



THE CURRENCY OF CREATIVITY: EXPLORING MUSIC ROYALTIES

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Abstract

The analysis highlights disparities in music streaming compensation, regional regulatory variations, and challenges with data accessibility. Major labels dominate, while independent artists struggle for fair compensation. Initiatives for equitable revenue sharing are more prevalent in industrialized nations, impacting diversity and fair compensation globally. Emerging technologies like blockchain offer potential revenue sources, but regulation lags. Recommendations include democratizing data access, promoting diversity, and empowering artists. Collaborative strategies are needed to address regional challenges and support equitable compensation. Ensuring fair compensation and diversity throughout the music value chain is crucial for a vibrant and inclusive music ecosystem.

Keywords: Music royalties, streaming platforms, major labels, independent artists, equitable revenue sharing, regulatory frameworks, emerging technologies, diversity, data availability, recommendations.

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I Introduction

THE INTRICACY of music royalties is well-known; if you are expecting a straightforward situation where the artist receives a certain amount of money because their song had a certain number of plays on Spotify, you're going to be disappointed. There are a tonne of different parties involved, some of which are intermediaries taking a share and collecting royalties, while others are full proprietors of copyrights. Consider the following scenario: you are a songwriter or vocalist and Spotify is your music provider. Spotify will pay you various royalties for each play, and in addition to Spotify, there will probably be a record label, publisher, distributor, and collective management organisation involved.

The dynamics of music royalties are multifaceted, influenced by a myriad of factors ranging from streaming algorithms to copyright laws, from artist contracts to consumer preferences. Understanding these dynamics requires a comprehensive exploration that goes beyond surface-level analysis. This study aims to peel back the layers of complexity surrounding music royalties, shedding light on the economic principles and practices that underpin this crucial aspect of the music industry.

One of the central themes that emerge when examining the economics of music royalties is the concept of compensation. At its essence, music royalties serve as a form of compensation for artists and rights holders, reflecting the value of their creative contributions. However, the question of what constitutes fair compensation remains a subject of debate and contention. Artists argue for greater transparency and equity in royalty distribution, while streaming platforms strive to balance the need for profitability with the desire to support the creative community.

Furthermore, the economics of music royalties extend beyond the realm of artists and streaming platforms to encompass broader issues of copyright law, licensing agreements, and international regulations. As music transcends geographical boundaries and cultural barriers, the challenge of navigating the global landscape of music royalties becomes increasingly complex. Behind the melodies that captivate our ears lie intricate systems of compensation, distribution, and negotiation that determine how artists, record labels, and streaming platforms navigate the ever-evolving landscape of digital music consumption. This study aims to illuminate the path towards a more equitable and sustainable music ecosystem.

II Statement of problem

The intricate economics of music royalties pose a multifaceted problem, as artists, labels, and streaming platforms grapple with equitable compensation amidst evolving digital consumption trends. This study aims to dissect the complexities surrounding royalty calculation, distribution, and their impact on artist livelihoods. Additionally, it seeks to address disparities in royalty earnings between established acts and independent musicians, shedding light on potential solutions to foster a more equitable and sustainable music ecosystem.

III Research objectives

1. To analyse the implications of 2012 Copyright Act amendments on royalties for film and music.
2. To analyse implications of online music distribution for independent artists.

IV Literature review “

Royalties for Artists versus Royalties for Authors and Composers by Henry Hansmann & Marina Santilli (2001):

The author here compares the possible justifications for the now-established systems of royalty rights for authors and composers with the justifications for visual artists' resale royalties. This comparison is particularly interesting because the economic justification for paying authors royalties has not been well examined, and because some of the main objections stated against the resale royalties of visual artists also apply to authors' royalties.

Opening the Black Box of Music Royalties with the Help of Hybrid Intelligence by Philipp Ebel (2021):

With the combination of human and machine intelligence, the hybrid intelligence system presented in this article improves the current state of affairs. In the music industry, this study suggests design specifications for hybrid intelligence systems. By putting its ideas in a different environment, this will, overall, increase the corpus of information about hybrid intelligence research. To further study and create hybrid intelligence in the music industry and beyond, academics and practitioners will build upon the outlined design criteria.

