PREPARED FOR:

ROGERS WIRELESS CANADIAN Music Week

BY: CONNECTUS CONSULTING INC.

GLOBAL Forum

SUMMARY AND ANALYSIS

SUBMITTED TO THE CANADIAN RECORDING INDUSTRY ASSOCIATION, THE ONTARIO MEDIA DEVELOPMENT CORPORATION AND FOREIGN AFFAIRS AND INTERNATIONAL TRADE CANADA - APRIL 9, 2007

CRIA Canadian Recording Industry Association

Foreign Affairs and International Trade Canada / Affaires étrangères et Commerce international Canada

Ontario — Ontario Media Development Corporation

CAAMA

GLOBAL Forum

SUMMARY AND ANALYSIS

EXECUTIVE SUMMARY

Global Forum 2007

Executive Summary

The Global Forum was an invitation-only event designed as a collaborative session to explore the present and future landscape of the international music industry. It was hosted by Rogers Wireless Canadian Music Week and took place on Friday March 9th 2007.

Among the common themes emerging from the forum:

- The music industry is undergoing profound change on an unprecedented scale and on an accelerated timetable. Most industry professionals attending the Global Forum believe that CD sales will dramatically decline in the next two years, and that monetizing user-generated content will be the wave of the future.

- The industry continues to strongly believe that music has value - even though the public may perceive that music, at least on a per-unit basis, is worth less than it once was.

- Each sector sees opportunities to exploiting this value in a digital landscape. Virtually every industry sector sees positive near-term prospects for the direction of their businesses.

- Visions of how to realize these prospects vary by sector. On one end of the spectrum, those engaged in the Online/Technology and Broadcast/Journalism sectors of the industry see the brightest future in an environment where the consumer is offered unfettered - if not 'free' - access to digital music. At the opposite end, the Industry Associations and Collectives strongly support a more active role for government through regulation and public policy that will set guidelines for the future, and especially for creators' rights.

Global Forum 2007

Executive Summary *(continued)*

- Music labels face a formidable task of reinvention as existing business models are turned inside out. As noted throughout discussions at the forum, labels need to establish their value and continued relevance in an online world where artists and managers believe they can bypass the label's traditional role as marketers and distributors.
- The Global Forum discussions also identified areas of common ground among the various sectors. Most notably:
- Digital interoperability and ease of use is a clear necessity
- The use of CD copy protection contributed to consumer dissatisfaction
- Legal remedies currently do not effectively communicate the value of music
- Digital Rights Management can play a role as an accountant, if not as a police officer, of music use
- Collective licensing has the potential to increase revenues
- Live performance is more important than ever, and
- Audiences are more sophisticated.
- Finally, delegates acknowledged the compelling need for increased co-operation between all sectors. If the industry hopes to realize all the future possibilities discussed at the forum, there will need to be a greater alignment of vision - or some players risk being left behind.

INTRODUCTION

Global Forum 2007

Introduction

A select group of 120 participant delegates from the global music industry brainstormed, debated and presented fresh thinking on two issues of critical importance to the industry: (i) *Fair Use and the Global Marketplace*, and (ii) *Monetizing Tomorrow's Digital Reality*.

Participants were divided into 15 roundtables, each facilitated by a leading thinker from academia, a research institution, a policy think tank or a related organization. Each table had approximately one hour to discuss *Fair Use*, then participants were shifted to a different table for discussions on *Monetization*. Scribes were present at each table to note key areas of debate.

Participants completed two surveys, one at the conclusion of *Fair Use* and one at the conclusion of *Monetization*.

The Global Forum Report is based on (i) notes from scribes, (ii) results of the surveys and (iii) discussion among participants as observed throughout the course of the session.

A summary of *Fair Use and the Global Marketplace* is presented first, followed by a summary of the discussion on *Monetizing Tomorrow's Digital Reality*. Each section of the Report is organized by the questions that were framed for each issue and integrated with survey results for each topic.

A list of Forum facilitators is presented in the Appendix to the Report.

GLOBAL Forum

SUMMARY AND ANALYSIS

FAIR USE AND THE GLOBAL MARKETPLACE

Part I: Fair Use and the Global Marketplace

Technology has had a dramatic effect on the music industry, opening new markets and revenues, and bringing together the global music market in new and dynamic ways. At the same time, technology has fostered a widespread culture of misappropriation and consumer expectation that content is – and/or should be – free.

The range of issues that has emerged concerning the value of music, the appropriate use of copyrighted materials, copy protections, and the changing role of the music industry formed the core of discussion on *Fair Use and the Global Marketplace*.

1. Why is music perceived to be worth less today than it was in the past?

Participants noted a number of reasons for the global *perception* that music is worth less today than in the past. Technology, social issues and legal issues were most commonly referenced throughout discussions.

Technology – and its impact on the marketplace, consumer behaviour and youth culture – was viewed by participants as the *primary* reason for perceptions about the value of music.

From a technology perspective, it was noted that the ability to share music files across the Internet diminishes its perceived value while hindering price points for legally downloading tracks. Music's ubiquitous and inexpensive (or 'free') availability via a wide range of platforms, whether peer to peer, Internet, radio ringtones, or other distribution mechanisms, was seen as the critical driver of public perception.

At the same time, the rise of user-generated content has made it much easier to create and distribute music in the neighbourhood, city, country or international jurisdictions. Once again, easy access to technologies that facilitate the creation and manipulation of music contributes to its perception as cheaply derived. The resulting quality of user-generated music content fuels the perception that music is inherently lower in value.

