Australian Study showed that 99% of advertisements on infringing sites are high risk adverts, only 1% mainstream
  - In recent Singapore survey, 58% & 44% of 16-18 year olds recall seeing sex industry and gambling site advertisements respectively
- Baidu's Qingyuan Action
  - Baidu replaced commercial ads with non-commercial ads on 1301 relevant webpages, deleted commercial ads on 11 web pages and removed 33 infringing links

Measures to Tackle Digital Piracy
Advertising on Infringing Sites

- City of London Police (CoLP)/PIPCU runs an Infringing Website List (IWL) to curb advertising on pirate sites
  - IWL is an online portal with up-to-date list of copyright infringing sites, identified by creative industries & verified by CoLP so that advertisers can cease advert placement on these illegal websites
  - Gaurdian Newspaper reported in August 2015 that there has been 73% decrease in advertising on the identified illegal websites from UK's top spending companies since 2013; the pilot also revealed that almost half (46%) of ads served to the sites clicked through to fraudulent scams
  - CoLP announced in January 2015 that they had diverted more than 9 million views from copyright infringing sites to its warning page in the first 10 months of its campaign against pirate services. The warning site contains links to resources such as Pro-Music and Music Matters which explain where consumers can access licensed music

Role of Search Engines

- Google altered its demotion algorithm in October 2014 so that sites with high level of delists demoted (eg: 4shared, MP3Skull); demotion made if 'enough' delist notices are sent - IFPI sent 250 million delist notices
- Post-October 2014
  - Proportion of infringing search results increasing again in 2015 after initial drop; July 2015 test showed almost 63% top referral to infringing sites
  - What constitutes 'enough' is not clear
  - New infringing sites replace demoted sites
  - Licensed sites remain far lower in search ranking than infringing sites
  - Demoted sites changing domain to circumvent effects of demotion
- Search continues to be a challenge - Of 100 internet users searching Google for popular music, 44 will visit an infringing site, 22 will visit YouTube & 4 will visit a licensed site
- Google processed 13.68 million urls or 23 takedown notices a second in August 18, 2015 week vs 130K notices processed for whole July 2011; one reason for increase – use of multiple domains by pirate sites
- Have almost no effect on content availability; all popular movies and music tracks remain just a few clicks away, partly because Google takes down links to content, not the content itself

Role of Domain Registries

- Domain seizures have inconvenienced several large sites in recent times
  - FBI seized the domain of file-sharing service Sharebeast that has been responsible for the pre-release leaks of thousands of songs – September 2015
  - Stockholm District Court ruled that The Pirate Bay will forfeit its Sweden-based domains – ThePirateBay.se and PirateBay.se – May 2015
  - KAT.ph (Kickass Torrents) domain seized based on complaint by PARI – June 2013
- Affected piracy sites increasingly using multiple domains to circumvent this
  - Kickass Torrents moved to Isle of Man Domain Registry in April 2015 but was shut down within 24 hours as the registry maintains a zero tolerance policy towards copyright infringement
  - Kickass then hopped to Costa Rica based domain name, Kat.cr
  - While the Isle of Man registry was quick to take action, others including the Icelandic .IS and the Swedish .SE registry refused to revoke any domain names without a court order

Korean Music Industry and Government Measures

- Korean music industry has grown from US$168 million in 2009 to reach US$281 million in 2015 (+12%) partly because of a wide combination of legal measures made available in Korea to combat digital piracy
  - Website blocking
  - Graduated Response
  - Webhard registration
  - Government support for creative industries

Korean Music Industry and Government Measures

- Korean music industry has grown from US$168 million in 2009 to reach US$266 million in 2014* (+19.2%) partly because of a wide combination of legal measures made available in Korea to combat digital piracy
  - Website blocking
  - Graduated Response
  - Webhard registration
  - Government support for creative industries