Enforcement of Law of Copyright Infringement and Forgery with the Rise of the Digital Music Industry by Nevey Varida Ariani (2021):

The author discussed that in order for their artistic works to generate moral and financial benefits, musicians are encouraged by the present pandemic condition to be productive in producing digital works like as songs and music. On the other hand, digital music works are frequently copied and violated. In Indonesia's digital music market, royalties remain

a problem, posing fresh difficulties for aggregators and Collective Management Organisations. The issue raised by this research is how the rise of the digital business has affected the way copyright infringement and forgery laws are enforced.

Copyright Laws and Digital Piracy in Music Industries: The Relevance of Traditional Copyright Laws in the Digital Age and How Music Industries should cope with the ongoing Piracy Culture by Rai, Prabin (2020):

The author discussed that in the twenty-first century, with the advent of the digital era, copyright rules that originated in the publishing age of the eighteenth century have gone a long way. Several conventions have been in place up to this point, including as the Statute of Anne in 1710, the Music Modernization Act in the United States, and Article 17 in the European Union in 2018, however problems in the music industries still exist or are becoming even more prevalent. However, with the introduction and widespread use of the internet, digital technologies have grown quickly, drastically altering old music business structures. Even after the RIAA was able to successfully shut down Napster, the music industries still suffer significant annual financial losses as a result of growing digital piracy.

Music streaming: is it a level playing field? by Daniel Antal (2020):

The competition between recordings on streaming platforms is one of these concerns, and this study explains and evaluates its foundation. It contends that the type of compensation limits the possibility of fair competition. playlists, agreements between artists and streaming services, and the significant bargaining power of large labels. The study indicates that a user-centric payment mechanism and more openness of the processes involved in creating playlists and negotiating agreements should be given immediate attention.”

V Methodology used

The research methodology which has been used in the present research is doctrinal. Doctrinal research focuses on legal propositions and theories. It deals with doing an analytical study of current laws, related cases, and reliable literature on a given subject. The study will be focused on secondary sources. Secondary sources for the topic include scholarly books, research reports, journals, dissertations, textbooks, and relevant websites. These secondary sources have been examined for the present research to analyse about ADR in Indian criminal disputes.”

New Film and Music Rights under the 2012 Copyright Act

Regardless of whether they may have assigned the copyright in those works or whether they may not be entitled to the enjoyment of a performer's right, the Copyright Amendment Act, 2012¹, (the "2012 Act") clearly states that film performers (as mentioned in a film's credits) and “the authors of certain underlying works used in cinematograph films and sound recordings have a (largely non-assignable) right to continuing royalties for the use of their works or live performances in certain circumstances. "Cinematograph films" refers to both feature films and television serials under the Copyright Act; nonetheless, for ease of use, "films" has been used here rather than "cinematograph films.””

The following sections of the 2012 Act are pertinent to the authors of underlying works included into motion pictures and sound recordings and deal with their ongoing claim to royalties:

- New provisos added to section 18 of the Copyright Act²,
- New sub-clauses added to section 19 of the Copyright Act³,

¹ Copyright (Amendment) Act, 2012

² Indian Copyright Act, 1957.

- As a result, the Copyright Act requires numerous "new" groups of people to receive royalties from individuals involved in the production of motion pictures:

S. No.	Work	Persons	Amount	Use
1.	Film	Scriptwriter, lyricist & composer	Royalties to be shared on an equal basis with assignee of copyright.	Non- theatrical use
2.	Film (including sound recording)	Performer (who in the case of a film is not an 'extra')	Unspecified	Commercial use of their performances
3.	Non-film sound recordings	Lyricist, composer	Royalties to be shared on an equal basis with the assignee of copyright.	Any utilization of the underlying works in any form.