Many participants commented that the technological formatting of music as a downloadable electronic file rather than as a tangible commodity 'you hold in your hand' has contributed to perceptions of music's value.

Some participants also noted that when juxtaposed with the entertainment value of other content, such as video games, movies and DVD, the value of music (often a component of other content) is perceived as 'less'. Some participants noted that this relates directly to a public perception that music is (or is increasingly) inexpensive to produce through advanced technology, but that these reductions in the cost of production are not passed through to consumers in terms of price.

Participants also raised a number of arguments concerning the ***social*** reasons for the public's perception that music is worth less today than was the case in the past.

Much of the discussion focused on the use of music by youth, and the role of music in youth culture.

For example, participants noted that music has 'huge emotional value, but minimal or no perceived monetary value' for teens, since music is a central part of multi-tasking, but the physical media of distribution is worth much less. The balance of perceived value of music has clearly shifted among youth: a cell phone may be expensive, but teens will use their discretionary dollars to pay for personalized ringtones.

Other participants expressed their views that parents and educators are simply out of touch with youth culture and how teens themselves perceive the value of content. Youth are 'not disciplined' for downloading music, and parents largely go along for the ride – possibly against their better judgement. It was also suggested that youth incorrectly perceive they are hurting the establishment ('the man') and not the artist when music is downloaded for free.

Legal issues were also raised by participants as contributing to the perceived diminishment in the value of music. It was noted that legislative frameworks for copyright need to be created and/or reformed, given the complexity of the 'copyright business' and its dependence on so many different streams (performing rights, sync rights, mechanical rights and others).

Results from surveys of participants point to the very strong belief that popular perceptions that '*Music is worth less than in the past*' are *incorrect* – only 23 percent of survey respondents agreed with this statement when posed on the *Monetization* survey.

At the same time, it was generally felt that legal remedies to force awareness of the value of music on consumers are misdirected; only 19 percent of total respondents agreed with the statement, *Legal remedies are the best way to make consumers understand that music has value*.

Some participants expressed a contrary view during debate – i.e. that music is *not perceived as lower in value*, given (i) the huge supply of music that is available, (ii) the consistent level of passion for music among consumers, and (iii) increasingly independent sources of music. Other participants suggested that music may be perceived as diminished in value, but in truth it is worth more than ever before and that its importance to culture and society cannot be undervalued.

a. How has the music industry contributed to this perception?

Some participants indicated that the music industry must do a better job of educating consumers about the value of music, and that content is *not* free. The targets of such campaigns should include, but not be limited to youth – as noted parents and educators must also be the focus.

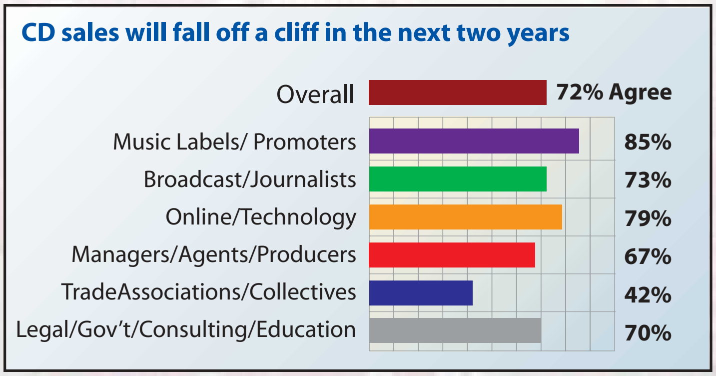
Others expressed the view that the music industry has not 'done itself any favours' with anti-piracy ads and/or by using industry marketing people ineffectively.

Some participants suggested that the industry has lost touch with its consumer base, has made downloading far more difficult than it should be, and has failed to capitalize on the singles market by forcing the full CD on consumers.

A number of participants suggested that the music industry has not come up with a solution that allows consumers to purchase/download music online in a simple and straightforward manner; moreover, standard/accepted industry practices for legal downloading have made 'risk taking minimal'. A number of other participants felt the industry has been slow to react to change.

Other participants suggested that the music industry has in the past sent conflicting messages by seeking to shut down P2P services while giving away music through other, industry-supported means, and by dictating to the public how music can be consumed through specific formats and devices.

In response to some suggestions that CD prices are simply too high, some participants argued it is wrongheaded to charge the music industry with overpricing product when the prices of CDs have never been lower than they are today.
There was also a split in opinion on the future of CD sales that emerged from post-discussion surveys of participants. In response to the statement *CD sales will drop off a cliff in the next two years*, nearly 3 in 4 respondents agreed, with widespread consensus from all groups except Trade Associations/Collectives:



b. How have other industries assisted with this perception?

Global Forum participants clearly perceived that the mobility industry has failed to differentiate between a downloadable song and any other product, but has simply assigned a value to music that is comparable to other content such as a banner or image. At the same time, it was suggested that ISPs have refused to track illegal trading, while governments have collectively failed to legislate illegal trading of music content.

Other media are also viewed as complicit in creating perceptions about the value of music. It was pointed out that advertising – print and broadcast media alike – is rife with references to downloading speeds of cell phones.

Other reasons for the devaluation of music expressed by participants centered on the current role of music in the marketplace. That is, music may have been 'overpriced in the past' but today is often marketed as 'free' (with a purchase of another commodity). The drop in the price points of recorded music by big box retailers such as Wal-mart is also contributing to confusion and misperception about music's true value.

