

Testimony of Jodie Griffin Senior Staff Attorney, Public Knowledge

Before the
U.S. Senate
Committee on the Judiciary
Subcommittee on Antitrust, Competition Policy, and Consumer Rights

Hearing on: How Much For a Song?
The Antitrust Decrees that Govern the Market for Music

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Chairman Lee, Ranking Member, Klobuchar, Members of the Subcommittee, thank you for this opportunity to testify before you today about preserving competition in music licensing and the consent decrees that resulted from the United States' antitrust cases against ASCAP and BMI. My name is Jodie Griffin and I am a Senior Staff Attorney at Public Knowledge, a nonprofit public interest organization that promotes the public's access to information and culture through open, competitive, accessible, and affordable communications networks.¹

The consent decrees, which have been regularly updated over the years, have long acted to prevent anticompetitive behavior by ASCAP and BMI and promote competition in music distribution. Without the consent decrees, these two performing rights organizations and the largest publishers could leverage their market power against online music services, individual songwriters, and small publishers, ultimately to the detriment of consumers. Because of this, any changes to the consent decrees must ensure that consumers continue to have access to a competitive, innovative market for music.

I. The Consent Decrees Protect Against Anticompetitive Behavior and Promote Competition in Online Music Distribution.

The ASCAP and BMI consent decrees exist because the collective licensing models used by the largest PROs are in necessary tension with antitrust law. While collective licensing can create certain efficiencies in the market, it can also create the risk that collective licensing organizations will be able to wield market power anticompetitively. When collective licensing organizations or companies that aggregate copyrights, like publishers, acquire enough market

¹ I would like to thank Sherwin Siy, Martyn Griffen, Chris Lewis, and John Bergmayer for helping me prepare this testimony.

² See Jonathan Band and Brandon Butler, Some Cautionary Tales About Collective Licensing, 21 MICH. St. INT'L L. REV. 687 (2013).

share, they can use that power to extract supra-competitive prices and term from licensees, making it more difficult for new distribution services and independent copyright holders to survive. That market power, incidentally, also gives those companies less incentive to treat artists fairly if the largest publishers can use their leverage to disadvantage competing independent publishers.

The problems the consent decrees were designed to combat still exist today. Although many things have changed in the music marketplace since the consent decrees were first drafted, ASCAP and BMI's substantial market power has not. Indeed, consolidation in the music publishing market has only increased since ASCAP and BMI entered into the consent decrees (and since the consent decrees were last revised), making them even more necessary today. The consent decrees are therefore an important tool in place to promote competition in what is in reality a non-idealized market.

Additionally, the goals of the consent decrees have not changed: then, as now, we wanted to ensure a better music marketplace that can support a large and diverse economic ecosystem of publishers, labels, independent musicians, and distributors, because such a market benefits both musicians and consumers—the ultimate beneficiaries of our copyright system.

Perhaps most importantly, the ASCAP and BMI consent decrees ensure that music users will have access to reasonable, non-discriminatory licenses for the PROs' repertory. The consent decrees prevent ASCAP and BMI from discriminating between similarly situated licensees.³ By ensuring licensees have access to reasonable, non-discriminatory licenses, the consent decrees allow new digital music platforms to launch and legally perform songs without becoming beholden to ASCAP or BMI. New services are allowed to operate on a level playing field with existing services, encouraging competition among music distributors and giving market entrants the opportunity to succeed or fail on the merits of their offerings to consumers.

As a result, the market has seen digital music services launch and compete without, for example, needing to give equity, partial advances, or disproportionate royalties to ASCAP, BMI, or the largest publishers as a condition of obtaining licenses. This has helped digital music services survive based on the quality and price of their offerings instead of their connections to rightsholders, and it has ensured independent musicians need not worry that ASCAP or BMI will employ certain licensing tactics that could disadvantage independent writers or smaller publishers. The consent decrees have also supported reasonable licensing for online video and other television providers, who often must secure licenses for musical works included in finalized video programming, without the option of removing specific songs if licensing negotiations fall through.

³ United States v. ASCAP, Civ. No. 41-Civ-1395, § IV.C (S.D.N.Y. June 11, 2001) ("ASCAP Consent Decree"); United States v. BMI, Civ. No. 64-Civ-3787, § VIII.A (S.D.N.Y. Nov. 18, 1994) ("BMI Consent Decree").