But the provisions don't exactly set the standard for clarity. In addition to the 2012 Act's use of ambiguous language to specify the types of uses for which royalties will be paid to the authors of underlying works, one of the main areas of misunderstanding is the amount and identity of the royalty payers.

"Responsibility to pay the assessed royalties"

Nobody is mentioned in any of the clauses pertaining to the requirement that royalties be paid to the designated writers and performers

³ *Supra* note 2.

regarding who would be in charge of handling the royalty payments. The assignees, or the people to whom the authors granted rights (usually producers), would presumably be in charge of making sure the royalties were paid. The law does not, however, specifically say that assignees are in charge of making sure that these payments are made.

"The business of issuing or granting licence in respect of literary, dramatic, musical, and artistic works incorporated in [a] cinematograph films or sound recordings shall be carried out only through a copyright society duly registered under this Act," is all that the 2012 Act says in a proviso to Section 33. This appears to be limited to allowing content aggregators to carry on with their business of widely licencing copyrights that are present in works free from statutory restrictions.

Therefore, it would be wise for those purchasing rights from assignees, in the absence of statutory guidance, to include clauses in their content acquisition agreements that expressly state that producers will make sure that performers and authors of underlying works receive the royalties that are due under the 2012 Act, and that assignees will indemnify those to whom they grant rights for any consequences of non-payment."

Implications of Online Music Distribution for Independent Artists"

Independent Artists Are Paid Differently for Music Streaming "

The fact that streaming services pay very little to independent artists for each song stream has been made widely known by artists and the media in recent years. In 2018, for example, Apple Music paid \$0.00735 per stream, Spotify paid \$0.00473 per stream, and Amazon Music paid \$0.00402 per song stream. However, what many consumers are unaware of is that all major streaming groups pay artists through a pro rata payout system, which distributes user-generated revenue

proportionately to all listening times. All user-generated revenue is allocated proportionately to all listening times under the pro rata concept. As a result, even if a music lover only listened to one artist, the musician would still receive a portion of the fan's payment from Spotify based on the artist's percentage of all Spotify streams, with the majority going to "superstar" artists who receive the majority of streams. Money is allocated proportionately to each stream in the pro rata approach, which underpays independent artists and benefits stars.

The "user centric model" is an alternate payout system that was proposed in 2017 by Finnish researcher Jari Muikku in collaboration with the Finnish Music Publishers' Association. Under this arrangement, a fan's payout revenue is restricted to the artists that the fan specifically listened to. Muikku created the following models for the two payout methods:

$$\text{Pro rata artist payout} = \frac{\text{Total Streams of Song}}{\text{Total Platform Streams}} \times \text{Total Platform Revenue}$$

$$\text{User centric payout} = \frac{\text{Total Streams of Song by Listener A}}{\text{Total Streams by Listener A}} \times \text{Total Revenue from Listener A}$$

According to Muikku's research, the User Centric payout model increased payouts to smaller artists while having no discernible negative impact on the payout rate of popular artists. This is because the model takes into account the possibility that some fans are only listening to a small selection of artists and may not be 16 years old when they listen to the top 25 "superstars." To put it succinctly, the User Centric compensation model is considerably more egalitarian and accurate because a fan's dollar only supports artists that they find enjoyable. Songs and artists who account for a significant portion of a platform's stream traffic are granted an advantage under the Pro Rata compensation model.

Typically, streaming services like Spotify give seventy percent to rights holders ("More for Fewer for More") and retain thirty percent of subscription and ad revenue. In theory, Taylor Swift's rights holders would get two percent of the seventy percent of Spotify's revenue that goes towards paying artists if she accounted for two percent of all music streamed on the platform. This is known as Pro Rata rewards. The User Centric model, on the other hand, offers niche artists a significant advantage. For example, if a niche indie jazz artist has less than 100 listeners per month but their fan base is extremely loyal and primarily listens to that one band, then all of the payout revenues from those listeners would go to that one band exclusively. They would make a few hundred dollars a month instead of a few dollars for a tiny portion of all platform streams since they would keep all the money their devoted fans made.

