The State of Industry Report - Panel Transcription
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Speakers: Brett Cottle, CEO, APRA AMCOS; Dan Rosen, Chief Executive Officer; ARIA; Kim Tran, Director, Policy & Programs, Live Performance Australia

***LB:** I would like to ask Brett, CEO of APRA AMCOS to open this and share with us some numbers.*

BC: Thanks Lars, I think in keeping with the timing we have I will be fairly brief in my comments. The perspective I am going to give you is of course that of the collecting society APRA AMCOS, which looks after the interests of songwriters and publishers, only a part of the ecosystem, but an important part. It is difficult to draw any conclusion other than that the industry is back in boom times, from the kinds of figures that I will refer to today. There are roughly three points I would like to make. The first is that digital revenue for songwriters and publishers is almost now at the level of revenue from the broadcast sector. In the year to 30 June 2017, we will be reporting across APRA and AMCOS digital revenue of $110 million. Included in digital are subscription and ad driven streaming services, digital downloads, video on demand and user generated content. The combined figure across those businesses this year will be $110 million. The figure from broadcasting this year, including all radio and television, across Australia and NZ will be $125 million. By way of indicating how we have travelled, two years ago digital revenue was $48 million and broadcast revenue was $122 million. So over the past two years revenue from digital has risen a net 130% whereas revenue from broadcasting has increased 5%. Now you can draw all sorts of conclusions about that, but I think one of the interesting conclusions you can draw, is that despite the tsunami of digital services that has well and truly taken hold in Australia and New Zealand, its remarkable that the broadcast business has shown such resilience.

The second point is that the growth in subscription streaming services has far out-stripped the decline in digital downloads. And again, two years ago, where we were looking at a subscriber base in Australia of under one million, I think the big question was, will we see the death of digital downloads and will streaming take up the slack? Well in the subsequent two years, revenue for our sector of the business - the publishing side of the business - from digital downloads has declined from $28 million to $17 million, while subscription revenue has surged from $11.5million to $62 million. So the rate of growth is streaming is five times the rate of decline in the digital download market. So that battle has been well and truly won, at this stage.

The third point I want to make is that every consumer or advertising dollar that shifts from the traditional broadcast platform to a digital platform is good for copyright owners as a group but not so good for local songwriters or content producers and there are two factors that underpin that statement. The first is that royalty rates for content owners, certainly music content owners, are generally better than they ever were in the analogue world. The rates of royalties paid by the streaming services are for example much higher than the rates of royalty paid by traditional radio broadcasters. The share of the revenue pie that is generated that goes to content owners and writers is much better in digital than it is in analogue, but because of the globalisation and the globalised nature of the digital services, I think the whole notion of local content and local content regulation is at risk of redundancy – and that is hard for local writers and the local industry generally.

It is worth noting that we have a very well-developed system of paying royalties for live performances in Australia to our writer members and we are kind of proud of the system of payments to our writer members for their live performances and over the past two years, the amount that we've paid out for live performances from live venues, not in a concert setting in Australia, has gone from $3.8 million to $6 million. So whereas two years ago we were paying out $1.81 per work, per performance, we are now paying out $2.70 per work, per performance. And $6200 writers, throughout Australia and NZ receive an allocation on that basis for live performances of their works. But - and this is the interesting punch line - about double the number of our writer members receive earnings from foreign performances during the year, than receive earnings from local performances of live music. So it means that an awful lot of Australian writers are getting performances whether they are on radio or TV around the world in the most obscure territories, who are not necessarily playing their songs or having other people play their songs live in this territory. And I think nothing illustrates better the global nature of the business we now operate in.

LB: *Thankyou Brett. Dan I would like you to speak on the numbers please.*

DR: Thanks Lars, I echo Brett's optimism I think, we are in a really exciting phase of the business again and it is great to see growth return to the market. We have some figures here, but we also have to put that in context of where we have come from. If we look back at revenues of the recorded industry business from 1999 to 2014, effectively the business halved in those 15 years, the positive is these are the global figures that we are starting to grow again. The global business was up 6% last year; the US market was up 11% last year. US being a strong bellwether of where the rest of the world is going, so yes there is optimism but we still have a long way to go from where we were back in the late 90s. Also as Brett was saying, I agree that it is really streaming that has been driving that growth. And we see the growth in streaming over the last five years has been quite phenomenal.

To think that the biggest revenue stream for our business didn't exist five years ago, demonstrates the pace of change and also the innovative nature of the music business and it's something that we spent a lot of time in Canberra between APRA AMCOS and ourselves trying to educate policy makers that the music business is not an old economy business, it is actually part of the new world. And being one of the industries that first went into digital disruption, it is one of the first businesses coming out the other side. And the fact that our largest revenue stream didn't even exist 5 years ago just shows that we are embracing change and embracing innovation and technology.