The consent decrees have also brought transparency to ASCAP and BMI's practices, to the benefit of consumers and songwriters alike. For example, ASCAP must publicly list the works in its repertory. It is, of course, impossible to know the market value of a rights catalog if you do not actually know what works are *in* that catalog. Although there continue to be complaints regarding whether ASCAP always meaningfully makes its repertory list available to licensees, the requirement to do so helps licensees value ASCAP's repertory and determine a reasonable license fee. By helping licensees understand exactly what they are licensing, the ASCAP consent decree increases efficiency in negotiation and prevents ASCAP from artificially inflating its fees through uncertainty and confusion.

For its songwriter and publisher members, ASCAP's consent decree requires it to objectively distribute the money it collects (minus its costs) to members, and to disclose its distribution formula to members. Similarly, BMI must make its performance payment rates available to members. These transparency provisions help songwriters by giving them access to the rates being paid to the PRO and to themselves. This information helps members decide which PRO offers them the best deal and prevents at least one area of artist compensation from being shrouded in secrecy.

The consent decrees also benefit songwriters and small publishers by requiring ASCAP and BMI to accept writers who have at least one work regularly published and publishers whose works have been used or distributed on a commercial scale for at least one year. Without this provision, ASCAP and BMI could adopt practices similar to SESAC, which does not accept all applicants and uses a subjective application process. In contrast, the consent decrees offer songwriters and publishers at least two definite options for PRO membership, which especially benefits newer songwriters and publishers that may not yet have the largest or most valuable catalogs but could benefit the most from centralized licensing and administration.

The consent decrees also protect songwriters' and publishers' ability to license their works directly. Under the ASCAP consent decree, members only grant ASCAP non-exclusive rights and retain the right to individually license their works. ¹⁰ BMI must, upon request, allow

⁴ ASCAP Consent Decree § X.

⁵ ASCAP Consent Decree § XI.B.1-2.

⁶ BMI Consent Decree § VII.A.

⁷ See also Casey Rae, Transparency: Why It Matters to Songwriters and Fans, Future of Music Coalition (Jan. 14, 2015), https://www.futureofmusic.org/blog/2015/01/14/transparency-why-it-matters-songwriters-and-fans.

⁸ ASCAP Consent Decree § XI.A; BMI Consent Decree § V.A.

⁹ See How to Affiliate With SESAC, SESAC (last visited Mar. 7, 2015), http://www.sesac.com/WritersPublishers/affiliate.aspx.

¹⁰ ASCAP Consent Decree § IV.B.

the writers and publishers of a song to grant a non-exclusive license directly to a music user.¹¹ These provisions protect songwriters' ability to strike their own deals in addition to the licensing opportunities they gain access to through ASCAP or BMI.

By ensuring more fair and open practices, the consent decrees encourage competition. When companies at every point in the distribution chain face competition (including disruptive competition), that competition pushes service providers to better answer the needs of users and creators alike. Rightsholders that face competition will be motivated to strike deals with new distribution channels and to offer more artist-friendly contract terms to the musicians they provide services to. Similarly, music streaming services that face competition from new upstarts will be pressured to find better ways to serve audience demand.

With technologically neutral competition policies, new music distribution platforms will have a fair shot at thriving in a sustainable way, which could encourage a robust online distribution market that benefits everyone. From the consumer's perspective, online music services allow users to access, discover, and re-discover music more easily than ever before. New digital music services also decrease the costs of manufacturing and distribution, which in a competitive marketplace would be passed on to consumers as cost savings or improved service.

Artists also stand to benefit from the emergence of online music services. Online music services can begin to level the playing field to help unsigned and independent artists remove unnecessary middlemen and reach fans directly, if they so choose. On a very basic level, new music platforms help artists by providing pathways to reach new audiences. Although the appropriate royalty levels will always be subject to some level of debate, it is undeniable that online music distributors now collect a significant portion of many artists' royalties. For example, Spotify alone has paid out \$1 billion to copyright owners in its first seven years. ¹²

Digital distribution services also have the potential to give artists more control over their own careers. New services can make it easier for musicians to bring their works to market without necessarily relying on a publisher or record label to handle marketing, promotion, and distribution. For example, while it was traditionally near-impossible for musicians to convince a large record store to carry their albums without being signed to a record label, unsigned artists can now use iTunes, CD Baby, or Bandcamp, among others, to sell copies of their recordings to the public. Artists can use these powerful distribution technologies to reach diverse global audiences while maintaining control over the timing, length, and musical content of their professional projects.