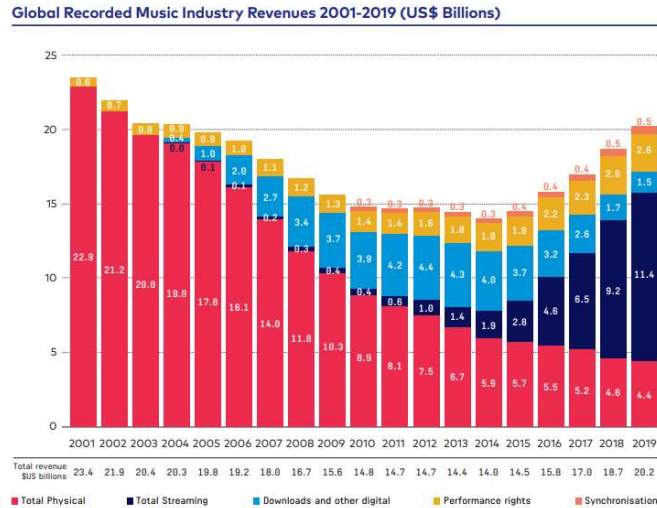
Sadly, there are drawbacks to the user-centric streaming approach as well. For example, if stream revenue is distributed according to each listener's preferences, artists would profit more if a listener solely listened to their music, which would encourage a less diversified audience. Though less significant under the pro-rata approach, fans are aware that even with the current paradigm, their listening is what generates streaming money for artists. In conclusion, listeners would have significantly more control over where their money is spent in the music industry if a user-centric approach were used."

Distribution of Digital Music Boosts Alternative Income Streams "

Apart from the impact on artist discovery and music royalties, artists have observed a rise in changes related to the source of the majority of their money. Where did artists go to make ends meet when industry profits collapsed with the death of the CD and the emergence of Napster and music piracy? Nowadays, revenue sources including touring, merchandise, and crowdfunding have all contributed to replace music's

earnings as a commodity in addition to streaming. Pollstar study found that the average cost of a concert ticket has increased over time, with prices averaging eighty-six dollars in 2018 compared to an average of sixty dollars in 2008. Additionally, the average number of tickets sold for a musician's concert increased from 7,327 in 2008 to 8,637 in 2018 (according to the Mid Year Business Analysis, page 18).

Even while it has always been a major source of revenue for artists, touring is now more important than ever to the business plans of many of them. Artists can efficiently distribute their music at little or no cost through audio streaming, which has lower payout rates but offers wonderful tools for discoverability. The idea is to build a fan base that will purchase concert tickets and merchandising. Furthermore, the majority of streaming services advertise artists' performances on their individual artist pages, which makes it simpler than ever for fans to get in touch and locate events to go to. Since 2000, purchased music—physical or digital—has steadily decreased (interestingly, save for vinyl albums); conversely, since the same year, concert and streaming revenue have increased practically inversely (“Putting the Band Back Together”). The International Federation of the Phonographic Industry's 2019 global report states that while digital downloads make up 12% of revenue, physical music sales only make up 25%. As of right now, digital downloads account for 37% of total revenue. The worldwide music industry's total download revenue fell by more than twenty percent in 2018 alone. Physical sales, which were already a small portion of their previous level, fell by ten percent. Currently, thirty-four percent of industry revenues come from streaming (IFPI Global Report, 2019).



Apart from streaming and touring, "crowdfunding," which is essentially "the act of gathering funds for a project from a crowd," is another revenue stream that independent artists are using more and more. Artists will use websites like Kickstarter or GoFundMe to solicit contributions from their fan base in order to assist finance album sessions or tour expenses. Frequently, tier-based benefits like autographed items or exclusive performances are used to advertise various donation levels. For instance, the "A Visual History" project campaign by the alternative music group Pixies raised \$234,450 via crowdsourcing.

