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Appendix

**Market Assessment: CatBot Open Source System
(South West Regional Archives)**

For Fluffy Logic

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Appendix 1

A Better Way Forward: Voluntary Collective Licensing of Music File Sharing

April, 2004 "*Let the Music Play*" White Paper

The current battles surrounding peer-to-peer file sharing are a losing proposition for everyone. The record labels continue to face lackluster sales, while the tens of millions of American file sharers—American music fans—are made to feel like criminals. Every day the collateral damage mounts—privacy at risk, innovation stymied, economic growth suppressed, and a few unlucky individuals singled out for legal action by the recording industry. And the litigation campaign against music fans has not put a penny into the pockets of artists. We need a better way forward.

The Premises

First, artists and copyright holders deserve to be fairly compensated.

Second, file sharing is here to stay. Killing Napster only spawned more decentralized networks. Most evidence suggests that file sharing is at least as popular today as it was before the lawsuits began.

Third, the fans do a better job making music available than the labels. Apple's iTunes Music Store brags about its inventory of over 500,000 songs. Sounds pretty good, until you realize that the fans have made *millions* of songs available on KaZaA. If the legal clouds were lifted, the peer-to-peer networks would quickly improve.

Fourth, any solution should minimize government intervention in favour of market forces.

The Proposal: Voluntary Collective Licensing

EFF has spent the past year evaluating alternatives that get artists paid while making file sharing legal. One solution has emerged as the favourite: voluntary collective licensing. The concept is simple: the music industry forms a collecting society, which then offers file-sharing music fans the opportunity to "get legit" in exchange for a reasonable regular payment, say \$5 per month. So long as they pay, the fans are free to keep doing what they are going to do anyway—share the music they love using whatever software they like on whatever computer platform they prefer—without fear of lawsuits. The money collected gets divided among rights-holders based on the popularity of their music.

In exchange, file-sharing music fans will be free to download whatever they like, using whatever software works best for them. The more people share, the more money goes to rights-holders. The more competition in applications, the more rapid the innovation and improvement. The more freedom to fans to publish what they care about, the deeper the catalogue.

The Precedent: Broadcast Radio

It has been done before.

Voluntarily creating collecting societies like ASCAP, BMI and SESAC was how songwriters brought broadcast radio in from the copyright cold in the first half of the twentieth century. Songwriters originally viewed radio exactly the way the music industry today views KaZaA users—as pirates. After trying to sue radio out of existence, the songwriters ultimately got together to form ASCAP (and later BMI and SESAC). Radio stations interested in broadcasting music stepped up, paid a fee, and in return got to play whatever music they liked, using whatever equipment worked best. Today, the performing-rights societies ASCAP and BMI collect money and pay out millions annually to their artists. Even though these

collecting societies get a fair bit of criticism, there's no question that the system that has evolved for radio is preferable to one based on trying to sue radio out of existence one broadcaster at a time.

Copyright lawyers call this voluntary collective licensing. The same could happen today for file sharing: Copyright holders could get together to offer their music in an easy-to-pay, all-you-can-eat set. We could get there without the need for changes to copyright law and with minimal government intervention.

The Money: Collecting It

Starting with just the 60 million Americans who have been using file-sharing software, \$5 a month would net over \$3 billion of pure profit annually to the music industry—no CDs to ship, no online retailers to cut in on the deal, no payola to radio conglomerates, no percentage to KaZaA or anyone else. Best of all, it's an evergreen revenue stream—money that just keeps coming, during good times and bad, so long as fans want digital music online. The pie grows with the growth of music sharing on the Internet, instead of shrinking. The total annual gross revenues of the music industry today are estimated at \$11 billion. But that's *gross* revenues. A collective licensing regime for file-sharing can promise \$3 billion in annual *profits* to the record labels—more than they've ever made.

How do we get filesharers to pay up? That's where the market comes in—those who today are under legal threat will have ample incentive to opt for a simple \$5 per month fee. There should be as many mechanisms for payment as the market will support. Some fans could buy it directly through a website (after all, this was what the RIAA had in mind with its "amnesty" program). ISPs could bundle the fee into their price of their broadband services for customers who are interested in music downloading. After all, ISPs would love to be able to advertise a broadband package that includes "downloads of all the music you want." Universities could make it part of the cost of providing network services to students. P2P file-sharing software vendors could bundle the fee into a subscription model for their software, which would neatly remove the cloud of legal uncertainty that has inhibited investment in the P2P software field.

