

WRITTEN SUBMISSION OF UNIVERSAL MUSIC GROUP

**BEFORE THE SENATE COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND
CONSUMER RIGHTS**

**LUCIAN GRAINGE, CBE
CHAIRMAN & CEO
JUNE 21, 2012**

Mr. Chairman, Ranking Member Lee, and Members of the Subcommittee, thank you for the opportunity to appear here today. My name is Lucian Grainge, and I am the Chairman and CEO of Universal Music Group. We at Universal are pleased to assist the Subcommittee by testifying about our pending acquisition of EMI's recording music business. We appreciate the opportunity to share our vision for combining EMI's rich heritage with Universal's track record of investing in the future of music. Our coming together will benefit consumers, artists, and all those committed to a diverse and healthy music business.

Over the course of my 33 years in this business, I signed many talented songwriters and artists. I have worked with great bands that never became household names, as well as stars such as U2, Elton John, ABBA, Eurythmics, Paul Anka, Rihanna, Mika, Duffy, and Amy Winehouse. I still consider myself a talent scout today, but now my talent search has expanded to include writers, producers, sound engineers, creative executives, start ups, entrepreneurs, and digital platforms.

The music business has changed dramatically, as the Judiciary Committee is well aware. You have studied and assessed the challenges presented by the Internet, and I appreciate the many actions that you have taken to bolster and support businesses that depend on the protection of intellectual property. Many of the basic principals of law that have been acknowledged and protected by the Judiciary Committee have enabled us to invest in innovative artists that connect with audiences around the globe.

The future of the music industry depends on new ideas, new business partnerships, and of course, the development of new artistic talent. This industry will always change and redefine itself. But one thing will remain constant – the demand for great music. I look forward to reinvigorating EMI’s labels with Universal’s resources, expertise, and innovation, so that EMI can continue its tradition of discovering, producing, and sharing with the world some of the greatest music of our time.

Universal Is Committed To Innovation And Embracing Wide Distribution

The future success of the music industry is going to depend on the distribution of music through as many platforms as possible. Universal is committed to investing and innovating to meet the competitive challenges of the digital age – which means providing consumers what they want, when they want it, and how they want it.

The challenges to the music industry are significant. Extensive piracy has curtailed sales, resulting in lost profits and significant pricing pressure. Over the past decade, the recording industry in the United States has been almost cut in half — from about \$13 billion in 2002 to \$6.5 billion last year. This lost revenue has caused a great many people to lose their jobs and has limited the resources available to enable aspiring artists to pursue their dreams.

We have responded to these challenges by embracing distribution via the broad range of emerging technologies. Universal has a strong record of embracing ground-breaking innovations to market artists and recorded works through multiple channels. It is not at all unusual for us to distribute a single album in numerous digital formats – from singles, to albums, to ringtones, to videos, to remix tracks, to greeting cards, to DVDs, to TV shows, to advertising, and more. In order to sell music and support our artists, Universal must get the music to the consumer, whenever and however consumers are looking for it. Universal has learned that we need as many lines going to as many shores as possible.

With our commitment to embracing digital platforms and new opportunities, our revenues leveled off between 2010 and 2011. That is not the same as growth – but after a decade of significant decline, it's a start. Universal is committed to working with our technology partners and innovators so that we can

succeed in this fiercely competitive and dynamic market, empower our artists, and provide consumers with high quality, diverse, creative music.

Universal's Resources, Expertise, And Innovation Will Reinvigorate EMI

EMI has a storied history – it has brought the world some of the greatest artists in history – from the Beatles to Frank Sinatra. It is built on the foundations of the creative hubs at Capitol Records and its associated studios here in the US and, of course, the EMI UK labels and the incredible Abbey Road studios. Yet, the past decade has been undeniably difficult for EMI. EMI is currently owned by Citigroup, which acquired EMI following a default by EMI's previous owner, a private equity group. During this time, its owners have significantly reduced EMI's ability to invest in the search for new artists and innovative sounds. The team at EMI have done a masterful job under trying circumstances – and with the right financial support, long term commitment, and stability, they can contribute mightily to the global music scene.

With Universal's infusion of resources and commitment to investing in artistic development, there will be a healthy future for the company. We are absolutely committed to investing in EMI as a distinct business that can help us develop even more music and more choice for consumers and fans everywhere. EMI's labels will be reinvigorated and artists will have more choices, which will lead to more competition in this dynamic market.

Furthermore, Universal will bring its expertise in distribution through multiple channels to EMI. Universal has built a strong record of selling, licensing and distributing music widely. Universal has 123 active digital music deals in place in the United States right now. Universal's expertise will add value to EMI's current and catalogue recorded music assets, fostering the development, expansion, and marketing of EMI's assets to their full potential.

The Music Industry Is An Increasingly Competitive, Dynamic Market

Universal and EMI are both committed to music – committed to our artists and committed to the exploration and development of new sounds.