When new technologies help break down barriers for independent artists, a songwriter need not give up her copyright to be distributed through the most popular platforms and, with

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¹¹ BMI Consent Decree § IV.A.

¹² Bruce Houghton, *Spotify Shows Strong Growth: 40 Million Active Users, 10 Million Paid Subscribers*, HYPEBOT (May 21, 2014), http://www.hypebot.com/hypebot/2014/05/spotify-shows-strongth-growth-40-million-active-users-10-million-paid-sunscribers.html.

effective consent decrees, she will be paid transparently and fairly compared to a songwriter using a major publisher. Encouraging the sustainable and independent development of new services should be of concern to parties on all sides of the music business.

II. Without the Consent Decrees, the PROs and Largest Publishers Could Leverage Their Market Power Against Online Music Services, Songwriters, and Small Publishers.

The reasons for creating the consent decrees are still valid today. ASCAP and BMI are still by far the dominant players in the market for public performance rights. Without the consent decrees, these two PROs would have the ability to leverage their market power against competitive new services. If anything, consolidation in the music industry as a whole has only increased significantly since ASCAP and BMI entered into the consent decrees, and they are if anything only more necessary to protect competition today than when they were created.

Together, the three PROs control almost all of the market for public performance rights, and ASCAP alone has a market share of 45-47%. Last year, the revenue ASCAP collected from licensees increased 6% to more than \$1 billion, and its payouts to artists increased just under 4% to \$883 million. Among music publishers, Sony/ATV Music Publishing alone controls over 29.4% of the market, making it 30% larger than its nearest publishing competitor, Universal Music Publishing Group, and more than twice the size of Warner/Chappell Music. Together, these three companies hold a combined three-firm market share of more than 65%. In recorded music, the market is dominated by three major labels—Universal Music Group (UMG), Sony Music Entertainment, and Warner Music Group—which control a combined 75% of the market, with UMG alone controlling 36.7% of the market.

https://www.publicknowledge.org/files/UniversalEMILettertoFTC20120803.pdf.

¹³ It is difficult to be certain of the current market shares based on currently available sources, but these are the number most commonly quoted for the PRO market. *See In re Petition of Pandora Media, Inc.*, Nos. 12-cv-8035, 41-cv-1395 (S.D.N.Y. Mar. 18, 2014).

¹⁴ Ben Sisario, *ASCAP Topped \$1 Billion in Revenue Last Year, Lifted by Streaming*, N.Y. Times (Mar. 3, 2015), http://www.nytimes.com/2015/03/04/business/media/ascap-topped-1-billion-in-revenue-last-year.html.

¹⁵ UMG and WMG See Gains in Recorded-Music Market Share in 2013, While Sony/ATV Dominates Music Publishing, MUSIC & COPYRIGHT, INFORMA TELECOMS & MEDIA (May 6, 2014), https://musicandcopyright.wordpress.com/2014/05/06/umg-and-wmg-see-gains-in-recorded-music-market-share-in-2013-while-sonyatv-dominates-music-publishing/#more-1166.

¹⁶ *Id.* These numbers do not, however, include sound recordings owned by independent labels or musicians but distributed through one of the major labels. To the extent that the major labels' distribution contracts with smaller labels allow them to set (or refuse to set) prices and rates with digital distributors for those labels' recordings, those contracts increase the majors' leverage over digital distributors. During the last major record label merger, members of this committee expressed concern over the impact that greater consolidation would have on competition. *See* Letter from Herb Kohl and Mike Lee, Committee on the Judiciary Subcommittee on Antitrust, Competition Policy, and Consumer Rights, to Jonathan Leibowitz, Chairman, FTC (Aug. 3, 2012),

is particularly threatening to emerging competing distributors, because ownership of a huge catalog of copyrights makes it impossible for new distributors to launch without a license from those rightsholders.