2. Why do consumers feel it is their right to acquire music without paying for it, i.e. a sense of entitlement?

Many of the technology reasons cited above were restated and reinforced during discussion about consumer entitlement, i.e. the ubiquitous availability of music and relative ease of file sharing/downloading. It was noted that there seems to be a general perception on the part of consumers that they are not 'stealing, but sharing'. Consumers also find downloading and payment methods difficult and frustrating, so ease of use is a major factor.

Others suggested that the sense of entitlement has more to do with the fact that consumers pay a monthly fee for Internet access, and proceed on the mistaken belief that anything can be downloaded because it is already paid for. Another invitee noted that consumers believe that artists are incredibly well paid for their music, so downloading a few songs will make not difference to their incomes.

It was also noted that this history of 'free music' through over-the-air radio and the advent of Napster, combined with perceptions that no one is 'hurt' by music downloading, has influenced consumer views that they are entitled to access music in any way they want to.

It was again suggested that the industry itself has contributed to this sense of entitlement, by (i) failing to educate parents (and seven years of illegal downloading has made a huge difference), (ii) the amount of time it has taken to fully digitize catalogues on legal platforms, and (iii) making it too complicated to download legally.

a. What role has CD copy protection, or the lack thereof, played in increasing this sense of entitlement?

It was noted that CD protection measures send a message to consumers that record companies are only concerned with distribution – and as a result, more consumers will simply shift to digital music services. It was suggested that copy protection is simply viewed as another roadblock for consumers to get around – through illegal downloading, CD purchase or other methods of acquiring music.

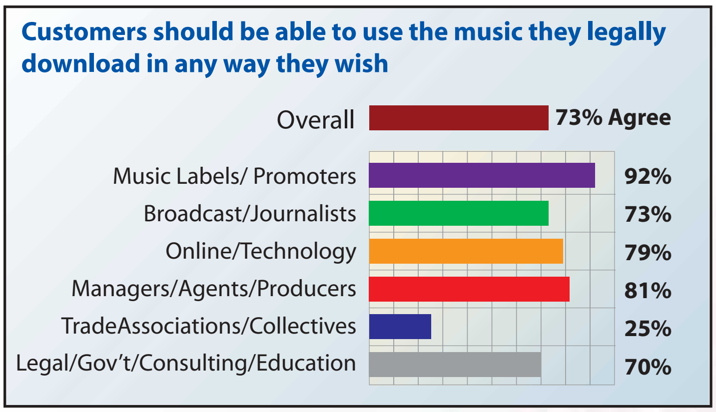
3. Which consumer expectations are reasonable? Which consumer expectations are unreasonable? Should consumer expectations override creators' rights?

Participants were of the view that 'it's reasonable to expect the music is easy to get', and should be readily available online; it also reasonable to expect that credit cards can be used to purchase music (although teens with no personal credit cards should not be able to use their parents' credit cards), and that content is delivered the 'second it is paid for'. For subscriber music/radio services such as Satellite Radio, diversity and quality are totally reasonable expectations.

Consumers are also subjected to confusing pricing schemes, e.g. where new releases from contemporary artists actually cost more than older records. Participants indicated such pricing structures not only confuse consumers, but drive them away.

However, it was believed unreasonable to assume that consumer expectations should surpass creators' rights – and clearly, consumers should not expect to own any 'unpurchased material of any kind', and should not expect access to content in order to remix or otherwise alter it in some fashion. It is also unreasonable to expect that every type of download will work with every computer and every software program.

But survey respondents demonstrated a clear difference of opinion in answering the statement *Consumers should be able to use the music they legally download in any way they wish*. While there was strong overall agreement (73 percent), the views of Music Label/Promoter respondents and Trade Associations/Collectives clearly diverge:



Opinions were also split on other statements relating to consumer behaviour and expectations. For example, across all sectors, between half and three-quarters of participants agreed with the statement *Trading files with strangers online is entirely different than sharing music with friends and family*.

Some respondents stated during discussions that consumer expectations should be supported to the extent that consumers are audiences – and audience members expect a relationship with creators and artists.

4. Should technological advancements trump creators' rights?

Some participants stated it is not a question of whether technological advancement *should* trump creators' rights, since they already *have*. However, it is reasonable for 'technology and creator to meet', e.g. by kick starting industry negotiations with mobile service providers such as Rogers for more cooperation in protecting and advancing creators' rights.

Survey results show overall concern for the status of creator rights, with 72 percent of respondents agreeing that *Government should do more to protect creator rights* – and nearly two-thirds (63 percent) agreeing that *Protection for copyrights is at an all time low*.

It was noted that technology advancements should be supported in order to create opportunities for downloads. On the other hand, participants were clear in stating that creators' rights also need support, since unsigned artists are not compensated through iTunes-type programs – and YouTube maintains music video files without paying artists.

To deal with the latter concern, it was suggested that a centralized body be created in order to collect and distribute royalties across all parts of the creation process (songwriters, backup singers, etc.) since monetization of YouTube and similar file sharing websites is not taking place for creators.

5. What is the appropriate role of DRM (e.g. accountant; policeman)?

It was suggested by several participants that digital rights management (DRM) can potentially be *both* accountant and policeman, while others suggested that DRM is a good identifier and tracker, but is ultimately an ineffective form of protection since it creates a 'bogged down user experience'. It was suggested that DRM might achieve a compromise where protection is dropped in favour of tracking only, in order to monitor revenues.