To Succeed In Today's Marketplace, Universal And EMI Must Embrace And Nurture The Broad Range Of Continuously Developing Platforms Consumers Demand

On June 6, 2012, the Chairman and CEO of the Recording Industry Association of America testified before the House Committee on Energy and Commerce and said:

We often hear the complaint that we need to get a new business model. Well . . . our companies have done just that:

- You want DRM-free downloads? We've got that: iTunes, AmazonMP3, eMusic, 7digital.
- You want to pay a modest monthly fee for all the music you can ever listen to – on your computer or smart phone? We've got that: Rhapsody, Spotify, MOG, Rdio, Music Unlimited, rara.com, Zune Music Pass.

- You want free, ad-supported video and audio streaming? We've got that: Spotify, YouTube, Vevo, Myspace Music, AOLMusic.
- You want music bundled with your mobile phone? We've got that: Muve Music, Metro PCS/Rhapsody
- You want to store all your music in the cloud, so you can access it from wherever you might be? We've got that: iTunes Match, and more deals in the works.
- You want specialized digital radio services that offer you the niche kind of music you like to hear? We've got that: Pandora, SiriusXM, Last.fm, Yahoo!Music, AOLMusic, and over 750 more such services.
- You want online simulcasts of AM/FM radio stations? That is available too: iHeartRadio, WJLK-FM 994.3 (The Point), KPWR-FM (Power 106), WXLC-FM (102.3 XLC), and over 750 more online radio stations . . .

There are over 500 digital services authorized by our member companies worldwide offering 20 million authorized tracks. ALL of these business models have been embraced and authorized by major and independent music companies.¹

The range of digital services is increasingly complex. No two services are exactly the same, which is a good thing, because these services expand the range of choices for artists and consumers.

In order to compete in a world where music is readily, if illegally, available for free, we know that our future is contingent on the vitality of legitimate digital

¹ Statement of Cary Sherman, Chairman and CEO, Recording Industry Association of America, before the Subcommittee on Communications and Technology, Committee on Energy and Commerce, U.S. House of Representatives on "The Future of Audio" (June 6, 2012), available at <http://republicans.energycommerce.house.gov/Media/file/Hearings/Telecom/20120606/HHRG-112-IF16-WState-ShermanC-20120606.pdf>.

music services. In 2011, for the first time ever, the industry-wide revenue from digital sales was nearly equal to the industry's revenue from physical sales. This year, the industry's revenue from digital sales likely will exceed revenue from physical sales for the first time. Universal has already made this switch. In 2011, Universal's overall revenue from digital sales (including tracks, albums, streaming, and other services) was already 27% greater than its revenue from physical sales.

Our mission is to give consumers what they want, when and how they want it. Because fans want their music instantly, they can enjoy downloads from iTunes. Because fans want music on the go, we give them that through cloud services like GoogleMusic. And indeed, because fans want their music to feel free, they can get that too through advertising models like Spotify and YouTube.

It is in Universal's interest to engage with the broad range of new distribution channels available to consumers. We need robust, vibrant, and successful legitimate music services in order to compete with pirate sites that carry substitutes of our artists' works. We want a large number of innovative digital music services to flourish. We are not a tech company, but our viability is contingent on the success of legitimate online and mobile music services and digital models.

I have seen this industry transition from eight-track tape to instantaneous download onto smart phones. I know that I cannot predict which platforms

consumers will demand, but I can predict that consumers will continue to demand their music on new and evolving platforms and, as our track record demonstrates, Universal's catalog and repertoire will be on those services.

Consumers Demand That Diverse, Comprehensive Catalogs Are Available On The Music Service Of Their Choice

We already have countless "must have" songs – whether it is the Motown collection or Elton John or U2. And we embrace, as we must, a market strategy of wide distribution. We will have the same strong incentives to distribute EMI's catalog. We sign hundreds of new distribution deals every year, and we are willing to talk with any viable new service with a credible business plan. Every Universal employee knows that we must continue selling, licensing, and distributing music widely on a non-exclusive basis if we are to harness the power of the Internet age and empower our artists to reach an audience. We owe that to our artists, we owe that to their fans, we owe that to our shareholders – it is our recipe for success.

The Universal/EMI Deal Will Expand The Options Available To Artists

Universal is committed to expanding the options available to artists and growing the music industry.

Artists And Musicians' Unions Support The Universal/EMI Deal

As recognized by the unions that represent America's recording artists, professional musicians, and other entertainment and media industry professionals, Universal is committed to its artists and respects industry collective bargaining agreements. These unions agree that Universal will be able to reinvigorate EMI and position it for the future.