The Money: Dividing It Up

The money collected would then be divided between artists and rights-holders based on the relative popularity of their music.

Figuring out what is popular can be accomplished through a mix of anonymously monitoring what people are sharing (something companies like Big Champagne and BayTSP are already doing) and recruiting volunteers to serve as the digital music equivalent of Nielsen families. Billions in television advertising dollars are divided up today using systems like this. In a digital environment, a mix of these approaches should strike the right balance between preserving privacy and accurately estimating popularity.

The Advantages

The advantages of this approach are clear:

Artists and rights holders get paid. What's more, the more broadband grows, the more they get paid, which means that the entertainment industry's powerful lobby will be working *for* a big, open, and innovative Internet, instead of against it.

Government intervention is kept to a minimum: copyright law need not be amended, and the collecting society sets its own prices. The \$5 per month figure is a suggestion, not a mandate. At the same time, the market will keep the price reasonable—collecting societies make more money with a palatable price and a larger base of subscribers, than with a higher price and expensive enforcement efforts.

Broadband deployment gets a real boost as the "killer app"—music file sharing—is made legitimate.

Investment dollars pour into the now-legitimized market for digital music file-sharing software and services. Rather than being limited to a handful of "authorized services" like Apple's iTunes and Napster 2.0, you'll see a marketplace filled with competing file-sharing applications and ancillary services. So long as the individual fans are licensed, technology companies can stop worrying about the impossible maze of licensing and instead focus on providing fans with the most attractive products and services in a competitive marketplace. Music fans finally have completely legal access to the unlimited selection of music that the file-sharing networks have provided since Napster. With the cloud of litigation and "spoofing" eliminated, these networks will rapidly improve.

The distribution bottleneck that has limited the opportunities of independent artists will be eliminated. Artists can choose any road to online popularity—including, but no longer limited to, a major label contract. So long as their songs are being shared among fans, they will be paid.

Payment will come only from those who are interested in downloading music, only so long as they are interested in downloading.

How does this help artists?

Artists benefit in at least three ways. First, artists will now be paid for the file sharing that has become a fact of digital life.

Second, independent artists no longer need a record deal with a major label to reach large numbers of potential fans—so long as you have any fans who are sharing your music online, others will be able to access your music on equal footing with major label content. In other words, digital distribution will be equally available to all artists.

Third, when it comes to promotion, artists will be able to use any mechanism they like, rather than having to rely on major labels to push radio play. Anything that makes your works popular among file sharers gets you paid. There would still be a role for the record industry—many artists will still want help with promotion, talent development, and other supportive services. With more options for artists to choose from, the contracts will be more balanced than the one-sided deals offered to most artists today.

What about antitrust?

Because a collective licensing solution will depend on a single collecting society issuing blanket licenses covering all (or nearly all) music copyrights, there will need to be some antitrust regulation of the collecting society to ensure that it does not abuse its market power. Both ASCAP and BMI, for example, have been subject to a court-administered antitrust consent decree for many decades. The regulation need not be extensive, as the collecting society will essentially be selling only a single product at a single price to all comers. Regulators will keep a close eye on the collecting society to make sure that it deals fairly with artists and copyright holders, most of whom will rely on the collecting society for compensation for noncommercial filesharing.

How do we ensure accurate division of the money?

Transparency will be critical—the collecting society must hold its books open for artists, copyright holders, and the public to examine. The entity should be a nonprofit, and should strive to keep its administrative costs to a minimum. There are examples of similar collecting societies in the music industry, such as ASCAP and SoundExchange. We should learn from, and improve upon, their example. Giving artists a bigger voice should help ensure that their concerns with the current collecting societies are addressed.

When it comes to actually figuring out relative popularity, we need to balance the desire for perfect "census-like" accuracy with the need to preserve privacy. A system based on sampling strikes a good balance between these goals. On the one hand, in a public P2P network, it is relatively easy to find out what people are sharing. Big Champagne already does this, compiling a "Top 10" for the P2P networks. This kind of monitoring does not compromise user privacy, since this monitoring does not tie songs shared to individually identifiable information. At the same time, this general network monitoring can be complemented by closer monitoring of volunteers who will serve as the "Nielsen families" of P2P.

By combining these two methods, it should be possible to attain a high degree of accuracy, protect privacy, and prevent "cheating."

What if the music industry won't do it?

