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Contribution by

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IFPI Written contribution to the discussions of the Fourth Session of the Intergovernmental Group of Experts on E-Commerce and the Digital Economy

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IFPI – representing the recording industry worldwide – represents some 8,000 record companies and affiliated industry associations in 70 countries globally, including across many UNCTAD Member States in Africa, Latin America, and Asia-Pacific. IFPI's main objective is to develop fair and balanced market conditions for our members to operate in, to enable the recording industry to continue to invest in artists, create jobs, and contribute to economic growth.

On 19 February 2020, the UNCTAD Secretariat published a note titled "Digital platforms and value creation in developing countries: Implications for national and international policies" which will be discussed at the upcoming meeting of the Intergovernmental Group of Experts on E-Commerce and the Digital Economy in October 2020. In response to the Secretariat's invitation, IFPI respectfully offers the following note as the music industry's comments and input into the Expert Group discussions.

I. General reasons for the music industry's interest in the Expert Group's discussions on digital platforms and value creation in developing countries

Digital trade is vital to the music business. The recorded music industry is a digital industry and digital business has the potential to transform the music industry in developing countries as well. Following two decades of dynamic transformation of its business model, the recording industry is now a portfolio business with a number of digital revenue streams (music streaming, downloads, various other online services) as well as 'non-digital' revenues from performance rights (broadcasting, cable, public performance, etc) and synchronisation (licensing of recorded music for films, ads, etc) as well as physical sales (CDs, vinyl). Digital revenues account for the majority – 63.3% - of all the music industry revenues globally. The percentage of total industry revenues represented by digital tends to be even higher in many developing countries, especially in rapidly digitising markets where the legitimate physical sales sector was never fully established (e.g. 63.1% in the Caribbean, 85.8% in Central America, or 78.7% in India). Therefore, the topic of the rise of digital platforms and its implications for value creation and national and international policies has direct relevance to the music industry and the industry's ability to foster value creation in the creative economy.

Developing countries have enormous potential to benefit from digital trade in recorded music. The creative sectors in developing countries, including the music sector, have enormous potential to contribute to value creation and diversification of their countries' economies and exports. In the case of the music industry, this is evident from the fact that musical talent can often be found in developing countries many of which have vast and rich musical traditions and have populations that love listening to music and are interested in making new music. The question, however, is can these countries turn their populations' love of music and long-running musical traditions into a dynamic sector of the economy? IFPI firmly believes that the answer to this question is yes. Such value creation and economic diversification are possible provided that the economic – as well as cultural - value of music is fully recognised and that appropriate policies are put in place by the governments.

II. Policies that enable the building of domestic capabilities to create and capture value in the digital economy

As recognised by the UNCTAD "2018 Creative Economy Outlook: Trends in international trade in creative industries" report:

"*The symbiosis between the creative and digital worlds should come as no surprise. Creative content interlaces with, and gives visual life to, the digital world. It thus stands to reason that the digital environment would be the fertile ground from which a more integrated, synchronized creative economy could operate, by pulling on the many levers of the creative industry: writing, design, video, software, music, publishing, photography, performance art, games, research and development (R&D), among others (UNCTAD IER, 2017). As connectivity increases, especially among mobile users in developing countries, the level and demand for quality content will increase, together with demand for more creative goods and services. (…) The challenge will be how to monetize this and increase the fair spread of the digital spoils in a context where "social media and technology platforms, and not publishers (content creators and packagers), have often been the primary beneficiaries of users' growth in time and spending" (PwC, 2018). There is also room for better governance and policy in this fastchanging space, to protect consumers and producers.*"[1]

Value creation in the music sector. The music business is dependent on predominantly private investment in new musical talent. Record companies are the main investors in this talent development and new music production, with $5.8bn invested annually into A&R ("artist and repertoire") and marketing.[2] They continue to invest, even through difficult times, not only in artists and their music, but also in the people and infrastructure crucial to creating the whole creative ecosystem enabling professional music creation. Such investment would increase if the environment for investing in intangible, copyright-protected content such as music were to improve further, especially online. The key globally applicable policy principles for successful value creation online are:

1. Music's value – both cultural and economic – must be recognised
2. Copyright frameworks must be clear and provide for legal certainty
3. Right holders must be free to license, i.e. decide who can use their music and how, both online and offline
4. Adequate legal remedies must be available to prevent music from being made available illegally

IFPI would like to contribute to the discussion of the opportunities and challenges for value creation that developing countries face when dealing with global digital platforms (UNCTAD Note, Guiding Questions). In particular, we would like to introduce the "Value Gap" problem, which refers to the mismatch between the value of music to certain online platforms and what they pay content owners, and how this problem can be overcome or avoided in the first place.

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[1] *UNCTAD Creative Economy Outlook: Trends in international trade in creative industries* (2018), UNCTAD, p.15-16: https://unctad.org/en/PublicationsLibrary/ditcted2018d3_en.pdf

[2] https://powering-the-music-ecosystem.ifpi.org/