



# PRESS RELEASE

## GOVERNMENTS CAN TURN THE TIDE AGAINST PIRACY IN 2011

- First actions by ISPs to stop mass illegal file-sharing announced in France, Ireland and South Korea in 2010
- Progress expected in UK, New Zealand, the EU and Malaysia in 2011
- Digital revenues up six per cent to US\$4.6 billion in 2010, with 400+ licensed services
- Piracy is hitting jobs and investment, according to *IFPI Digital Music Report*

London, 20<sup>th</sup> January 2011 – Action to stop digital music piracy is gaining momentum worldwide, with implementation by ISPs of warnings and deterrent sanctions taking effect in three countries in 2010 and governments in other countries expected to implement measures in 2011.

ISP cooperation measures are now in place aimed at substantially reducing illegal file-sharing in France, South Korea and Ireland. Governments in several other countries, including the UK, New Zealand and Malaysia, are expected to implement new laws in 2011 and the European Union is reviewing its intellectual property enforcement legislation.

A comprehensive overview of the global digital music sector is provided in *IFPI's Digital Music Report 2011*, published today. The report shows that consumer choice for accessing music via digital channels continued to grow in 2010. New easy-to-use subscription models, such as Spotify, Deezer and Vodafone, expanded to complement the hundreds of download services already available to fans. Record companies have also partnered with ISPs and mobile operators to offer music services in Ireland, Taiwan, Italy, South Korea, Denmark, Norway and Sweden.

Digital music revenues grew by an estimated six per cent globally in 2010 to US\$4.6 billion, accounting for 29 per cent of record companies' trade revenues in 2010.

Industry action is helping develop this legitimate business. Limewire, the biggest source of infringing downloads in the US, has been declared illegal and Mininova, a major BitTorrent site, shut down its illegal activities. The Pirate Bay was blocked by a court in Italy and its operators' criminal convictions were upheld by the Court of Appeal in Sweden.

Despite these developments, however, digital piracy continues to massively erode industry revenues, hitting jobs, investment in new music and consumer choice. The report comprehensively reviews the scale and impact of the problem. Notably:

- Fewer new artists are breaking through globally. Total sales by debut artists in the global top 50 album chart in 2010 were just one quarter of the level they achieved in 2003

- Traditionally vibrant music local industries, such as Spain and Mexico, are especially hard hit. In Spain, where music sales fell by an estimated 22 per cent in 2010, no new home-grown artist featured in the country's top 50 album chart, compared with 10 in 2003
- Jobs are at risk across the creative industries. Independent research in 2010 from Tera Consultants, backed by trade unions, found that 1.2 million jobs could be lost across the creative industries in Europe alone by 2015 if no action is taken to tackle piracy.

Frances Moore, chief executive of IFPI, says: "Many governments are now recognising the need for proportionate and effective steps to curb piracy. In the last year, France and South Korea implemented systems of warnings and deterrent sanctions that will for the first time engage ISPs in reducing peer-to-peer infringement on their networks.

"Similar moves are underway in the UK, New Zealand and Malaysia. The European Union is reviewing its enforcement legislation. The momentum for a solution is building, and that is grounds for optimism.

"As we enter 2011, digital piracy, and the lack of adequate legal tools to fight it, remains the biggest threat to the future of creative industries. Great new legitimate music offerings exist all over the world, offering consumers a wide range of ways to access music. Yet they operate in a market that is rigged by piracy, and they will not survive if action is not taken to address this fundamental problem. This is the challenge and the opportunity for governments to seize in 2011."

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**Notes to editors:**

**About IFPI**

IFPI is the organisation that promotes the interests of the international recording industry worldwide. Its membership comprises some 1,400 major and independent companies in more than 66 countries. It also has affiliated industry national groups in 45 countries. IFPI's mission is to promote the value of recorded music, safeguard the rights of record producers and expand the commercial uses of recorded music in all markets where its members operate

## **IFPI DIGITAL MUSIC REPORT - EXECUTIVE SUMMARY**

### **Consumers drive new business models**

The report outlines the way that record companies have revolutionised their business models to meet the demands of digitally literate consumers.

Digital channels now account for 29 per cent of global music industry revenues, up from 25 per cent in 2009. Growth in 2010 was particularly strong in Europe (up nearly 20 per cent), while sales of digital albums rose strongly in major markets (up 29 per cent in the UK, 43 per cent in France and 13 per cent in the US).