The music industry is still a long way from admitting that its existing business models are obsolete. But the current effort to sue millions American music fans into submission is destined to fail. After a few more quarters of lackluster sales, with file-sharing networks still going strong and "authorized services" failing to make up for sliding revenues, the music industry will be needing a "Plan B." We hope they will see that voluntary collective licensing is the best way forward.

If, instead, they continue their war against the Internet and continue inflicting collateral damage on privacy, innovation and music fans, then it may be time for Congress to take steps to force their hand. Congress can enact a "compulsory license" and create a collecting society to move us toward a sensible solution. Government involvement, however, should be a last resort—the music industry has the power to implement a sensible, more flexible solution right now.

What about artists who won't join? How do we gather all the rights?

Artists and rights holders would have the choice to join the collecting society, and thereby collect their portion of the fees collected, or to remain outside the society and have no practical way to receive compensation for the file sharing that will inevitably continue. Assuming a critical mass of major music copyright owners joins the collecting society, the vast majority of smaller copyright owners will have a strong incentive to join, just as virtually all professional songwriters opt to join ASCAP, BMI or SESAC.

The complexity of music industry contracts and history make it very difficult for record labels and music publishers to be sure what rights they control. Accordingly, by joining the collecting society, copyright owners will not be asked to itemize rights, but will instead simply covenant not to sue those who pay the blanket license fee. In this way, music fans and innovators are not held back by the internal contractual squabbles that plague the music industry.

What about file sharers who won't pay?

The vast majority of file sharers are willing to pay a reasonable fee for the freedom to download whatever they like, using whatever software suits them. In addition to those who would opt to take a license if given the opportunity, many more will likely have their license fees paid by intermediaries, like ISPs, universities, and software vendors.

So long as the fee is reasonable, effectively invisible to fans, and does not restrict their freedom, the vast majority of file sharers will opt to pay rather than engage in complex evasion efforts. So long as "free-riding" can be limited to a relatively small percentage of file sharers, it should not pose a serious risk to a collective licensing system. After all, today artists and copyright owners are paid nothing for file sharing—it should be easy to do much better than that with a collective licensing system. Copyright holders (and perhaps the collecting society itself) would continue to be entitled to enforce their rights against "free-loaders." Instead of threatening them with ruinous damages, however, the collecting society

can offer stragglers the opportunity to pay a fine and get legal. This is exactly what collecting societies like ASCAP do today.

What about other countries?

Non-U.S. rights holders would, of course, be welcome to join the collecting society for their fair share of the fees collected from American file sharers. As for file sharers in other countries, there is every reason to believe that if a collective licensing approach is successful in the U.S., it will receive a warm welcome and enthusiastic imitation abroad.

A relatively small number of countries today account for almost all of the revenues of the music industry. So establishing a collective licensing system in just a few countries could turn around the downward spiral in music industry revenues. The music industry already has an international "clearing" system for apportioning payments between countries.

What about the authorized music services?

The "authorized music services" like Apple's iTunes and Napster 2.0 would be free to compete against the P2P services, just as they do today. In addition, they could themselves adopt elements of P2P architectures, thereby dramatically expanding the music inventories they could offer music fans.

What's to stop the music industry from charging sky-high fees?

The enforcement costs faced by a collecting society for file sharing will keep prices in line. After all, if the society attempts to charge too much, intermediaries won't be able to bundle the fees into the cost of their products (\$5/mo. license on a \$50/mo. broadband account makes sense; trying to tack \$100/mo. license, in contrast, won't work) and file sharers will likely rebel in droves. For example, when movie studios charged \$90 for a VHS movie, they faced widespread piracy. They learned that, by lowering prices, they made more money and eliminated much of the piracy problem. In other words, reasonable pricing makes the system work for everyone.

What about movies, software, video games, and other digital content?

The music industry is the only industry that appears to be unable to adjust their business models to take file sharing into account. And it is the music industry that has been leading the way in suing ISPs, software companies, and individual music fans.

The movie industry, in contrast, is having its most profitable years in history. The software and video game industries also continue to show strong growth and profitability. Each one of these industries has taken steps to adapt their business models to the realities of file sharing. Of course, if other industries want to form voluntary collecting societies and offer blanket licenses to file sharers, there is nothing to stop them from doing so. Individuals would then be free to purchase the license if they were interested in downloading these materials from the file-sharing networks.

Appendix 2