It is a very important message to get out from the music business that we are a digital business and we are an innovative business. If we look at the Australian numbers, the last three years have been incredibly positive after fifteen years effectively of decline. The last two years we have seen growth come back to the recorded music side of the business. Two years in a row effectively 6% growth. So last year we were up over $350 million, coming from about $315million back in 2014. And it has really been streaming that has been driving that growth. In 2012 streaming didn’t exist. It went from 10% in 2014 to 21% in 2015, to 40% in 2016. So streaming has quadrupled its share in two years. It's a remarkable pace of change. And again, as the APRA numbers has brought out, that has really been at the expense of the download market. The physical market has declined, but the growth in streaming has really come at the expense of downloads, but because the overall pie is growing, the growth in streaming has been more than offsetting the decline of digital download. This image shows the actual numbers of digital streaming revenue, you can see it has quadrupled since 2014, $30 million in 2014, $135 million in 2016, a massive, massive growth. I think we are seeing that trajectory continuing, it probably won't grow at the same rate, but it is certainly continuing to grow as more Australians are taking up subscription services.

I think both Spotify and Apple Music have done an incredible job at convincing the market to take up subscription services. Apple Music's partnership with Telstra is a massive boost for the country, it was the first time that Apple Music partnered with a Telco anywhere in the world and that ability to access 16 million mobile phone customers with Telstra is a huge opportunity for the music business. They have done an okay job at getting the first million over the line, but if we can get 20 or 30% of Telco customers paying for music we are going to be in an incredibly strong position going forward. This is the other nice story, admittedly it is still a niche part of the market, but the rise of vinyl has really been a good news story. I think I do more radio and print interviews on this more than anything else because I think every radio journalist or print journalist sees that vinyl is back and they might keep their job for five more years. But the rise of vinyl has been quite remarkable and we have seen that it has been doubling year on year for the last five years and it now accounts for 5-6% of the total record business. We see that is a trend that is continuing to grow, and when you speak to the record stores, it is not the older people buying vinyl, it is often younger people buying, and the interesting thing speaking to some of the record store owners, its young women buying vinyl. They have said in the past it's been predominately male dominated, but more and more with vinyl it has been young females coming in and buying venue. So that is a great trend for the business as well. The digital vs physical, we have gone from a 60/40 split to a 70/30 split, so physical in Australia is holding up better than in most countries in the world. The two countries where physical is still majority is Germany and Japan, remarkably. Germany is still well up over 50% and half of those are David Hasselhoff records apparently (laughs). But we are a little bit better than the UK and a little bit better than the US that are at about 25/30.

So physical has held up well, it is declining year on year, but still contributes quite a bit to the market - and that's vinyl in inner city and usually regional areas where CDs are still selling very strongly. And then on the collection society PPCA side on the record business, we have already seen some fantastic growth over the last five or six years, we have effectively doubled our distribution since 2010. Last year we were about 20 million in 2010, and just under 40 million in 2016 and we will see that rate of growth continue this year as well. I think if you put the publishing side and the recording side together, it is a fantastic story, we should all feel very confident for the next three to five years that that growth is going to continue. It is great that we are working in a business where we have a tailwind rather than a headwind, which we have been operating for the last ten years.

I think the big challenge for the record business that Brett touched on is, how do we break Australian artists in a globalised streaming world, when we are dealing with global playlists which impacts on the ARIA chart, which then impacts on what radio plays, and that is a challenge we need to work through as a business. Certainly there are more global opportunities for our artists, but helping to break the Australian market now is getting harder and we see on the ARIA chart there were no Australian artists in the Top 20 singles, only three in the Top 50 and it is getting harder to break those charts with global playlists. The ARIA chart is something we need to continue to monitor - what is happening around the world, is there anything being done to help local artists.

LB: *It is a different story in the live sector. Kim, can you please let us know what is happening there.*

KT: I just wanted to start firstly by talking a bit about the global context from a live performance context. In 2016 it was estimated that the global live entertainment industry had revenues of $25 billion and a lot of that revenue was driven by people wanting to have an experience, so attending a live event, and also popular artists touring again - think Bruce Springsteen and the like. And I guess that correlates with what we are seeing, that a lot of artists these days - that's where they are making their money, by doing the touring. There are a lot of trends to say that young consumers and even baby boomers want to spend their money in the live experience space, and I think that is something to think about in crafting your products, because experiences can be more than one thing. I attended a conference a couple of weeks ago where they were talking about how it is not just about attending an event. The experience may also be pre-paying for the drink, pre-paying for the merchandise, and having a seamless experience when you get there. So I think going forward those are the kind of things the industry could be thinking about.