Although there was a general consensus that the use of CD copy protection has greatly contributed to consumer dissatisfaction with the music industry, some felt that abandoning DRM would be an overreaction, and that technical protection measures (TPM) and RMI should be looked at by the industry as well.

A number of participants suggested that DRM is a better policeman than accountant, and it should be used to track the infringement of copyright and be enforceable 'no matter what'. It was noted that DRMs serve to enable certain technologies, such as the purchase of online movies, i.e. their use is broader than music.

6. Steve Jobs has called on the music industry to drop DRM, which some have labeled self-serving given Apple's fight with European regulators regarding increased interoperability. The major record labels believe Jobs should instead license Apple's FairPlay DRM technology to current and future music services. Who's right and where do we go from here?

Participants suggested that 'Mr. Jobs 'doesn't give a damn about music' – he sells iPods and endeavours to expand the Apple brand – and that the industry needs to achieve a goal of a single international blanket licence for digital music.

It was predicted that DRM will not be completely dropped but that globally, users will have access to unlimited copies of records so long as they are for private use.

One invitee suggested that Mr. Jobs provide (donate) a licence to collective societies so other carriers can access his music files. Another suggested that different usage rates could apply depending on how and where music is accessed (i.e. different tiers for computer play, in-car play, etc.).

7. What constitutes a 'viable' audience these days?

Participants pointed out that, in the past audiences were those fans who purchased full albums because they enjoyed the artist, not just a single song. Today's viable audiences include those people who are willing to support an act, by attending live shows, purchasing records, writing/engaging blogs and joining fan websites. In the future, viable audiences will be comprised of people willing to spend their money on products they find attractive to them. Some suggested that there may be a need for a lower per-unit price point to compete with 'free'.

It was suggested that the audience is also comprised of younger consumers using various internet recommenders to discover old acts – for example, seeking to find out about those artists that have influenced their favourite new acts. This direction may allow classic rock to come back to younger consumers.

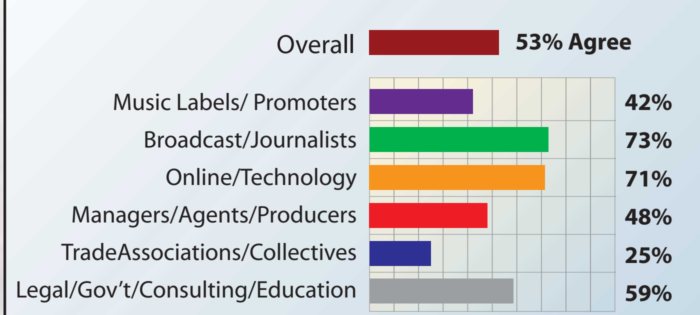
Some participants pointed to other means of generating viable audiences. As one industry professional noted, neither Dave Matthews Band nor Pearl Jam are top CD sellers, but have an enormous fan base, sell out all their concerts and make millions.

a. Can you still claim success without attaining a gold album, chart-topping radio hit, winning Nielsen ratings or record box office receipts?

Some participants argued that the old paradigm involved gold albums and chart-toppers, and that the new paradigm includes the number of hits on an artist's MySpace page (e.g. number of plays for their latest track), and that measuring success by the number of albums sold is more difficult because of illegal downloading.

It was also suggested that any artist is going to have difficulty maintaining an audience base unless signed to a major label. But with respect to the opportunities afforded by the Internet to independent artists, there was a clear split in opinion (53 percent agreement) on the statement, *The Internet will level the playing field for independent artists*, and an equally clear divergence across occupational categories:

The Internet will level the playing field for independent artists…



8. Are traditional discovery channels like radio and music television still relevant to consumers looking to learn about new music?

Participants noted that radio outdoes television through its more active promotion of music (e.g. concert tickets, CD releases) and is therefore still relevant to consumers (more so than MTV, for example). For certain music genres, radio and to a degree television are viewed as (still) crucial platforms.

Looking to the future, delegates across all sectors see an emerging role for music recommendation engines. Three-in-four (75 percent) agreed with the statement that *music recommendation engines will have a greater effect on consumer behaviour than terrestrial radio airplay.*

To this point, some felt that the radio audience is aging and becoming more mature, and will potentially use radio less for music and more for information or other programming. But there was an overall sense that radio and television will remain viable platforms for music and remain relevant to audiences into the future. At a minimum, both serve as relevant advertising vehicles for other platforms in the music distribution chain, such as ringtones.

GLOBAL Forum

SUMMARY AND ANALYSIS

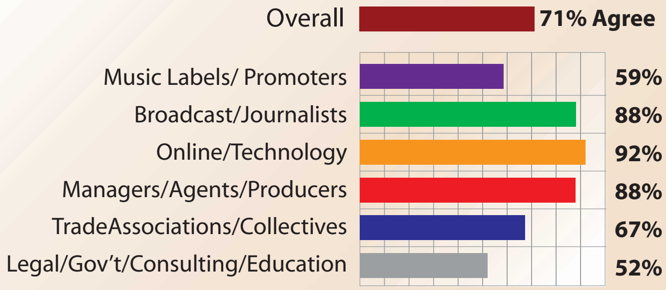
MONETIZING TOMORROW'S DIGITAL REALITY

Part II: Monetizing Tomorrow's Digital Reality

While the music industry used to rely heavily on selling products for revenues, the emerging digital world requires a broad spectrum of revenue-generating activities to make up for a declining consumer base for sales.

Though in many respects, delegates expressed conflicting visions of the future, most sectors expressed optimism about the near-term – whatever form it takes.