Concentration on the distributor side has also created competition concerns. In 2014, Pandora had over 77% of the online radio market (and over 9% of the overall U.S. radio market), while Apple dominated the digital download market with nearly 800 million users. This concentration also threatens consumer choice, reduces incentives to lower prices and improve services for consumers, and increases incentives to strike tougher deals with independent artists (or threaten to cut them out completely). This is why Public Knowledge supports licensing mechanisms that encourage new market entrants to offer more choices for consumers.

Not only is there tremendous horizontal consolidation within the music industry, there is increasing vertical integration as well. An online music market dominated by vertically integrated firms gives companies the ability and incentive to make it more difficult for new services to gain entry, raise prices for consumers, and strike deals with the other largest market players, leaving independent artists out in the cold. We have already witnessed the major labels increase their own vertical integration through licensing deals, particularly where there is no statutory license or consent decree to protect competition, and dismantling the protections of the consent decrees could very well enable the major publishers to do the same.

A. Weakened Consent Decrees Could Result in Coordination Between PROs and Publishers to Raise Prices for Music Services.

It is clear that policymakers must be wary of the major publishers and largest PROs coordinating to magnify their market power without the protections in the consent decrees, because that is exactly the behavior a federal judge recently found when certain publishers attempted to partially withdraw their rights from the PROs.²⁰

These attempts illustrate how concentration in the industry has given the largest publishers and the PROs the incentive and ability to leverage their catalogs against new music

¹⁸ Bruce Houghton, *One New Stat from Apple Shows Why iTunes is [Almost] Unbeatable*, HYPEBOT (Apr. 24, 2014), http://www.hypebot.com/hypebot/2014/04/one-new-stat-from-apple-shows-why-itunes-is-almost-unbeatable.html.

¹⁷ Pandora, *Historical Financial Results* (Feb. 5, 2015), http://investor.pandora.com/phoenix.zhtml?c=227956&p=quarterlyearnings.

¹⁹ For example, at one point Bloom.fm reported it had been banned from Apple's iAd network because it competes with Apple's iTunes Radio service. Bruce Houghton, *Apple Bans 'iTunes Radio Competitor' Bloom.fm*, HYPEBOT (Apr. 11, 2014), http://www.hypebot.com/hypebot/2014/04/apple-bans-itunes-radio-competitor-bloomfm-.html.

²⁰ *In re Petition of Pandora Media, Inc.*, Nos. 12-cv-8035, 41-cv-1395, 2014 WL 1088101 *35 (S.D.N.Y. Mar. 18, 2014).

services, absent guidance from structures like the consent decrees. In 2011, ASCAP attempted to allow publishers to withdraw new media rights from ASCAP. As the district court noted in ASCAP's subsequent litigation with Pandora, "Large publishers were in general enthusiastic about such a change, but the songwriters and independent publishers were less so." Songwriters and at least some independent publishers expressed concern that withdrawing new media rights from ASCAP would make songwriters vulnerable to less transparent accounting and potential payment disputes with their publishers and would contribute to the overall problems caused by consolidation in the industry. ²²

As it turns out, smaller publishers' concerns about partial withdrawals from ASCAP may have been entirely justified. After all, when certain publishers similarly tried to withdraw new media rights from BMI, reports indicate that Sony/ATV and Universal were able to use their market share to strike advantageous deals with Pandora, while the smaller publisher BMG Chrysalis, with a market share around 4.5%, initially sought a pro-rata share of 10% of revenue but seems to have eventually accepted a royalty even lower than what it could have obtained through BMI. The incident is a stark example of how market concentration in music publishing can enrich the major publishers at the expense of the smaller competing publishers.

Courts have since denied both ASCAP and BMI's plans to allow publishers to withdraw their public performance rights for new media services while keeping those publishers' public performance rights for other uses. The episode does, however, demonstrate the major publishers' incentive and willingness to coordinate with each other and with the PROs to use their increased market share to raise their own license prices regardless of their impact on smaller artists and consumers.

