

# REWARDING CREATIVITY: FIXING THE VALUE GAP

**P**rior to 2015, the global recording industry experienced more than a decade of significant decline. Throughout this period, record companies continued to invest in music, to nurture and develop artists and, crucially, to innovate and transform their practices to usher in a new digital era.

However, significant challenges need to be overcome if the industry is going to move to sustainable growth. The whole music sector has united in its effort to fix the fundamental flaw in today's music market, known as the 'value gap', where fair revenues are not being returned to those who are creating and investing in music. The value gap is now the industry's single highest legislative priority as it seeks to create a level playing field for the digital market and secure the future of the industry.



*"The music world is seizing the moment and uniting in its efforts to fix the value gap. If we can get this right, then the recent, modest growth can be just the start of a longer journey to a significantly stronger and fairer global business."*

Frances Moore, chief executive IFPI

PHOTOS LEFT TO RIGHT:  
DAVID BISBAL PHOTO BY JUANJO MOLINA,  
ARIANA GRANDE PHOTO BY YOUNG ASTRONAUTS

# BREAKING DOWN THE VALUE GAP

## WHAT IS THE VALUE GAP?

The value gap describes the growing mismatch between the value that user upload services, such as YouTube, extract from music and the revenue returned to the music community – those who are creating and investing in music. The value gap is the biggest threat to the future sustainability of the music industry.

## HOW HAS IT COME ABOUT?

Inconsistent applications of online liability laws have emboldened certain services to claim that they are not liable for the music they make available to the public.

Today, services such as YouTube, which have developed sophisticated on-demand music platforms, use this as a shield to avoid licensing music on fair terms like other digital services, claiming they are not legally responsible for the music they distribute on their site.

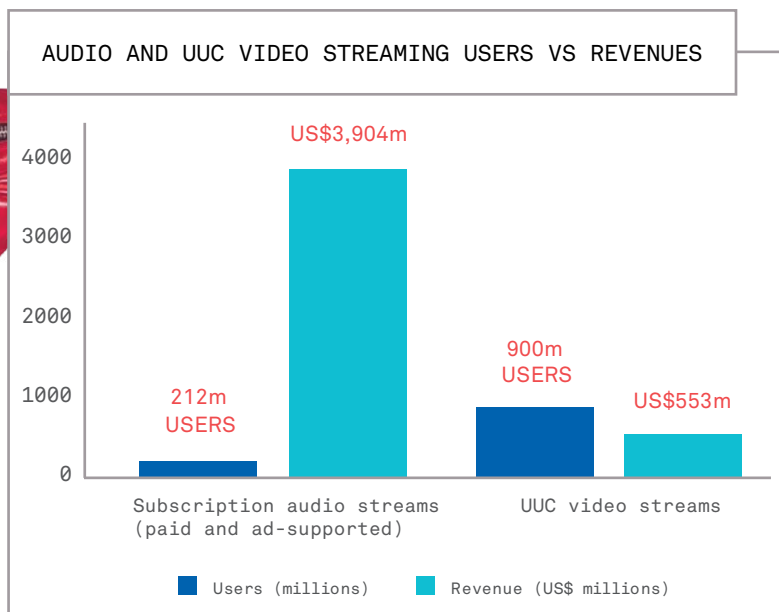
## WHY IS IT A PROBLEM?

The music ecosystem is dependent on record companies investing in music and in artists. Music must be valued fairly and those that invest in it and create it must be properly remunerated. If services that are not recognising the true value of music are allowed to attract users from other, fairly licensed, services and therefore drain revenues from the system, then it becomes unsustainable.

The situation also creates unfair competition. Services such as Spotify, Deezer and Apple Music are forced to compete with services that claim they are not liable for the music they distribute.

## HOW CAN IT BE FIXED?

Legislative action is needed to ensure that liability laws are applied correctly and consistently, so that services cannot claim they do not need to be licensed to distribute music. The music community is united in calling for policymakers to take action.



User upload video streaming services, benefitting from the misapplication of ‘safe harbours’, comprise the world’s largest on-demand music audience, conservatively estimated at more than 900 million users. The revenue returning to rights holders through these services in 2016 amounted to US\$553 million. By contrast, a much smaller user base of 212 million users of audio subscription services (both paid and ad-supported), that have negotiated licenses on fair terms, contributed over US\$3.9 billion.

