



NEW INTERNET RADIO ROYALTY FEES PRESSURE WEBCASTERS

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Internet-based radio stations are battling the record industry -- and the clock -- as they face hefty new copyright fees in two months.

Radio listeners rarely pay for music. That burden is usually placed on stations or, in the case of online music, Webcasters such as Live365, National Public Radio, Pandora Internet Radio and AOL Music.

Webcasters pay royalties, as a percentage of their earnings, to collection companies, which then split the royalties between the music industry and musicians.

But with CD music sales decreasing and with audience shifting online to cheaper music alternatives, the Copyright Royalty Board, a Library of Congress panel, decided in March to increase royalty fees for streamed online music.

New royalty rules

Under the new rules, Webcasters would no longer pay royalties as a percentage of earnings. Instead, they would pay a fee each time a user listens to a song.

Webcasters are multiplying the number of songs streamed each year by the estimated 70 million Americans who listen to Internet radio by the \$0.0008 per song royalty rate set for 2006 by the federal panel -- and do not like what they see.

"We don't have the money to pay up," Live365 Chief Executive Mark Lam told the Washington Post, calculating that the fees his radio network would have to pay based on its 4 million listeners per month could rise from \$1.4 million in 2006 to between \$7 million and \$8 million in 2007.

With the royalty rate set to rise to \$0.0019 per song per listener in 2010, large Webcasters would see an increase in royalty expenses of about 40 percent to 70 percent of revenues, according to a congressional estimate. For small Webcasters, the royalty increase could be up to 1,200 percent of revenues.

It's an increase Webcasters say would devastate their industry. They predict that, in the short term, few small online stations will survive the fee change, which includes 18 months of retroactive payment.

Greg Scholl, president of the online music distribution company The Orchard, told National Public Radio the change could also have a long-term effect.

"Higher rates means less diversity of programming; it means slower development of the digital music space; and it means more difficult time for independent artists and labels to take advantage of this incredible new medium ... to build audiences and make and sell music," Scholl said.

Lobbying efforts

With the fee change slated to take effect July 15 -- dubbed "the day the music dies" by Webcaster supporters -- the clock is ticking for Webcasters, who are scrambling to lobby Congress to change the royalty fees as they re-evaluate how they do business online.

Webcasters -- large and small, public and private -- have joined the SaveNetRadio coalition, seeking support from listeners, musicians and politicians to fight the copyright board's new fees.

SaveNetRadio supports the Internet Radio Equality Act, a bipartisan bill introduced in the House and Senate that would set royalty rates comparable to those paid by satellite radio -- about 7.5 percent of revenue.

The bill also would set special rules to limit fees paid by non-commercial online radio stations, such as college stations, and public online stations, such as National Public Radio.

Impact on artists

But SoundExchange, the nonprofit company established by the Recording Industry Association of America to collect digital music royalties, called the Webcaster coalition's lobbying move a "money grab."

SoundExchange said the bill would save larger companies that operate online stations -- AOL, Yahoo!, Microsoft, Clear Channel -- from paying up to \$100 million in royalties, money that would be kept out of the artists' pockets.

"The fact that [SaveNetRadio] would advance the profit-grinding agenda of big Webcasters without regard to the artists they are hurting speaks to SaveNetRadio's true mission and evident hypocrisy," Rebecca Greenberg, national director of the Recording Artists' Coalition, said in a SoundExchange press statement.

Many independent musicians, however, depend on online radio for exposure, and Laurie Joulie, the director of the artists collective Roots Music Association, said they would side with the Webcasters.

"Artists understand that when we proactively support the overall viability of the industry, we support them," Joulie wrote in a BusinessWeek editorial.

Surviving the fee change

SoundExchange Executive Director John Simson wrote in his BusinessWeek editorial that the new fee is reasonable when broken down by listener -- \$0.68 per month for a 40-hour-per-month online radio listener.

"I think in any new area like the Internet there will be some businesses that survive and some that don't," Simson told the New York Times.

"Whether you're a corner market versus a big supermarket, you both have to pay the same amount for the milk that you sell. It's not like the little guy gets a cheaper price for milk," Simson said, NPR reported.

Tim Westergren of Pandora Internet Radio said in a 10 Zen Monkeys Webzine interview, that he viewed his popular 6.5-million-listener, personalized radio company as a "wildly promotional service" that shouldn't be subject to the increased fees.

To keep costs down as the July 15 deadline looms, Pandora has closed its service to international audiences because of "legal realities."

-- *Compiled by Adnaan Wasey for NewsHour Extra*

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