I feel positive about the direction of my business over the next two years



1. How can the industry reverse the devaluation of music, as its price heads toward zero?

Some participants suggested that while physical products are moving to zero value, the value of music is maintained in ways beyond physical product sales, such as licensing, publishing and other means. Music builds value in other ways – e.g. in merchandise and ticket sales. It was pointed out that the Tragically Hip sold 80,000 copies of a record, but generated 125,000 tickets sold for their concerts.

Some delegates argued that reversing devaluation will come from record label strategies to reposition themselves in the marketplace as entertainment production companies, adding value to the music production experience. In addition, devaluation can be inhibited across sectors, by educating such distributors as Rogers and CTVglobemedia.

Participants also noted that offering Internet-based value packages to consumers – e.g. unlimited downloads for a monthly fee – will help. So will price flexibility for downloading, although it was suggested that '.99 cents versus free' is not necessarily a level competitive playing field.

Blanket licensing was suggested by a number of participants as an effective measure against music devaluation, given the cost in time and money it takes to license on a territory-by-territory basis.

Some participants argued that industry integration – such as closer ties with the live music industry – would also help reduce devaluation and enable some revenue sharing across industry segments.

On the other hand, participants also commented on those actions which would not work to reverse the devaluation of music, e.g. reducing the price of music downloads.

One participant noted that music communities are emerging online, but that these communities need to transform into money making markets – artists may even have their own e-stores to sell content.

The devaluation of music was addressed in a number of survey questions, and elicited interesting responses.

In addition to the general agreement that music is <u>not</u> worth less today than what it was in the past, there was a broad consensus across all sectors on each of the following statements:

- *Better cooperation within the music industry when dealing with outside industries will lead to increased profitability* (with 95 percent of delegates agreeing)
- *If it were easier to legally download music, more people would do it* (with 81 expressing agreement)

Similarly, few executives see ad-supported services further eroding the value of music – with only 10 percent agreeing that *ad-supported music services will reduce the value of music to zero*.

However, a split in opinion was evident in responses to other statements – once again, potentially due to competing visions of where the music industry is heading.

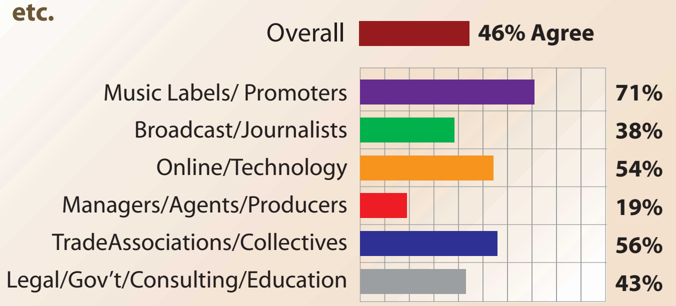
For example, the vast majority in the Online/Technology sectors disagreed that *if it weren't for rampant unauthorized file sharing, the music industry would be seeing increased revenues*, while most representatives from Trade Associations/ Collectives and Legal/ Consulting/Government/Education sectors agreed.

2. With CD sales continuing to decline, how is the division of revenues from live performance, merchandise, licensing, etc. likely to change in the near future?

It was noted by many participants that tour revenue is increasing – consumers clearly value the live music experience – but that consumers still want to purchase music (although in new ways that exploit new technologies). Some participants noted that live performance revenues are and will likely remain an important way for artists to collect revenue because the audience is physically present and will spend dollars on spin off merchandise and CDs. These participants further postulated that recorded music now promotes concerts, rather than the other way around.

But a very strong divergence of opinion was evident in response to the survey statement, *Record labels deserve to share in revenues generated through live performance, merchandise sales, licensing, etc*. where over 70 percent of Music Labels/Promoters – but less than 20 percent of Managers/ Agents/Producers – agreed with the statement.

Record labels deserve to share in revenues generated through live performance, merchandise sales, licensing, etc.



Some participants predicted that the role of music labels will narrow to marketing and distribution, coinciding with the shifting roles of artists and managers that are 'becoming more empowered by marketing'. Others were of the view that record companies will continue to generate revenues from CD sales, but non-label companies may consolidate; at the very least, more joint ventures that leverage branding can be expected.

It was also noted that the creation of value may be achieved in new ways, such as diversity in packaging and special releases.

Others suggested that record labels will begin to draw revenue from live performances, that live shows would be used to sell more CDs, and that tracks would become available for download on label websites. Labels may also begin to draw a percentage of merchandise revenue that is currently not collected from artists. Either way, closer relationships between artists and labels, and some form of revenue sharing, is likely desirable if 'only to survive'; monetization is therefore dependent on pulling revenue streams together and sharing these more equitably.

It was further suggested that advertising-based models may also emerge more predominantly, where access to music is supported by a sharing of ad revenue with artists.

At the same time, one invitee noted the model for classical music – low unit sales and high ticket prices – is unsustainable without financial support from record sales, e.g. classical music labels are 'shutting down all over. This worries me.'

3. How has the current online music licensing model helped/hurt the development of the digital market?

It was noted that the current online licensing model is something of a 'virtual nightmare' in Europe, with some 26 collection agencies for DSPs.

But it was agreed by 87 percent of survey respondents that *Establishing digital interoperability is critical to further* *developing the online music market* – i.e. technology is also key to the digital market.

a. Will blanket licences become commonplace in the digital space?