As policymakers now consider dismantling the protections of the consent decrees, we must remember that we already have a strong warning of the harms this could cause. When the ASCAP and the major publishers had the opportunity to compete with each other, they chose to coordinate. As a result, a federal judge had to conclude that the resulting licenses could not even be characterized as true marketplace benchmarks to inform licensing under the consent decrees. Having already allowed the market to grow so concentrated, our music licensing system must

²¹ In re Petition of Pandora Media, Inc., Nos. 12-cv-8035, 41-cv-1395 (S.D.N.Y. Mar. 18, 2014). Notably, this could have also allowed affiliated record labels and publishers to combine their leverage by offering public performance rights and sound recording rights to digital music services in the same negotiations.

²² *Id*.

²³ Ed Christman, *First-Quarter Music Publishing Rankings: SONGS Surges Again*, Billboard (May 12, 2014), http://www.billboard.com/biz/articles/news/publishing/6084783/first-quarter-music-publishing-rankings-songs-surges-again.

²⁴ Ed Christman, *Pandora v. BMI's Court Battle Reveals Long-Term Strategies, Licensing Aims*, Billboard (Feb. 17, 2015), http://www.billboard.com/articles/business/6473027/pandora-vs-bmg-strategies-licensing-aims.

now account for this fact and ensure parties can nevertheless achieve reasonable licensing terms in the market.

B. Weakened Consent Decrees Could Allow Publishers and PROs to Leverage Their Market Power Similar to Negotiations Between Major Record Labels and Digital Music Services.

The recent state of the recorded music licensing market provides a telling example of what might happen in a publisher licensing system that lacks protections against unreasonable and discriminatory licensing. The major record labels do not operate under consent decrees like the PROs, and even with statutory licenses available for some (but not all) streaming services, rates remain high enough to give the major labels significant leverage over licensees. This has resulted in the major labels demanding license terms that prevent new services from launching or burden them with heavy advances, disproportionate royalty fees, or partial equity sales.

In order to launch a download or streaming service a company must obtain a license from sound recording copyright owners, which are often record labels. For many services today, users demand a comprehensive selection of songs, so it is especially critical to obtain licenses from the three largest record labels, which together control the vast majority of the market for sound recordings. As a result, when music licensing structures give the major labels the right to deny access to their catalogs, the labels have been able to make extraordinary demands of services that need their permission to launch new music offerings.

The major record labels have the incentive to stifle or seize control of new digital distribution platforms because those platforms begin to level the playing field among major labels, independent labels, and unsigned artists. Digital platforms are more likely to include unknown or niche music because they are not constrained by strict time limits (like AM/FM radio) or space limits (like physical stores). As a result, the emergence of new digital platforms largely abolishes the physical scarcity of brick-and-mortar marketplaces and causes major record labels to lose one of their main selling points to musicians—namely, that they alone have the connections and influence that a musician absolutely needs to get his or her music out in the marketplace. Thus, the dominant incumbent labels are particularly incentivized to use their leverage to create artificial distribution scarcity by stifling or controlling digital platforms that will decrease their influence as compared to smaller competitors or unsigned acts.

The major labels have that power to stifle and control new platforms, too, since the platforms ultimately may never succeed if a single major label can withhold a significant percentage of the recorded music market even after other labels have started working with the service. Even in today's marketplace, a major label can wield sufficient power to demand that potential new digital music services pay the label hefty advances and a high percentage of future revenue, or give the record label an equity stake in the new company.²⁵ This sort of control puts

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²⁵ These practices also hurt independent labels, which are left with a smaller slice of the pie after online services have acquiesced to the major labels' demands. Recently, the CEO of Merlin, an organization that

the major labels in a position to "make or break" any new service, allowing them to hamper innovation and/or demand exorbitant terms and conditions. As a result, consumers must either miss out on potential new services or pay excessive fees for those services.

Finally, a large record label can use its ability to deny licenses as leverage to gain partial ownership in new digital music services.²⁶ These deals only serve to entrench incumbent power structures and stifle innovation in the online music business, and music licensing structures should certainly not force this result on the industry by making new services choose between unsustainably high compulsory license rates and private deals with the dominant copyright owners. Spotify, for example, is partially owned by all of the major record labels, and has been dogged with accusations of giving independent and unsigned musicians a lower royalty rate than major label musicians for the same number of streams. Even where major label ownership of distribution platforms does not lead to claims of direct discrimination, systematic vertical integration only contributes to a highly concentrated market where a new service must obtain the permission of its largest competitors in order to launch. For example, the music identification service Shazam has sold Warner Music Group's owner Access Industries, Universal Music Group, and Sony Music Entertainment each a \$3 million stake in the company. 27 Access Industries also owns the music subscription service Deezer. 28 Since the acquisition of EMI by Universal Music Group, yet more online music services have sold partial equity to the major labels as part of obtaining licenses.²⁹ Increased vertical integration among the largest copyright owners and distribution and processing services only create new barriers to competition at each point in the supply chain, to the detriment of musicians and their fans alike.