The report outlines the latest developments in the digital music marketplace. Subscription services enjoyed success in 2010, with Spotify reporting more than 750,000 paying subscribers and Vodafone Music more than 600,000 customers across eight markets in Europe. Deezer has achieved significant reach in France where it is used by 13 per cent of active internet users.

Record companies have struck a range of subscription deals with ISPs and mobile operators including Eircom (Ireland), Far Eastone Communications (Taiwan), FASTWEB (Italy), SK Telecom (South Korea), TDC (Denmark), Telenor (Norway), Telia (Sweden) and Vodafone (Europe). Consumers today can access more than 13 million tracks from more than 400 legal music services worldwide.

New partnerships with ISPs and mobile operators are vital to the music industry's digital strategy. A report by Ovum in 2010 estimated that ISPs could achieve more than £100 million in additional annual revenue by 2013 by running music services. Informa Telecoms and Media estimated that large mobile operators in Europe could realise up to €80 million each in the first year of a partnership with established music streaming services.

Music video services such as VEVO and MTV are commanding significant audiences and monetising them by selling targeted advertising. YouTube remains the most popular platform for viewing music videos online, accounting for around 40 per cent of online videos watched in major markets. Justin Bieber's *Baby* is the most watched music video online with more than 430 million views on YouTube.

"Cloud" music ventures such as Sony's Music Unlimited are bringing in a new generation of licensed services giving access to music across many platforms and devices. More such deals are expected in 2011, enabling fans to access music stored on remote servers (clouds) for use on a range of internet-connected devices including smartphones, games consoles, TVs and Blu-ray players.

Yet despite these developments, digital music remains a sector with enormous growth potential. Just 16.5 per cent of online users in the US purchase music online (NPD Group) and 14 per cent in the UK (Harris Interactive).

### **Digital piracy is a continuing problem**

Digital piracy exists on a vast scale and is growing rapidly. File-sharing on unlicensed peer-to-peer networks remains rife and alternative forms of illegal distribution, such as cyberlockers, illegal streaming sites and forums, are also a serious and growing problem.

Piracy trends vary markedly by country, with independent research suggesting Spain and Brazil are among the markets most hit, with 45 per cent and 44 per cent of active internet users respectively using unlicensed services monthly (The Nielsen Company). This compares with an average across the EU top five markets of 23 per cent.

Yet even in countries with comparatively low levels of usage of unlicensed services, the volume of unauthorised music consumption vastly eclipses the volume of legal music consumption. In the UK, for example, 76 per cent of the music obtained online in 2010 was unlicensed (Harris Interactive).

Third-party research consistently shows the vast majority of content distributed on file-sharing networks is copyright infringing. The Internet Commerce Security Laboratory found in April 2010 that 89 per cent of torrent files from a representative sample linked to infringing content. Professor Waterman of Pennsylvania University found in October 2010 that 98.8 per cent of the files requested from a representative sample available through Limewire were not authorised for free distribution.

Independent research consistently shows that availability of content for free is the main driver of online piracy. In 2010, new surveys confirmed this trend in Sweden (GfK), Australia (CCI Digital Futures), the UK (Harris Interactive) and China (The Nielsen Company).

A study by Adermon & Liang of Uppsala University in Sweden found that physical music sales would be 72 per cent higher and digital music sales 131 per cent higher in the absence of piracy. The researchers concluded “piracy is the main cause of the decline in sales.”

In Spain, the recorded music market declined by an estimated 22 per cent in 2010 and no new local artists broke into the country’s top 50 album chart compared with 10 back in 2003. In Mexico, investment in artists has fallen by 69 per cent since 2005 and domestic releases have declined by 45 per cent. In the US, the number of people employed as musicians fell by 17 per cent between 1999 and 2009 off the back of a 53 per cent decline in record sales.

A similar trend is now appearing internationally. The trend in global top 50 album sales in recent years shows a striking decline in both the number and proportion of successful releases globally by new artists. Between 2003 and 2010, the combined sales of debut albums featuring in the global top 50 fell by 77 per cent, from 47.7 million to 10.8 million (January to November). At the same time the number of debut albums in the global top 50 has fallen, from 10 in 2003 to seven in 2010.

The live performance market offers no guarantee of growing revenues. Pollstar reported that box office sales of the world’s top 50 tours fell by 12 per cent in 2010 to US\$2.9 billion. The top touring performers were Bon Jovi, AC/DC, U2, Lady Gaga and Metallica, all acts with extensive catalogues established through record sales.