These changes in revenue streams—streaming, touring, and crowdfunding—all serve to further distance artists from the necessity of a record company. Through crowdfunding, fans may effectively act as their own capital investors in the musicians they support, giving independent artists greater money and creative freedom—two things that are typically mutually exclusive in the music industry. It's crucial to remember that, despite the modifications to the revenue structure, the average annual income of musicians has remained relatively stable in recent years, averaging \$21,300 (according to the first Music Industry Research Association Survey of Musicians).

Therefore, the methods used to collect that income are changing rather than the actual amount of income.”

VI Observed trends

The compensation of artists in the music streaming sector exhibits notable disparities. Major labels with a combined 66.1% global market share, including Warner Music Group, Sony Music Entertainment, and Universal Music Group, are able to provide artists with greater financial and administrative support, and they are more inclined to fund artists who can clearly show a return on investment. Thus, when an artist signs with a large label, their visibility on major streaming services increases, increasing their exposure and earning potential. A selected group of artists with sizable fan bases prior to their release are favoured under the Market-centric payment system (MCPS), the most popular revenue sharing mechanism in the streaming sector. This is demonstrated by the fact that, in 2020, Spotify gave its top 57,000 musicians about 20.7 billion USD, while the remainder 7.94 million artists on the site took home 2.3 billion USD.

Most projects advocating equitable revenue sharing in the music streaming sector are situated in industrialised nations or have strong ties to them. Presently, developing-nation initiatives tend to be more dependent on financial and technical support from wealthy nations. Initiatives in the Global South, which typically support accessibility to the larger music industry and skills development, are given a different focus as a result of the digital access and skills gap, while initiatives in the Global North focus more on the music streaming industry itself, including syndication, data generation, and regulation.”

There are significant regional variations in the maturity of regulatory and monitoring frameworks. Certain nations, primarily those in the Global North, have set up agencies tasked with keeping an eye on every

stage of the value chain and promoting the growth of procedures like “data reporting and publication, which have in turn assisted in the development of a more resilient and open ecosystem. Others, on the other hand, lack the infrastructure needed to implement laws against syndication, copyright infringement, and the protection of intellectual property rights that are tailored for the digital ecosystem. The disparity has specifically impacted how much diversity and fair compensation have been taken into account along the music streaming industry's value chain.

While the number and variety of online revenue streams and payment options for musicians are growing, legislation and policy pertaining to these models have not kept up. Blockchain and non-fungible tokens are two examples of new technologies that have emerged as potential sources of income for artists. Because these new revenue distribution mechanisms are frequently decentralised, artists get paid more quickly and with fewer middlemen. The pace at which these new technologies have developed, however, has made the discrepancy between actual implementation and related regulations worse. These events underscore the necessity for regulatory agencies to collaborate with industry professionals and other technology sector players in developing regulatory frameworks, particularly given the ongoing difficulty in regulating the streaming industries.

The availability and openness of data is a persistent problem that affects every stage of the music streaming value chain. Data is now more readily available and quantifiable because to the rise of streaming platforms and data-gathering businesses like Chartmetric. But information—especially on diversity and compensation—is frequently hard to get for all parties involved, and it's possible that artists at the bottom of the cultural value chain don't always receive it in an understandable way. Large volumes of streaming data are available thanks to publications like Spotify's yearly Loud&Clear reports, but formalising regulation and monitoring also

requires making sure that the data is accurate, consistent, comprehensive, and presented in a way that policymakers can easily understand and use. Additionally, there is a general dearth of trustworthy data to evaluate gender representation and diversity.”

VII Recommendations

It is imperative to democratise access to solid data for all parties involved in the music streaming value chain. Clear comprehension of the local music streaming ecosystem has been made impossible in several regions by the persistent lack of data creation, accessibility, and transparency; this has had especially negative effects on fair compensation for artists. Therefore, data efforts like Revenue Streams for African Musicians may be useful in helping musicians find the most effective ways for them to get paid. In order to gather more precise data, publicise it, and utilise it to create targeted policies, further data disaggregation (e.g., by gender, age, ethnicity, etc.) is also required for policymaking. Clear and quantitative indicators should be jointly created by industry stakeholders and put into practice on a global scale to help coordinate efforts towards shared objectives of enhancing the equity and openness of compensation structures and promoting variety.