It was generally perceived by participants that there is an inevitability to this, i.e. that blanket licences will become the standard in the digital world, especially as technology continues to advance. A minority suggested that blanket licensing is an 'interesting concept', but raises questions about its functionality on a global level, and whether some form of government standard should be developed. Others echoed the notion of government intervention, noting that some sort of solution would need to be imposed (such as charging ISPs a downloading fee).

A barrier to blanket licensing was noted by participants: the fragmentation of voices in the music industry that will not enable a collective approach. It was noted for example that music publishers prefer blanket licences, but labels prefer compulsory licences.

b. Could a one-stop-shop for collective licensing lead to increased revenues?

It was again suggested that technology and the on-going development of digital platforms such as wireless broadband will continue to drive the one-stop model – and that increased revenues from collective licensing are clearly possible. Over 75 percent of survey respondents agreed revenues would increase by *making more music available through mechanisms like collective licensing*.

Collective licensing in the digital space was viewed by some participants as an issue approached in a reluctant fashion by industry – reluctance that is in turn driven by concerns over 'loss of control'. It was suggested that anti-trust legislation be examined to determine if such laws inhibit the ability of industry segments to work together.

It was noted that collective licensing models are already out there in the marketplace. For example, NRCC negotiated a broadcasting tariff that monetizes assets; it was suggested that the labels could follow a similar model of price negotiation.

4. Can P2P networks be monetized?

Participants generally believed that monetization of P2P networks is a possibility – even likely or perhaps inevitable (given Google and Limewire) – but questions remain regarding how this can be accomplished, from several perspectives.

From a consumer standpoint, it was noted that P2P networks need to adapt an 'all-inclusive vacation' model (i.e. where the consumer is not constantly reminded they are spending money), and create more intimacy with consumers through storefront operations, links to artists and other means that allow for a 'cool' encounter with a brand. Consumers will pay for convenience and luxury – but this needs to be created to support the economic value of music.

Another consumer-driven perspective suggests a model based on subscription downloading, paid by customers through their ISPs by leveraging the bundling of services and content.

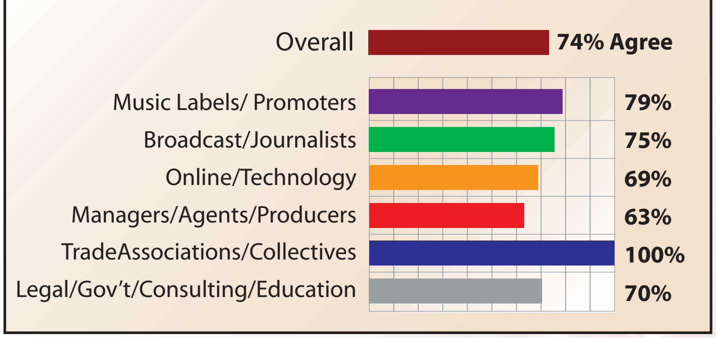
Government was also noted as a key player. It was argued that the monetization of P2P networks should not take place without government intervention, e.g. the development of standards around which revenue models will develop. It was also suggested that the 'safe harbour' currently afforded to ISPs be eliminated and that ISPs be held accountable for their activities, e.g. by applying legislation that compels ISPs to identify illegal users.

Some participants suggested that monetization would be driven by technology and related development of standards. One method of monetization that was suggested included using technology – which is largely in place now – to identify IP addresses and use of file content through audio fingerprints. It was noted that China has two download formats, one that is protected MP3 and another that is unprotected but higher quality (which outsells the former five to one). A creation of a download-for-rent service might also prove attractive.

DRM was also expressed as an important tool for monetizing business models by using its tracking capability for use and payment. However, technology standards would be required to achieve accurate accounting.

Some participants felt that P2P networks cannot be monetized, for various reasons. These included (i) an absence of any mechanism to track downloads and file sharing, (ii) tapping into the consumer too many times through yet another subscription and (iii) lack of a blanket licence.

Some 74 percent of survey respondents agreed to the statement, *Monetizing user-generated content is the wave of the future* – but this was even more clearly supported by Trade Associations/Collectives.



Monetizing user-generated content is the wave of the future

5. Advertising-supported free content models are now emerging. Is this good for the industry, or is it essentially an acknowledgement to the consumer that the value of recorded music has been reduced to nothing?

Only 10 percent of participants agreed with the statement, *Ad-supported music services will reduce the value of music to zero*. However, it was noted by some participants that while advertising-supported models provide exposure and potentially new revenue for artists, there is a real danger in the complete devaluation of music as a commodity as it becomes buried in commercial advertising. It was noted that the amount of product placement in content is saturating consumers – and (perhaps as fallout) that models that have experimented with 'free-if-you-watch-this-ad' have had no uptake.

It was suggested that a sponsorship model might prove superior to an advertising model, since dealing with a single advertiser is much easier.

It was also noted that the type of advertising accompanying music is important, since the brand or message conveyed is relevant to users.

But others saw the development of advertising-supported models as proof positive that music has reached a point of zero value, and that advertising by cell phone companies for unlimited downloads for a flat rate is essentially misleading (because available content is limited) and requires closer scrutiny by regulators.

a. Are subscription-based music services a better option?

On the one hand, some participants suggested that subscription-based services provide a structure that is attractive to consumers via a flat rate, and that these services can also trace downloads more easily. But current models such as unlimited downloads for a flat rate offered by cell phone companies require further analysis to determine their effectiveness.

Given the availability of music for free, the subscription-based model was viewed by some participants as not likely to progress much further than it has to date. Another invitee noted that the discount models promoted by Columbia House (11 CDs for one cent) contributed to the public perception that music has little monetary value.