Trade unions have responded to the threat to jobs by urging policymakers to take action. Brendan Barber, the general secretary of the UK’s Trade Union Congress, says: “There is still time to act before the creative industries suffer catastrophic loss, but our fear is that not enough has been done and governments are too willing to respond to those who portray theft and freedom. We feel the onus is on ISPs to play their part in countering piracy.”

### **The need for ISP responsibility**

Innovative business models alone are not enough to combat the high levels of digital piracy that exist worldwide. Cooperation from ISPs is a key component to tackling the problem and where voluntary agreement is not possible then government regulation should ensure that intellectual property rights are respected online.

The “graduated response” model to tackling piracy requires ISPs to assist rights holders in tackling copyright infringement on their networks. Graduated response is a proportionate approach that involves an escalating system of notifications about copyright infringement culminating in deterrent sanctions. ISPs are provided with evidence by rights holders identifying the IP addresses used to publicly disseminate copyright infringing material.

### **The Government response – momentum builds in 2010**

France led the way in 2007 by enacting a graduated response law which is now in operation. The Creation and Internet Law created an independent agency called HADOPI that is responsible for alerting copyright infringers about their illegal activity. The HADOPI procedure involves judicial oversight and is fully compliant with EU law. The law began to be applied, with notices being sent, in September 2010.

South Korea was another early adopter of graduated response, passing a law in April 2009. Sending of graduated response notices commenced in March 2010 and the first account suspensions were announced in November. Parallel to the new law, the government has run consumer education programmes including copyright classes in school.

The UK became the third major recorded music market to introduce a law incorporating graduated response measures when the Digital Economy Act became law in April 2010. The Act requires ISPs to cooperate with rights holders in a system of notifications to infringing users. If this fails to reduce online copyright infringement by 70 per cent or more then ISPs could be required to implement technical measures to stop a customer’s persistent online infringement. No notices have yet been issued under the new law.

Graduated response was introduced in Ireland by a legal settlement between Eircom and IRMA. The settlement was bolstered by a judgment in April 2010 that confirmed this method of enforcing intellectual property rights does not violate data protection rights. The pilot phase of the programme is underway, with Eircom sending notices to infringing users. In October 2010, a court ruling brought against UPC approved the graduated response approach but failed to issue an injunction directing UPC to implement it due to shortcomings in the way Ireland had implemented EU legislation.

Legislation adopting the principles of graduated response was enacted in Taiwan in July 2009 and Chile in May 2010. It is under consideration in a number of other countries, with New Zealand expected to pass a new law within weeks.

### **The importance of education**

Consumer education plays an important role in the music industry’s digital strategy. IFPI and its national affiliates are involved in dozens of public education programmes worldwide. Four international consumer education programmes are highlighted in the report:

- *Young People, Music and the Internet* – This guide for parents and teachers, published in cooperation with international children’s charity Childnet, is currently available in English and Spanish with further translations planned. A UK adaptation was also backed by the film and television industries - [www.childnet.com/downloading](http://www.childnet.com/downloading).
- *Music Matters* – This programme was launched in the UK by artists, retailers, songwriters, managers and record labels. It aims to remind people of the value of music and highlights licensed services – [www.whymusicmatters.org](http://www.whymusicmatters.org).
- *Pro-music* – An international information campaign about online music supported by major and independent record companies, music publishers, artists and retailers. It provides details of the 400+ legal music services worldwide – [www.pro-music.org](http://www.pro-music.org).
- *Pop4Schools* – A new programme run by an independent company that enables primary school children to gain a better understanding of how music is produced. Children role-play various roles in the process of creating and promoting a piece of music as they learn core curriculum subjects – [www.pop4schools.com](http://www.pop4schools.com).

### Global top 10 digital singles

Ke\$ha topped the global Top 10 singles chart in 2010 with sales of 12.8 million copies. This compares to 9.8 million copies of Lady Gaga’s *Poker Face* which topped the chart in 2009.

	Artist	Title	Sales (m)
1	Ke\$ha	TiK ToK	12.8
2	Lady Gaga feat. Beyoncé	Bad Romance	9.7
3	Eminem feat. Rihanna	Love The Way You Lie	9.3
4	Lady Gaga	Telephone	7.4
5	Usher feat. Will.i.am	OMG	6.9
6	Katy Perry	California Gurls	6.7
7	Train	Hey, Soul Sister	6.6
8	Justin Bieber	Baby	6.4
9	Black Eyed Peas	I Gotta Feeling	6.1
10	Paramore	crushcrushcrush	6.1