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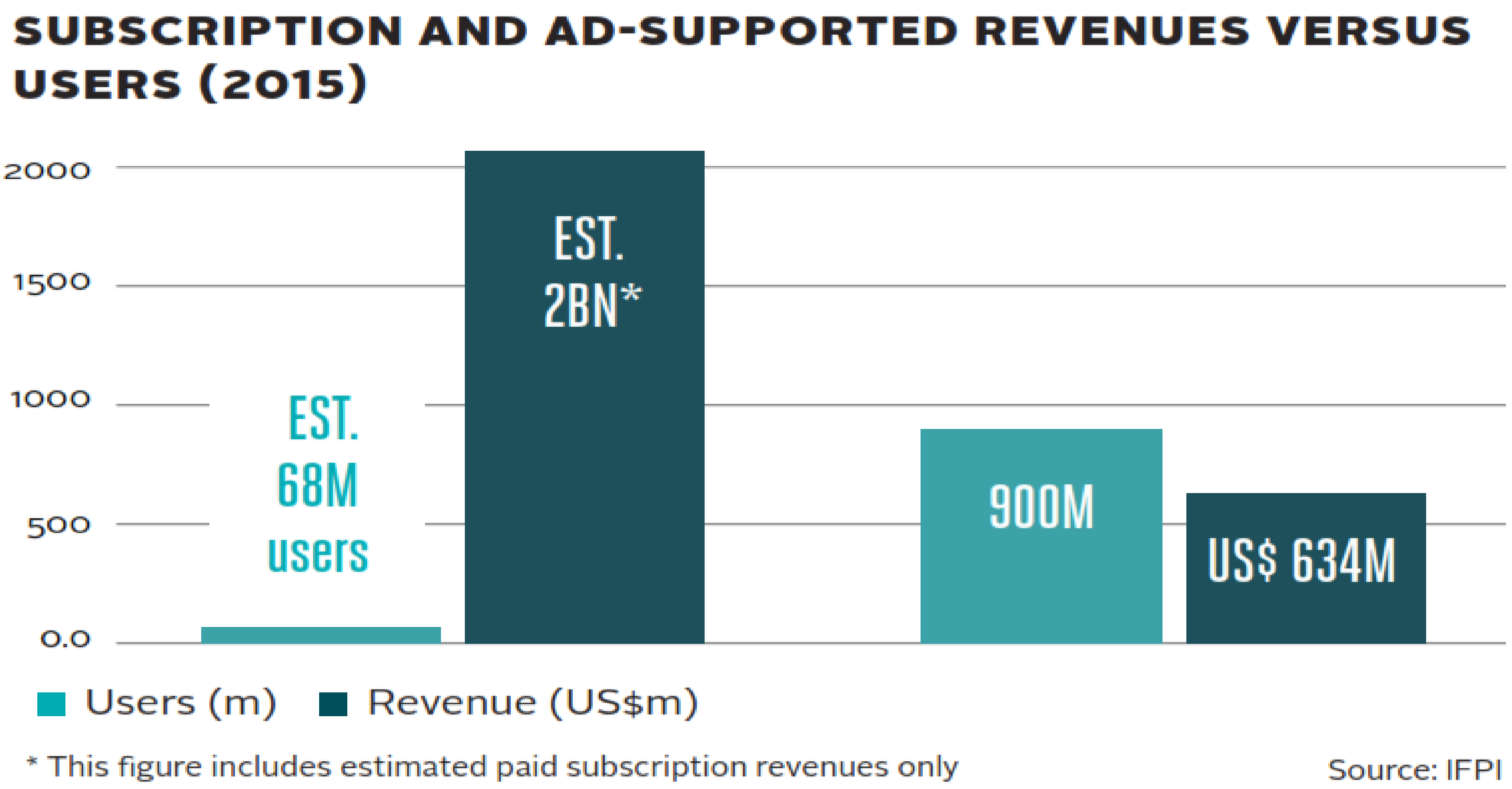
Value Gap

- Safe harbours were designed to protect passive and neutral technology intermediaries from lawsuits in respect of the content flowing across or stored in their networks
- In practice, exploited by commercial music services that use user-uploaded professional music content to build a global audience, generating massive traffic and turnover, without paying fair rates for music used
- They claim protection by safe harbours, and that if a right holder does not agree to the licence terms on offer, then their content will nevertheless be uploaded by users and be available on the service without remuneration, until taken down at some point after receipt of a notice from the right holder. Since users re-upload content that has been taken down quickly, these services know that in practice, rightholders face the prospect of their content being continually available for consumption, but without remuneration
- As a result, right holders are unable to freely negotiate licences based on full exclusive rights, and a *Value Gap* has emerged between the value extracted from music by some digital services and the value music right holders receive from the use of their music.

Value Gap Caused by Services Hiding behind NTDs



Global Insight

To address value gap

- to restore balance in the digital market place
  - The exclusive communication to the public or making available rights cover all interactive transmissions and active participation or intervention in the communication chain,
  - Only true passive and neutral on-line intermediaries are eligible for copyright liability safe harbours, where such exist, and
  - Eligible on-line intermediaries shall comply with “notice and stay down” as a condition for the safe harbour.

IFPI, International Federation of the Phonographic Industry

- Non-profit organization representing producers and distributors of sound recordings & music videos worldwide
- Over 1300 members in about 67 countries
- Registered in Zurich, Switzerland in 1934; HQ in London
- Regional offices in Miami (Latin America), Brussels (EU & Eastern Europe Affairs), Moscow (CIS) & Hong Kong (Asia Pacific) & Beijing Representative Office
- Affiliated with RIAA (USA)
- Consultative status with UNESCO, ILO, WIPO, WTO, Council of Europe, WCO, Interpol
- Role of IFPI
  - Promote value of recorded music & Safeguard record producers' rights
    - Anti-piracy enforcement actions
    - develop rights of record producers & collective licensing of members' communication, broadcasting & public performance rights
  - Public awareness, education, training
  - Develop & assess industry standards for new technologies

Thank you

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www.pro-music.org for most comprehensive directory of world's legal music services