With respect to the perceived success of subscription-based services in protecting copyright, survey respondents were effectively split in their opinion, with 45 percent agreeing.

6. What role do ISPs play in monetizing the digital economy? Do ISPs assist customers in committing copyright infringement, or are they merely an unaccountable pipeline?

A number of participants suggested that the most valid and useful role to be played by ISPs would be to track downloading activities and provide (potentially extensive) usage data to the music industry. However, it was noted that privacy concerns about customer behaviour might emerge – and ISPs have shown little inclination to engage in this type of consumer tracking. At the same time, it is highly unlikely that the regulator would become involved given previous decisions on the Internet and new media rendered by the CRTC.

Debating the prospective role of ISPs raised a number of points of debate among participants, including the complexity of designing of model for collecting from consumers and then dividing revenues within the industry. ISPs might also end up with the responsibility of blocking unlicensed sharing, which they would very likely not wish to do (given potentially consequent reductions in traffic and revenue).

Some participants noted that ISPs do not have a role (in monetization) at the present time, and that the industry needs to come up with an offer (e.g. payment from ISPs to the industry of $5.00 per use per month) that enables users to opt in or opt out based on their level of advertising revenue.

Other participants noted that the ISP business model may encourage a more destructive role, in that ISPs are essentially large media corporations that are only in business to raise shareholder value.

7. Are online/mobile music services playing fair with the rates they pay for music? Who should be responsible for royalty payouts, and should that party's percentage be adjusted?

While these questions received less discussion, it was noted by several participants that the rates paid by mobile music services for music are not fair, nor are the rates they charge to consumers to access and download content.

It was noted by one participant that current pricing practices have lead consumers to believe that paying anything over .99 cents for a track is unreasonable; another invitee suggested that at $1.00 data transfer fee per song is onerous, but consumers would not complain at 25 cents per song on a subscription model.

It was noted by one industry professional that a single unified collective would be a superior model for royalty payouts, but may be difficult to achieve; what is really required is a single intellectual property formula driven by government or elsewhere.

8. Canada's private copying levy has resulted in hundreds of millions of dollars in revenues for the music business. Its unintended consequence has been that file sharers now have a legitimate argument that downloading for personal use is legal in Canada. Should this regime be expanded or has it outlived its usefulness?

Approximately 40 percent of respondents agreed that *Canada's private copying levy has outlived its usefulness*. While this question also received less discussion during the Forum, participants generally believed that the current regime has outlived its usefulness – although as pointed out during discussions on the topic, publishers support its expansion while major labels support its elimination.

However, the perception was that little may change in the near term given government 'is in no rush to change anything' (given the original levy took some 20 years to complete).

Some also believed that expansion of the regime would be positive in order to bring back the value of music and creators' rights. But as noted by other participants, the levy in its current form was only intended as a short term solution, and generates very little revenue for artists.

GLOBAL Forum
SUMMARY AND ANALYSIS

SURVEY RESPONSES

Part III: Summary of Survey Results

A brief survey was administered at the conclusion of each Global Forum discussion. Participants were asked to identify their occupation from a list provided, and were then asked for their responses to a series of perception-based statements addressing both topics.

There were 116 respondents to the *Fair Use and the Global Marketplace Survey*, and 91 respondents to the *Monetizing Tomorrow's Digital Economy* survey.

Occupations were grouped together by the following sectors:

- Music Labels/Promoters (including roughly equal participation from major and independent labels)
- Broadcast/Journalists
- Online/Technology
- Managers/Agents/Producers/Artists
- Trade Associations/Collectives (including roughly equal participation from industry trade associations and independent labels)
- Legal/Consulting/Government/Education (also including consultants and bankers)

Respondents were asked to provide one of the following responses to the statement provided:

- Completely Agree
- Somewhat Agree
- Neither Agree nor Disagree
- Somewhat Disagree
- Completely Disagree

Survey results were processed and analyzed by Solutions Research Group.

Survey: Fair Use and the Global Marketplace

Participants were asked to respond to the following statements:

- CD sales will drop off a cliff in the next two years
- The use of CD copy protection has greatly contributed to consumer dissatisfaction with the music industry
- Dropping TPM will increase worldwide music sales
- Establishing digital interoperability is critical to further developing the online music market
- Protection for copyrights is at an all time low
- The government should do more to protect creators' rights
- Legal remedies are the best way to make consumers understand that music has value
- Promotional exposure through sites like YouTube and MySpace is more important than receiving payments for copyright materials posted on the site
- Music recommendation engines will have a greater effect on consumer behaviour than terrestrial radio airplay
- The Internet will level the playing field, giving independent artists the same shot at fame as those signed to major labels
- Consumers should be able to record and store satellite radio streams
- Consumers should be able to use music they legally download in any way they wish
- Trading files with strangers online is entirely different than sharing music with friends or family
- The customer is *not* always right

Summary of Results

Fair Use and the Global Market Place
(Percentage Agreement)