### ESTIMATED REVENUE PER USER



From publicly available data, IFPI estimates that Spotify paid record companies US\$20 per user in 2015, the last year of available data. By contrast, it is estimated that YouTube returned less than US\$1 for each music user.

## THE MUSIC WORLD SPEAKING OUT

Artists, performers, songwriters, record companies, music publishers, music licensing companies and managers are united in their efforts to fix the value gap.

“The value gap undermines the rights and revenues of those who create, invest in and own music, and distorts the marketplace. This is because, while music consumption is at record highs, user upload services are misusing ‘safe harbour’ exemptions. These protections were put in place two decades ago to help develop nascent digital start-ups, but today are being misapplied to corporations that distribute and monetise our works. We urge you to take action now to create a fair playing field for artists and rights owners. In doing so, you will be securing the future of music for generations to come.”

In June 2016, over 1,000 recording artists, performers, and songwriters, including Sir Paul McCartney, Robin Schulz, David Guetta, Sting and Coldplay, signed a letter asking the European Commission to take urgent action to address the value gap.

“One of the biggest problems confronting songwriters and recording artists today is the Digital Millennium Copyright Act. This law was written and passed in an era that is technologically out-of-date compared to the era in which we live. It has allowed major tech companies to grow and generate huge profits by creating ease of use for consumers to carry almost every recorded song in history in their pocket via a smartphone, while songwriters’ and artists’ earnings continue to diminish. Music consumption has skyrocketed, but the monies earned by individual writers and artists for that consumption has plummeted.”

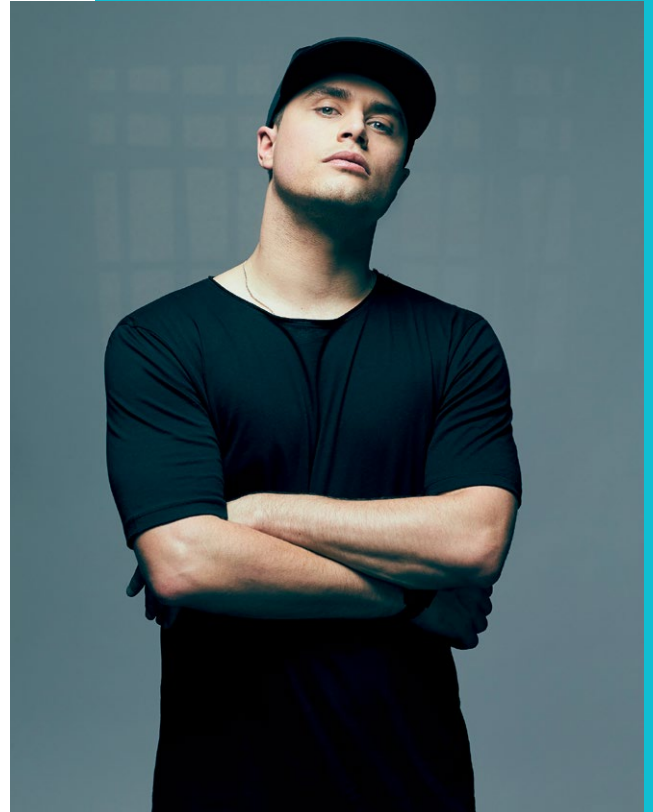
In the US, artists, managers, and songwriters – from new artists to established acts, including Taylor Swift, Kings of Leon, Katy Perry, Maroon 5 and Carole King – petitioned Congress to reform outdated safe harbour laws, with record companies and music publishers also calling for change.



## THE VALUE GAP – A POSSIBLE SOLUTION IN EUROPE

The European Commission has identified the value gap as a market distortion that needs a legislative fix. The Commission has now proposed draft legislation clarifying that services that engage with the content uploaded by users are liable for that content and need to be licensed. It also confirms the original intention of safe harbour legislation – to apply only to truly neutral services. Services providing access to large amounts of content would also have to prevent the upload of unauthorised content to their services, reinforcing the role of fair licensing when a service wants to provide access to music.

These proposals, which are now in the European Parliament and Council of Ministers for deliberation, would be an important and welcome first step towards addressing the value gap in Europe.



➤ AL MURRAY PHOTO BY JOHN TSIAVIS



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