It was interesting hearing the stats on the streaming side of things because clearly that has been doing really well. And some of the global trends have a trickle-down effect to ticket sales. It might have a bit of a lag effect, but eventually you will see something in the ticket sales and hopefully people are still going to those live experiences, because you can't replicate a live experience with something you hear on a stereo. The other things I have been reading is that some people are predicting that the live market will grow by 50% in the next 5-10 years and that is massive, and I am interested to see if that prediction comes true. To counter all that, I don't know where that will go, because some of the numbers that LPA has, is showing a slightly different trend. It is a cyclical area and I think we are in a bit of trough at the moment. The research we are hoping to release in the next month or so suggests that in the contemporary music world, contemporary music is always the engine room of the live performance industry. It always tops number one in terms of market share. In 2016, contemporary music will have a market share of 30% - that has been declining over the last few years. It peaked in 2010 at almost 50% market share of revenue, but unfortunately now it is at about 30%. In terms of ticket sales it has declined by 7.9% between 2015 and 2016 and again that is a trend that has been happening since 2013. In the time between 2013 - 2016, revenues have declined by 30%. In terms of attendance, the news is a little bit better, between 2015 - 2016 we saw a slight increase, not huge, but by almost 2%.

However attendance since 2013 has actually declined by 10%. So, some mixed statistics there. The average ticket price is in decline. In 2015 the results were showing the average ticket price was around $96, in 2016 that has gone down to $85. Again in 2013 it must have been a great year; the average ticket price then was $110. In the festivals area, and I alluded to this yesterday, in 2016 its taken a big hit. When you have big festivals cancel, like Future and Stereosonic, it is going to drop those numbers significantly. You are looking at revenues declining by 25% between 2015-2016, and you are seeing attendance drop by almost 50%. Despite those cancellations, the average ticket price has stayed the same as 2015. The other thing I think is we know there are some big festivals coming this year and next year. Some international festivals are coming here. Whether that is trying to replace some of them…or they are seeing that Australia has a great fertile market and therefore trying to replace what no longer exists. There are also boutique festivals emerging - I think sometimes people want to go back to the roots of having something small. The other observation that I would like to make is around industry consolidation. We know in the last year or so that some big players have been merged ie) Live Nation with Secret Sounds, who present Splendour in the Grass and Falls, and also the merger of TEG and Dainty. So, it's about whether there is this bit consolidation happening as well.

LB: *Brett we have to talk about the productivity commission. I recall in December they released their final report and APRA's comments were those of a disappointed organisation. I recall that APRA said at the time that the report was a blunt attack on Australia's creative industries, unashamedly promoting the interests of those who exploit Australian content over those who create it. I wonder how the commission came to this point.*

BC: Look I obviously can't comment on the productivity commission's processes or views about the issue, but I think there was a lot of illogic in the report, and I think there was a lot of rather wilful overlooking of the arguments that didn't suit the final position that was taken by the commission on a number of keys issues. So as far as fair use is concerned, my view is based on practical experience in the market of dealing with users of copyright material - the things that they want above all else is certainty and simplicity. They want easy process and they want certainty around the rules of usage. The whole idea of passing to the courts to determine what is fair in any given factual circumstances surrounding the right of copyright materials is plainly absurd. And it puts users in a crazy untenable position of not knowing what they can do and being at risk of being hauled off to court to have someone argue over what might be very small sums of money individually, on whether the use is fair or not. It is much better to build certain rules into the legislation, rather than pass the buck to the courts.

So I think that's a really silly move and it feels like it feels the final play in a long ideological arc of argument between the anti-copyright movement that grew out of the 1990s and where we are now. It feels like a legacy argument that has no real traction or resonance with current circumstances and I would be staggered if the Government was silly enough to go along with that kind of idea. There are other aspects of the report which are very concerning and have potentially deep consequences, commercial consequences for copyright owners in this country. The idea that you can force digital services for example to un-geoblock their content and that everybody should have the right to access the US store for content is bound to lead to a removal of licensing arrangements in Australia and NZ, and take the revenue that would otherwise be here used for the reinvestment in Australian content and Australian artists and have it paid into US content. Again it doesn't make any sense for the country's wellbeing at all, and the old price arguments are just ridiculous now. I mean everybody is paying $11 a month for their music, and similarly fairly derisory sums of money for their audio-visual content as well. To encourage US cultural hegemony by having all the value accrued in America is just an insane economic play. They are the two big issues for me and we have been heavily advocating that the Government shouldn't go down this path, but you know, the forces against us by the tech giants masquerading as the academic world are powerful and can't be underestimated.

