



Music Piracy: Online and on the Street

It's commonly known as piracy, but it's a too benign term that doesn't even begin to adequately describe the toll that music theft takes on the many artists, songwriters, musicians, record label employees and others whose hard work and great talent make music possible.

Music theft can take various forms: individuals who illegally upload or download music online, online companies who build businesses based on theft and encourage users to break the law, or criminals manufacturing mass numbers of counterfeit CDs for sale on street corners, in flea markets or at retail stores. Across the board, this theft has hurt the music community, with thousands of layoffs, songwriters out of work and new artists having a harder time getting signed and breaking into the business.

One credible analysis by the Institute for Policy Innovation concludes that global music piracy causes \$12.5 billion of economic losses every year, 71,060 U.S. jobs lost, a loss of \$2.7 billion in workers' earnings, and a loss of \$422 million in tax revenues, \$291 million in personal income tax and \$131 million in lost corporate income and production taxes. For copies of the report, please visit www.ipi.org.

In response, the music industry has employed a multi-faceted approach to combat this piracy, combining education, innovation, and enforcement:

- With investigators deployed in cities across the country, the RIAA is working closely with law enforcement to pull pirate products off the street and to demonstrate that the consequences for this illegal activity are real.
- We are continuing our efforts to educate fans about the value of music and the right ways to acquire it and, when necessary, to enforce our rights through the legal system.
- Record companies have licensed hundreds of digital partners that offer a range of legal models to fans: download and subscription services, cable and satellite radio services, Internet radio webcasting, legitimate peer-to-peer services, video-on-demand, podcasts, CD kiosks and digital jukeboxes, mobile products such as ringbacks, ringtones, wallpapers, audio and video downloads and more.

Our goal with all these anti-piracy efforts is to protect the ability of the recording industry to invest in new bands and new music and, in the digital space, to give legal online services a chance to flourish.

Piracy: Online

The Internet offers music lovers virtually limitless possibilities. Digital technology brings music to a wider public, affords niche artists access to their audiences, makes our vast musical heritage widely available, and distributes old, new and unusual music at affordable prices. Record companies are embracing the power and promise of the digital future. And that future is here.

There should be no doubt that the U.S. Supreme Court's unanimous 2005 decision in *MGM vs. Grokster* has helped to give new weight to the music community's ongoing efforts to

license an ever-expanding variety of digital business models and combat the theft of music online. We now have legal and moral clarity about the rules of the road, both for businesses and individuals, and the legal marketplace is attracting new fans and showing real promise. Yet online music theft – particularly on college campuses and with hardcore frequent peer-to-peer users – remains a black mark on this exciting marketplace. It is a significant problem requiring additional attention, resources and governmental assistance.

Our response to the online theft of music is multi-faceted. Most important is to offer fans legal alternatives. That's always the most effective "anti-piracy" strategy. We also educate. We work with a variety of respected educational leaders to develop curriculum and other materials that seek to engage fans and encourage them to think critically about how they acquire music (hyperlink to part of site with various programs) and other forms of intellectual property. Finally, as a last resort, on behalf of our member companies, we may bring a lawsuit to protect the rights of the major record companies. Lawsuits tend to generate the most attention but they are only part of a comprehensive, multi-pronged strategy.

Absent action by the industry, the illegal downloading world would be exponentially worse. The industry's anti-piracy efforts have deterred a sizeable number of would-be illegal downloaders. More broadly, the industry's efforts have made an impact on attitudes, practices, cultural norms, awareness and the business climate for legal services. Without these deterrence efforts, the legal marketplace would not have achieved the success it has so far.

Online piracy is the unauthorized uploading of a copyrighted sound recording and making it available to the public, or downloading a sound recording from an Internet site, even if the recording isn't resold. Online piracy can now also include certain uses of "streaming" technologies from the Internet. Because of the nature of the theft, the damage is not always easy to calculate but not hard to envision. Millions of dollars are at stake – not to mention our ability to invest in the next generation of music.

Piracy: On the Street

Internet Piracy grabs headlines, but millions of illegal music CDs are manufactured and sold in the United States each year. They can be manufactured by corrupt CD plant operators as well as in clandestine operations engaged in the large-scale burning of music to blank CD-R discs that are then sold in flea markets, on street corner tables, even in local retail stores. The copying and trafficking of pirated music is an increasingly sophisticated trade plied by savvy multi-state criminal operations that distribute illegal product designed to resemble authentic CDs and replace legitimate sales.

But what is the crime? Why is this important? Who gets hurt? The answers are simple. The crime is theft. If music is important to you, then this is an important crime. And everyone who makes, enjoys or earns a living in music is hurt.

Think about it: the makers of fake products don't pay the songwriter, the musician, or the recording studio costs. They don't develop new artists or finance the promotion or the marketing of new music. Music pirates aren't in the music business, they are in the plastics business. They buy and sell plastic and get consumers to pay them 10 to 20 times their cost for a blank disc by simply loading that plastic up with stolen music.

We also know that not only music creators and fans are impacted by theft of music but so too are taxpayers. The New York City comptroller estimated, in a 2004 report, that the city lost more than \$1 billion in tax revenue due to the illegal exchange of a variety of counterfeit goods.

In short: legitimate sales are being replaced by sales of counterfeit goods, and the people who create, package and legally sell music are paying the price. The damage is real and demonstrable and undercuts the economic foundation of the most creative and vibrant music industry in the world.

We are fortunate to have federal, state and local law enforcement working tirelessly to combat street piracy – a problem that costs local economies millions of dollars in tax revenue and is frequently tied to other criminal activities. Each year, hundreds of law enforcement departments across the country engage in thousands of anti-piracy actions. Yet the sophisticated, multi-state operations of today’s pirate trade demand even greater awareness and action across the board – from us, our partners in the music community, law enforcement and music fans.

When consumers buy the real thing, everyone wins – not only the fan who bought a high-quality CD, but music stores, artists, record labels and everyone else involved in making music.



The Recording Industry Association of America
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Counterfeit/Pirate Seizures	2004	2005	% Change
Cassettes	74,879	2,969	-96.0%
Pressed CDs	914,288	1,338,594	46.4%
Burned CD-R's	3,505,533	3,640,122	3.8%
Music DVDR's	41,558	50,174	20.7%
Music Totals	4,536,258	5,031,859	10.9%
Actions Taken	2004	2005	% Change
Arrests/Indictments	2,508	3,299	31.5%
Source Investigations	2004	2005	% Change
Manufacturers	324	348	7.4%
Distributors/Wholesalers	193	293	51.8%
Investigations Total	517	641	24.0%
Manufacturing Equipment Seized	2004	2005	% Change
CD-R Burners	2,261	3,562	57.5%
Other Computer Equipment	454	536	18.1%