



representing the
recording industry
worldwide

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INTRODUCTION

Good morning. I will address the missing piece in today's discussions: the role of content in the future of the Internet economy.

One important element of the Business Vision Paper is the need to ensure adequate and effective protection and enforcement of intellectual property. This is one of the major challenges for the Internet, along with issues such as privacy, terrorism and child porn.

Music has made a substantial contribution to the Internet of today. It enhances its appeal to consumers, and has sped the take-up of broadband (the availability of desirable music and other content is why people are willing to pay \$30 a month—not just to send email). But it also provides a cautionary tale, highlighting the difficulty of actually *achieving* the goal of the Business Vision paper.

Music has been a huge success online in terms of popularity and ubiquity. But it is hard to monetize that success. If we can't solve this problem, it will pose a threat to the continued flow of creativity and investment in new content.

My presentation will focus on 3 points:

1. the importance of IP protection to the future of the Internet economy
2. the music industry as a case study – how diverse new business models are undermined by ongoing piracy
3. the way forward: cooperation among all businesses in the value chain.

THE IMPORTANCE OF IP TO THE FUTURE OF THE INTERNET ECONOMY

We often hear the two different catchphrases “content is king”, and “the consumer is king.” These concepts are not inconsistent, however. It's all about producing quality content and getting it to the consumer when and how he or she wants it.

The best delivery mechanism in the world will only be valuable if it's delivering material of value. The pipes need to be filled with desirable content.

One exciting recent development has been the rise of user-generated content, or UGC. UGC can be highly creative and empowering. But alone it is not enough to excite the sustained interest of

consumers, and contribute to the full potential of e-commerce. Professionally-produced content can and must be available alongside UGC, providing a rich and diverse menu of consumer choice.

The creative industries invest heavily in new content, and a shrinking return on investment will make it less attractive to produce new books, films, music, games. Record labels, for example, typically invest around 20% of their revenues in discovering and nurturing new talent. The result of shrinking revenues is that fewer new artists are signed or nurtured long-term, and fewer new records produced. This means less choice for consumers, and the loss of what is often the highest-quality content.

In the words of Paul McGuinness, manager of U2: Who will explain to future generations “why there’s nothing new to listen to but bad demos and nothing new to watch but reality TV shows?”

THE ROLE OF THE MUSIC INDUSTRY

The digital music business today is marked by innovation and experimentation. An industry that only 5 years ago was dominated by one format has exploded into multiple formats and channels — from downloads to streaming services, from ringtones to digital radio.

Today there are some 500 legal online services around the world offering more than 6 million tracks. This year will see the launch of new subscription-based services involving Nokia, MySpace, Omnifone and others. And social networking sites such as MySpace, Bebo and I Like are moving us further away from the traditional retail model towards a model of licensing across any channel, at any time and in any way the consumer wants.

New models are being tested every day, including ad-supported and all-you-can-eat flat fee subscription models.

But there is an enormous barrier facing not only music but the entire creative sector: online piracy.

The music industry is the canary in the coal mine. Music piracy on the Internet globally stands at over 95%. There are estimated to be about 30 billion unauthorized music downloads on P2P services.

No amount of innovation and investment can compete with this deluge of easily available, free, unauthorized content. The difficulty in “competing with free” is making itself felt. Sales in the music industry are down 20% globally in just the past 5 years. Digital sales are rising sharply, but not fast enough to offset the decline in CD sales and produce overall market growth.

We have used the legal tools at our disposal to establish basic principles of how copyright applies in the online environment. These cases have been successful (for example, the well-known cases against P2P services Kazaa and Grokster)—but this is still not sufficient given the huge scale of the problem.

The fundamental question: how do we control the spread of unauthorized distribution enough to give space for legitimate services to thrive, and to be able to monetize the huge demand for our music?

THE WAY FORWARD

So what is the solution? How do we keep the widest range of quality content being produced to fill the pipes?

The key is cross-industry partnership.

Rightholders can't effectively do it alone. We need cooperation from all the participants in the value chain—all businesses involved in delivering the content to the consumer. ISPs, technology companies, mobile operators—all have a role to play.

The time is ripe for a recognition of this principle. In addition to the urgency of the situation for the music industry, commercial realities are changing.

First, ISPs in particular are increasingly looking to build their business by offering added-value content. There is no longer a sharp demarcation between content provider and distributor.

For their part, creative industries want to work with ISPs and technology companies as partners. In one example, the leading ISP in Denmark, TDC, has signed a deal with a number of record labels to offer its customers unlimited downloads from a repertoire of millions of tracks, bundled in with its broadband and telephone service. Many in our industry believe such deals are the way of the future, and you will hear more announced in the coming weeks and months. These are "win-win" business models, as described this morning by Mr. Kim from SK Telecom.

At the same time, ISPs are facing issues of bandwidth management. 20% of their customers consume 80% of their bandwidth—and they are the ones who heavily use file-sharing networks, where the vast bulk of the traffic is infringing.

Against this backdrop, the record industry is suggesting a new approach to tackle the problem of mass infringement. We want to work together to find *reasonable* and *effective* solutions, with the goal of moving consumers from illegal to legal services.

In several countries, cross-industry discussions between ISPs and right holders are now going on or have been initiated—including France (where an agreement is already in place), Japan and Hong Kong. In other countries, individual agreements are being negotiated—including the UK and the US.

In most of these countries, the government has played a supportive role, providing varying degrees of encouragement and pressure. Governments' goal is to ensure effective action. In many countries or with particular companies that don't see their self-interest in helping to address the problem, this government role is crucial, providing the needed push.

Voluntary agreements or codes of conduct are ideal where they can be achieved. If not, legislation may be necessary.

It is an increasingly accepted point, however, that doing nothing is not an option. The music industry's problem will spread to the whole creative sector and we don't have the luxury of time. Promoting and protecting creative content must be a shared goal among businesses as well as governments.

Thank you.

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