The bottlenecks created when a small number of corporate copyright holders control most of the market, if left unattended, can thwart promising new music services and prevent competition among online music distribution companies. When the largest copyright aggregators

represents independent labels, voiced concern that the major labels' practice of demanding disproportionately high royalties and enormous advances squeezes out independent labels' royalties while making it harder for new online services to enter the market. Janko Roettgers, Merlin CEO: Major Labels are Setting New Music Services Up to Fail, GIGAOM (Oct. 12, 2013), http://gigaom.com/2013/10/12/merlin-ceo-major-labels-are-setting-new-music-services-up-to-fail/.

²⁶ See Mark Cooper & Jodie Griffin, The Role of Antitrust in Protecting Competition, Innovation, and Consumers as the Digital Revolution Matures: The Case Against the Universal-EMI Merger and E-Book Price Fixing (June 14, 2012), http://publicknowledge.org/case-against-umg-emi.

²⁷ Hannah Karp, Warner, Universal, Sony Buy Stakes in Music app Shazam, WSJ DIGITS (May 14, 2014). http://blogs.wsj.com/digits/2014/05/14/warner-universal-sony-buy-stakes-in-music-app-shazam/.

²⁸ *Id*.

²⁹ See Paul Resnikoff, Artists Will Receive Nothing from the \$3 Billion Beats Acquisition, Sources Say..., DIGITAL MUSIC NEWS (June 9, 2014), http://www.digitalmusicnews.com/permalink/2014/06/09/artistswill-receive-nothing-3-billion-beats-acquisition-sources-say; Adam Satariano, SoundCloud Said to Near Deals With Record Labels, BLOOMBERG (July 10, 2014), http://www.bloomberg.com/news/2014-07-10/soundcloud-said-to-near-deals-with-record-labels.html.

can wield outsized leverage against distribution services, those licensors can use their market power to demand high royalties, advance payments that squeeze out independent musicians, and partial ownership in new companies. When distribution companies must accept these kinds of terms as a price of entering the business, investors who might have otherwise contributed to more competing independent companies are discouraged from entering the space. Those distribution services that do launch may then not only be affiliated with the largest copyright owners in the industry, but will have few meaningful direct competitors. This only further entrenches the dominance of the companies that already have the upper hand.

III. Any Changes to the Consent Decrees Must Continue to Ensure a Competitive, Efficient Market.

The consent decrees have provided substantial benefits to the music licensing market and to consumers and artists. In contrast, the publishers' attempted partial withdrawals and the lessons we can learn from the major record labels' use of their market power are stark warnings of the consequences of dismantling the protections in the consent decrees at this point in time. Ultimately, the PROs and the publishers continue to control large enough market shares to behave anticompetitively against licensees, and their recent actions demonstrate that they are willing to do so when given the opportunity. Therefore policymakers must ensure the consent decrees continue to protect competition in music licensing.

Any changes to the consent decrees must be carefully designed to continue to protect competition, and must be adequate to handle the increasing concentration among music publishers. Provisions that would allow the PROs to undermine competition or transparency in the market would threaten the development of new music service, leaving consumers with less choice, more limited services, or higher prices. Any proposal to alter the consent decrees in a way that could threaten the still relatively nascent online music market must therefore be approached with great caution.

Conclusion

The ASCAP and BMI consent decrees have served an important role in promoting competition and encouraging a robust music composition licensing market despite the dramatic market concentration among the PROs. Additionally, the increased market power of the largest PROs and publishers, and the recent attempt of the major publishers to partially withdraw their rights from the PROs only emphasize that the licensing market at this particular time seems especially vulnerable to anticompetitive practices. It therefore falls on our antitrust authorities to ensure any changes in the consent decrees continue to promote competition and innovation to the benefit of consumers.