



Rights holders needs and strategies in the sometimes confused Internet environment

The view of an individual composer/researcher

Internet Dagarna November 2004

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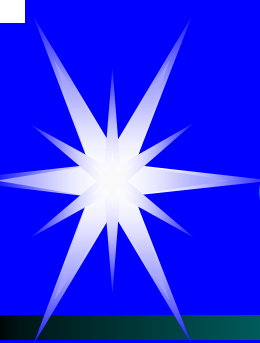
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Short agenda

- 0) **A music industry focus**
- 1) **Primary rights versus neighbouring rights (producers/performers)**
- 2) **Technology development, from analogue → digital**
- 3) **New and old business models**
- 4) **The fuzzy notion of piracy**
- 5) **Content in new networks - inhibitors**
- 6) **Threats to the copyright regime**



Composers - producers/performers

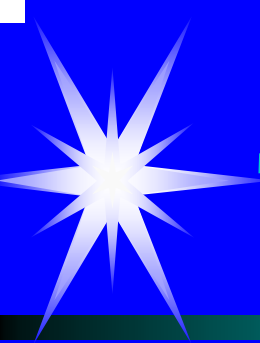
As a composer:

I want my music available as widely as possible in as
Many distribution channels as possible and desire reasonable pa
payment.

As a performer/owner of production rights:

The music should only be available in an environment where
usage is strictly controlled. No unauthorised copies. Limitations
on “fair use” in non commercial /domestic environments.

THE GAP IS WIDENING



Technology rushing forward

1) **The Production process.**

Input to manufacturing in a digital form

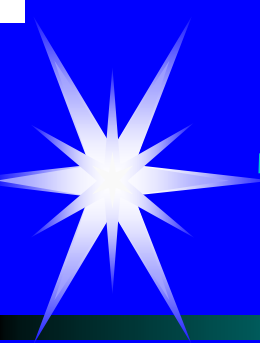
2) **Production technology.**

Digital, affordable and available

3) **IT expertise.** Musicians/composers have own studios, or easy access. Sampling etc

4) **P - P software.** Replicate fans/ sub-cultures

5) **Shift from tangible to intangible** revenue streams. (Sweden, 50% non-physical early 90:s)



The downside?

Perfect copies can be made

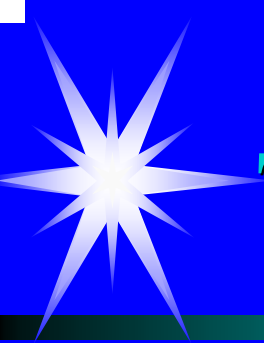
Copyrighted materials can be stolen for free - 60 million criminals used Napster.

Questions:

A) How much do individual creators/performers lose?

B) How much can individual creators win via new business models in the Internet environment?

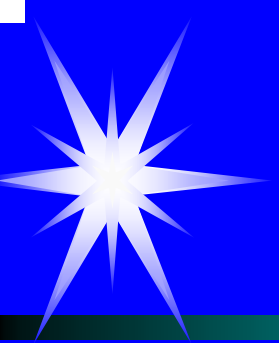
So the visions:



The disintermediated vision

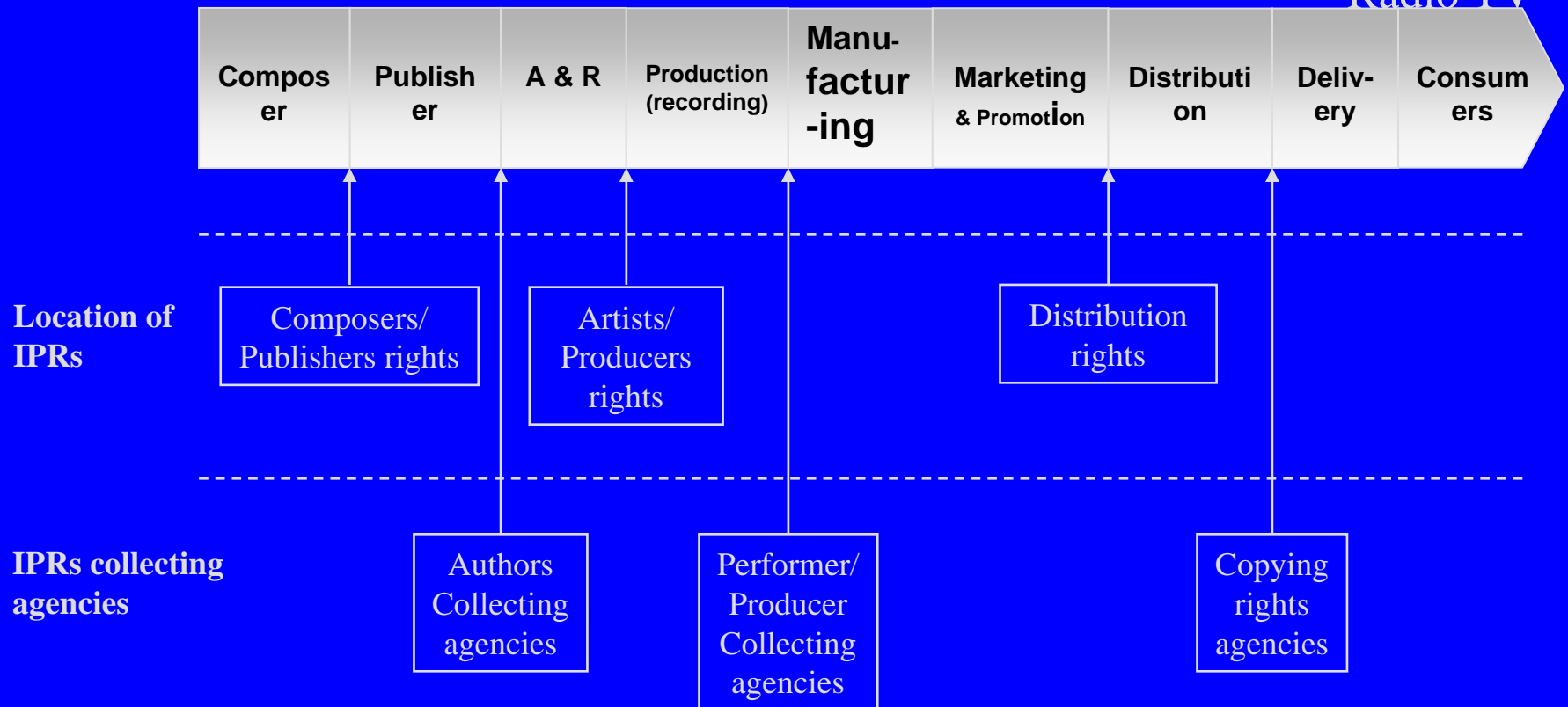
Simple value chain





Traditional MI value chain

(5 majors) ◆ — ◆ (5 - 1 majors) — — — — ► Concerts
Internet
Radio TV





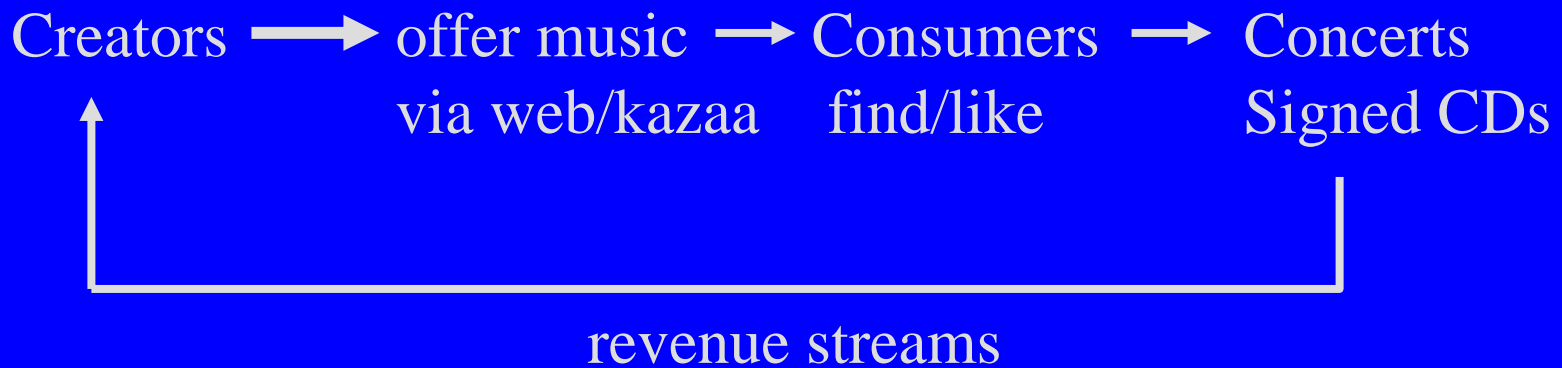
Traditional/New promotion models

- 1) Identify global start potential. Pay large advances.
Heavy marketing costs to offset natural risk in music market
- 2) Market physical product (CD) via traditional media (Radio,TV)
- 3) If successful and sales take off, arrange concerts.

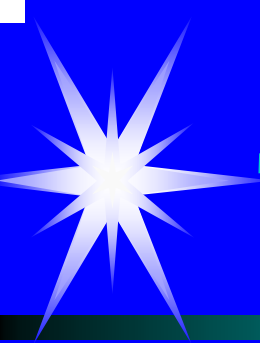
Alternative:

- 1) market via access in Internet environment
- 2) promote concerts
- 3) sell physical product at concerts (direct CDs)

New business models (SME variant)



Note: concert revenues up 20% / annum in Sweden, USA, Russia.



The fuzzy notion of Piracy

Physical/virtual piracy can be very different.

1a) the illegal CD factory run by commercial interests

1b) “playground cassette piracy” in the 1980s

2) fans who exchange files over the Internet (Harvard research)

a) curious music lovers who might then buy a CD/concert ticket

b) interested but would not buy anyway

c) those seeking music not available via normal commercial outlets

General conclusion:

P2P stimulates live music business.

80/20 mainstream/diversity. Global stars /and companies suffer.