To guarantee that each individual action has the greatest possible impact, a comprehensive and cooperative strategy needs to be used. An integrated strategy that takes into account issues that are more common in some areas than others (such lack of access to technology and the digital skills gap) needs to be implemented, both regionally and within the music streaming sector. All parties involved in the local streaming industry—including label executives and streaming platform employees—must be provided with the chance to participate in strategic conversations, for example, by forming syndicates or holding open forums or participatory policymaking sessions, in order to jointly decide how equitable compensation and diversity can be more effectively

supported throughout the music value chain. To lessen regional difficulties, these programmes might be expanded internationally through worldwide networks and peer-learning programmes. Furthermore, through investments, subsidies, or training to assist in scaling proof-of-concepts, policymakers can support stakeholders who prioritise diversity and fair compensation in their business models. They can also contribute to funding research aimed at continuously improving these two goals.

VIII Conclusion

Music royalties play a crucial role in compensating artists for their creative work and ensuring they receive fair compensation for their contributions to the entertainment industry. The landscape of music royalties has undergone significant changes over the years, particularly with the advent of online music distribution platforms and amendments to copyright laws, such as the 2012 Copyright Act amendments. These changes have had both positive and negative implications for artists, particularly independent musicians.

The 2012 Copyright Act amendments introduced several provisions aimed at updating copyright laws to better address the digital age and protect the rights of creators. One significant change introduced by the 2012 amendments was the clarification of the rights of performers and producers in relation to the digital distribution of their works. This included provisions for the payment of royalties for the online streaming and downloading of music, ensuring that artists receive compensation for the use of their recordings on digital platforms. These amendments were intended to modernize copyright laws and address the challenges posed by digital piracy and online distribution. However, while they provided increased protection for artists in some respects, they also raised concerns about the concentration of power in the hands of major record labels and digital platforms. With longer copyright terms and

stricter enforcement measures, independent artists may find it more difficult to access and use older recordings without facing legal repercussions or exorbitant licensing fees.

On the other hand, the economics of streaming and online distribution can be challenging for independent artists, particularly in terms of royalties. Streaming services typically pay artists a fraction of a cent per stream, which can result in relatively low earnings, especially for artists with smaller fan bases. While major label artists may still generate significant income from streaming due to their large audiences, independent musicians often struggle to make a living solely from streaming royalties. Furthermore, the rise of streaming has led to concerns about the fair distribution of royalties within the music industry. Critics argue that streaming services disproportionately benefit major labels and established artists at the expense of independent musicians. The algorithms used by streaming platforms to curate playlists and recommend music tend to favor popular and mainstream artists, making it difficult for independent musicians to compete for listeners' attention and earn royalties.

In this context, the role of music royalties becomes even more critical for independent artists seeking to sustain their careers and livelihoods. While streaming royalties may represent only a portion of an artist's income, they can still provide a valuable source of revenue, especially when combined with income from live performances, merchandise sales, and other sources. However, to maximize their earnings from streaming, independent artists must often navigate complex licensing agreements, distribution deals, and marketing strategies, which can be challenging without the support of a record label or management team.

Moreover, the COVID-19 pandemic highlighted the importance of diverse revenue streams for musicians, as live performances and tours were severely impacted by lockdowns and restrictions on public gatherings.

Many independent artists turned to online platforms to livestream concerts, sell virtual tickets, and engage with fans directly, demonstrating the potential for new revenue opportunities in the digital realm.

In conclusion, music royalties are a crucial aspect of the music industry, providing artists with compensation for their creative work and ensuring that they can continue to pursue their careers. The 2012 Copyright Act amendments have introduced important changes to copyright laws, extending protections for artists and addressing the challenges of digital distribution. However, these changes have also raised concerns about the concentration of power and the economic challenges faced by independent musicians.