(Sample size)	Total (%) (116)	• Music Labels • Promoters (26)	• Broadcast • Journalists (11)	• Online • Technology (14)	• Managers • Agents • Producers (21)	• Trade Associations • Collectives (21)	• Legal • Government • Consulting • Education (27)
Establishing digital interoperability critical	**87**	96	82	100	90	83	78
Recommendation engines will have a greater effect than radio	**75**	77	64	86	86	58	74
The use of CD copy protection greatly contributed to dissatisfaction	**74**	85	82	86	71	67	59
Should be able to use music legally downloaded as they wish	**73**	92	73	79	81	25	70
CD sales will drop off a cliff in the next two years	**72**	85	73	79	67	42	70
Government should do more to protect creator rights	**72**	88	45	57	57	92	74
Protection for copyrights at an all time low	**63**	77	64	57	48	58	63
Dropping TPM will increase worldwide music sales	**56**	50	45	100	57	42	52
Trading files different than sharing with friends/family	**56**	50	55	64	48	50	74
Should be able to record and store satellite radio streams	**55**	42	73	79	57	42	52
Internet will level the playing field for independent artists	**53**	42	73	71	48	25	59
Customer is not always right	**51**	54	27	50	43	67	59
Promotional exposure more important than payment	**28**	19	45	50	24	8	30
Legal remedies best way for consumers to understand music has value	**19**	19	18	7	10	33	19

Survey: Monetizing Tomorrow's Digital Reality

Participants were asked to respond to the following statements.

- Music is worth less than it was in the past
- I feel positive about the direction of my business over the next two years
- The music industry will never recover profits lost in the past few years
- If not for rampant unauthorized file sharing the music industry would be seeing increased revenues
- Better cooperation within the music industry when dealing with outside industries will lead to increased profitability
- Record labels deserve to share in revenues generated through live performance, merchandise sales, licensing, etc.
- Monetizing user-generated content is the wave of the future
- P2P services should be charged licence fees in much the same way as radio stations
- The mobile market should be opened to allow customers to legally purchase digital music where they choose
- The revenue splitting percentages between mobile/online music services and content owners are well balanced and fair to all parties
- If it were easier to legally download music more people would do it
- Ad-supported music services will reduce the value of music to zero
- Making music more available through mechanisms like collective licensing will lead to increase revenues
- Although it has generated millions of dollars in revenues, Canada's private copying levy has outlived its usefulness
- Subscription-based music service better protect copyright owners than pay-per-track services

Summary of Results

Monetization Tomorrow's Digital Reality

(Percentage Agreement)

	Total (%)	• Music Labels • Promoters	• Broadcast • Journalists	• Online • Technology	• Managers • Agents • Producers	• Trade Associations • Collectives	• Legal • Government • Consulting • Education
(Sample size)	*(97)*	*(17)*	*(8)*	*(13)*	*(16)*	*(9)*	*(23)*
Cooperation within music industry leads to more profit	**95**	100	100	100	81	89	96
Mobile market should be opened	**91**	100	100	100	75	78	91
If easier to legally download music more people would	**81**	88	88	77	81	78	78
P2P services should be charged licence fees	**76**	88	100	85	63	100	57
Collective licensing etc. will lead to increased revenues	**76**	71	75	92	69	78	70
Monetizing user-generated content is the wave of the future	**74**	76	75	69	63	100	57
I feel positive about the direction of my business – 2 to 3 years	**71**	59	88	92	88	67	52
Music industry will never recover profits lost in past few years	**51**	41	63	46	44	67	57
Record labels deserve to share in revenues generated	**46**	71	38	54	19	56	43
Subscription-based music services better protect copyright	**45**	35	63	38	56	22	43
Canada's private copying levy has outlived its usefulness	**41**	53	25	38	19	33	57
If not for rampant file sharing, industry would see more revenues	**40**	29	50	8	31	56	52
Music worth less than it was in the past	**23**	6	50	23	38	22	17
Revenue splitting with mobile/online services is well balanced and fair	**19**	41	0	15	13	22	17
Ad-supported music services will reduce value of music to zero	**10**	18	0	15	13	11	4

GLOBAL Forum
SUMMARY AND ANALYSIS

APPENDIX

Appendix – Global Forum Facilitators

Jason Free - *CEO/Global Coordinator,* Six Finger Think Tank, Tampa, Florida

Dr. Catherine Moore - *Global Academic Chair - Director,* SFTT/Music Bus Grad Progam, NYU,, New York

Cody Shelburne - *Educational Resources/Research Coordinator,* Six Finger Think Tank, Tampa, Flordia

Tony Tobias - *Six Finger Think Tank Trustee,* Six Finger Think Tank Canada, Toronto

Keith Harris - *Chairman,* Music Tank, London U.K.

Jonathan Robinson - *Program Director,* Music Tank, London, U.K.

Jenny Toomey - *Executive Director,* Future of Music Coalition, Washington DC

Walter McDonough - *General Counsel,* Future of Music Coalition, Needham, Massachusetts

Alison Wenham - *CEO,* AIM Association of Independent Music Ltd., London U.K.

Don McLean - *Dean,* Schulich School of Music - McGill University, Montréal

Rob Bowman - *Professor,* Department of Music, York University, Toronto

Paul Hoffert - *CEO - Professor,* Noank Media Inc./Faculty Fellow Harvard University, Cambridge, Massachusetts

Christian Castle - *Attorney,* Christian L. Castle Attorneys, Sherman Oaks, California

Doug Hyatt - *Professor of Business Economics,* Rotman School of Management, U of T, Toronto

Ted Cohen - *Managing Partner* , TAG Strategic, Chairman MEF Americas, Los Angeles, CA

The *Global Forum Summary and Analysis* was compiled and written by Richard Cavanagh, Partner, CONNECTUS Consulting Inc. He has extensively researched and analyzed issues in the Canadian and international music industry, and is currently leading a major study on the impact of digital technology on the value chains of the arts and cultural industries in Canada.