SAG-AFTRA's Kim Roberts Hedgpeth expressly stated that Universal has "best weathered" the "daunting and unprecedented challenges" of the past decade "by maintaining its commitment to the art and the music industry, and by investing in new artists and innovative musical genres." She also concluded that, "[f]rom a labor perspective, UMG's compliance with and respect for its collective bargaining agreements and relationships has been unique among recording companies. As such, sustaining the EMI legacy under UMG's oversight appears to be a benefit to SAG-AFTRA's recording artist members."²

American Federation of Musicians' Ray Hair has also recognized our commitment to artists and to ensuring that they receive their due compensation through our industry-leading compliance with collective bargaining agreements. We also value AFM's observation that recording musicians will benefit from

² Letter from Kim Roberts Hedgpeth, Co-National Executive Director, SAG-AFTRA, to the Honorable Jon Leibowitz, Federal Trade Commission, dated April 12, 2012.

Universal’s oversight of EMI’s legacy and its future.³ Universal looks forward to providing the same levels of respect to EMI’s artists to further support their musical success.

Artists Have Choices

We are not just competing against the other major labels, Sony and Warner, who are already vigorous competitors. We compete with the significant “Indie” market, which, according to A2IM, the Indie trade association, represents over 30% of the market in the US.⁴ Indeed, the global rights agency Merlin, which represents independent music rights, refers to itself as the “the virtual fifth major.”⁵ And we compete with DIY (do-it-yourself) artists, who can record, promote, and sell their own music.

Smaller labels have agreed that the Universal/EMI deal will not limit their success. Scott Borchetta, chief executive of Big Machine Records, has said that consolidation does not matter as much in the digital age. “When the major labels

³ Letter from Raymond M. Hair, Jr., International President, American Federation of Musicians of the United States and Canada, to the Honorable Jon Leibowitz, Chairman, Federal Trade Commission, dated April 10, 2012.

⁴ A2IM President Rich Bengloff, *A2IM Disputes Billboard/SoundScan’s Label Market-Share Methodology -- What Do You Think?*, BILLBOARD.BIZ (March 3, 2011), available at <http://www.billboard.biz/bbbiz/industry/record-labels/a2im-disputes-billboard-soundscan-s-label-1005057292.story> Billboard.biz.

⁵ Merlin’s mission is “to ensure its members have effective access to new and emerging revenue streams and that their rights are appropriately valued and protected.” It holds itself out as “the most efficient means for digital music services to license repertoire from the largest and most compelling basket of independent rights in the world.” Merlin, “Welcome to Merlin,” available at <http://www.merlinnetwork.org/home/>.

controlled the distribution channels, it was a different deal, but now the barrier to entry is literally turning on your computer,” he said. “If I continue to make great records by great artists, nobody can stop us.”⁶ Mike Chadwick, an experienced UK Indie label and distribution expert, has said that the Universal/EMI deal is “great” for the Indie market:

Is it good for us? It’s great for us: there are loads of middle-level artists who are perfect for us. If we sell 10,000 records, I’m happy – we don’t have to sell a million records to make a profit. Artists who are unhappy gravitate towards companies like us. These huge amalgamations or mergers are really good for the indies.⁷

The Indie labels are strong competitors in the age of digital distribution.

Furthermore, technological advances mean that neither a “major” label deal nor an “Indie” label deal are essential for an artist. As David Pogue, the New York Times technology columnist, wrote in the May 9, 2012 New York Times, “In the online world, you can take your music straight to the public. No more gatekeepers, record executives or rejection letters. If you’re any good, you’ll soon win your fame and fortune — or at least sky-high view counts.”⁸

⁶ Elizabeth Bewley, *Music industry takes Universal-EMI merger fight to Capitol Hill*, TENNESSEAN (April 28, 2012), available at http://www.tennessean.com/apps/pbcs.dll/article?AID=/20120428/BUSINESS06/304280048/&template=artiphone&nclick_check=1.

⁷ Mike Chadwick: ‘It’s always a great time to be independent’, MUSICWEEK (May 14, 2012), available at <http://www.musicweek.com/story.asp?storycode=1049556>.

⁸ David Pogue, *The Voodoo Behind the Voice*, NY TIMES (May 9, 2012), available at http://www.nytimes.com/2012/05/10/technology/personaltech/voicelive-processor-listens-then-harmonizes-state-of-the-art.html?_r=1&pagewanted=all.

Mr. Pogue was referring to DIY (do it yourself) products that offer artists key services – services that had traditionally been offered only by record labels. This is a dynamic, competitive market where artists can choose their own path to success.

Universal's Plan Going Forward

We are in a world of the unknown in an unpredictable, dynamic industry. With such revolutionary distribution channels developing all the time, the music industry is constantly changing and ever more competitive. Everything we thought we knew about the music business is changing – but that can be said about music itself. And that is why I love it. Universal/EMI will continue to promote artists, invest in the future of the industry, and explore new business models in as many sales outlets as possible – digital, streaming/subscription, ad-based, DVDs/CDs – and whatever other outlets I hope are currently being developed.

Through our acquisition of EMI, Universal will enhance the creative investment in the company and further broaden the support for digital services. This will provide more opportunities for artists and more music and choice for consumers than ever before.

Thank you for the opportunity to speak with you today. I look forward to your questions.