***LB:** Does the industry need to change its elevator pitch when discussing with Canberra and legal and decision makers?*

DR: I think there has been a big shift in the last few years and the productivity commission were unfortunately playing on some very old narratives. They wrote a report where they seemingly had a conclusion in mind before they startedso they were completely biased in the evidence they took in. And the evidence that didn't suit their conclusion, they either dismissed it or didn't really listen to it. You know, these crazy notions that music has no value when no more than five years old, I'm just like "well turn on Smooth FM once in a while!" You know, it's just these crazy crazy notions. I think our elevator pitch has changed. I think as an industry we've gotten much better at working collectively as an industry and also collectively across the creative industries. Because what was once true for the music business is now true for film and TV, sporting codes...so you come in speaking with a much bigger voice than just the music industry on their own. And it's about changing the narrative. Exposing these myths that some policy makers had and that the productivity commission seemed to still believe is - we are old economy and the tech guys are the new economy, we are anti-innovation, they are pro-innovation - we need to dispel this myth. I think Canberra is starting to understand that.

The second myth around availability and price - well you can sign up to Spotify for free and get your music legally. It is harder to be cheaper than that. Or as I say to policy makers, to have the entire history of recorded music at your disposal for $11.99 a month is a pretty good deal. The other myth is that we are against reform. We are for sensible reform but we need to understand what is the problem we are trying to solve? And that is the number one issue when you sit down with policy makers who talk about fair use of safe harbours. And you say, what is the problem that we are trying to solve here? We are not against reform, but please explain to us the problem that we are trying to solve. Maybe safe harbour or fair use is a blunt instrument trying to solve this. Or you sit down with Google and you say, why do you need this? What are we trying to solve here? And often getting policy makers to ask those questions of the other side, their arguments unravel very quickly.

I think on the fourth element that Brett touched on, is getting the artists involved - five years ago artists were very reticent to talk about copyright issues, from a combination of thinking that they would piss off their fans or just not having the education. There has been a lot of work done through APRA, through music rights, through ARIA and others to educate artists that copyright is the bedrock under which their careers are based, and they need to stand up at the right time and fight for it. They don't need to get into the politics of it. All they need to say is, I want to control how my music is heard and who gets to control it. If I want to give away my stuff for free that is my choice. Get 200 artists to sign their name to a petition on safe harbour to get artists to come to Canberra to perform for policy makers. When they see the artists performing, they realise that music is a huge part of the

Australian culture. You know the sporting organisations have done an amazing job of getting policy makers to understand how important sport is to the Australian culture. But we need to keep telling the story of how important music is. And every politician, or most, has a favourite artist or a favourite song - something that is part of their DNA. We need to unlock that potential and I think we have been doing it better, so we have to continue to do it. But we can only do it if we work collectively as an industry.

LB: *One initiative that the industry worked on collectively was One Music Australia. So if you could pop your PPCA hat on for a moment and we could talk about that. It rolled out in NZ a few years ago. Brett what did you learn from the Kiwi experience?*

BC: Well we learnt that three years into the experience, the idea of saying to a small business that if you are playing music, recorded music, you need a license from APRA and then you need license from this other organisation over here, calculated on different terms, requiring different amounts of money, is a complete absurdity and an utter anachronism three years down. It is like showing young children - sorry to be ant-vinyl - but showing them a vinyl music and asking them "what's this?" They do not equate it to music in the same way that small business owners in NZ now feel. They now know they need to get a music license. One licence, one means of calculation, a very easy process and very simple minimising of red tape and we think the same will be the true in Australia within a very short period of time after we go live. I mean some sectors have been a bit suspicious about it, but it is really about simplifying everything from their point of view and responding to consumer needs. It is only applying in relation to public performances, not applying to broadcasts and so on.

LB: *Brett you will be leaving your position at APRA next June I believe, I wonder if you could share with us some of your finest achievements during your time there and maybe some of the things you wished you had done.*

BC: I am not starting the farewell tour just yet. Let me just say that I think APRA, I hope is all about, service really. I hope it is all about understanding that we are there to serve the interests of not only our members (the writers and the publishers) but also the public, I think there is a really heavy public interest in what we do. And I hope that the organisation, apart from being more successful commercially and more efficient, above all values the service ethos, and if there is one thing I can leave with, I hope it’s that.