Cultural diversity shifting from traditional media to P2P/Concerts.



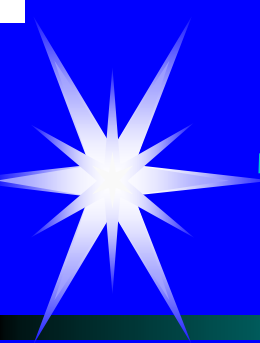
Legal & Industry responses

Music industry: stop the technology (unwise, probably impossible)
Calls for strict legal penalties for downloading. Own legal actions against down and up-loaders. Backed up by lawmakers.

At the same time:

Majors all buying P2P sniffing results for steering own marketing.
Re-writing contracts to include a share of concert/merchandising revenues.

Question: what is the value of the 20% diversity in P2P networks,
A) for future growth of the MI, b) for society as a whole
(Goals of inclusion, interactivity etc)



The Peer-to-Peer dilemma.

Causes problems for old business models.

Encourages development of new business models

Causes problems for efficient network management
(films over broadband, heavy load on network, different ports).

Fight against P2P encourages development of “darknets”

Offers amazing possibilities in other areas

- GRID, Skype
- decentralised knowledge sharing networks
- global virus treatment (quicker than from central server)

Global content owners trying to block the technology



Is music from the Internet free?

NO!!!

Swedes (9 million) pay over 300 million US dollars/annum to Telephone operators/ISPs for downloading of files

= almost 1 1/2 times annual net revenue of Swedish music recording industry.

But WIPO copyright treaty (1996) removes “conduit responsibility”.

Solution: share part of network income with rights holders.

Make P2P legal. (Contradicts major’s push marketing)



Content in new networks

No legal P2P networks including works from major record companies.

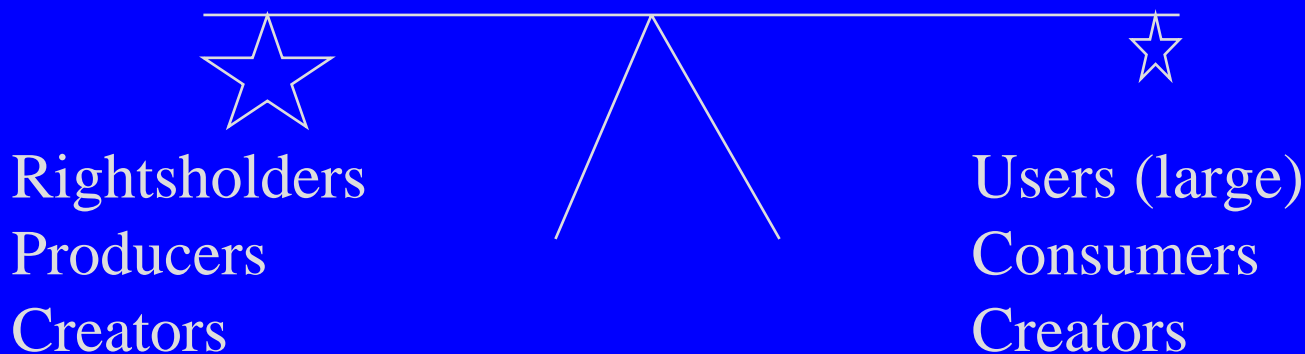
Content offerings in new faster mobile networks being delayed by “Internet-style” fears from major owners.

“Innovation builds up as a challenge to existing technologies or processes. it pits new players against established firms. Such configurations obviously create incentives for the incumbents to try to block or curtail the new dynamics in the market place, to try to maintain their position at the expense of the innovations” (Monti 2004)



The threat to the Copyright regime

The notion of balance between owners and users



ISSUES: fair use. Digital Rights Management (DRM) systems to monitor (for fair distribution of revenues) or to Control?

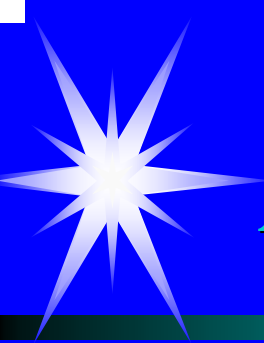


Will copyright survive - the most serious threats

Piracy is NOT the biggest threat.

The threat is threefold:

- 1) A few players exert oligopoly power over the market
Big 4/5 record companies control over 80% of copyrights for musical works and productions
- 2) Same players are vertically integrated → collective dominance
Control; ownership of rights, production rights and even distribution channels. Even Apple not open to all in same way
- 3) Demanding far stricter controls over how users consume Copyrighted materials (“fair use”). From “pay and use it more or less as you like” to “when, where, how, how often, with whom” you may use it. Limitations on ability to adapt, imitate, develop.



An academic's view:

In economic terms, the benefit created by copyrights works
Increases as protection increases from zero. However, as the
degree of protection (“control”) increases, there is a point
beyond which the total benefit produced by copyright begins to
decrease. This occurs because the level of protection increases,
costs of enforcement and consumption rise.

At some point, market failure occurs in the form of increased
piracy, decreasing demand for copyrighted works and decreasing
production of new materials.

(Robert Picard, professor of media management, 2004)