

**The Commercial Uses and Legal Implications of Blockchain on the Music and
Entertainment Industries**

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2020/21

Student Number - 2006863

Lecturer – Ian Penman

Assignment Title - Essay

Word count - 2297

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Introduction

In this essay, we will be discussing the commercial uses and legal implications of blockchain technology on the music and entertainment industries. Looking at what Blockchain is and how it works. What the benefits are of using Blockchain over traditional systems. Furthermore, we will then explore the commercial uses of blockchain technology within the music and entertainment industries. Finally, the legal implications that introducing Blockchain to the music industry may face will be considered. The essay will consistently be researching, analysing, and making recommendations on how Blockchain may affect the industry.

What is Blockchain, and how does it work?

Blockchain was created in 2008 by Satoshi Nakamoto (Conway, 2020) when he released a paper discussing blockchain technology. The report would allow the development of cryptocurrency to be propelled. Blockchain is one of the most critical technological creations and is the technology behind the rise of cryptocurrency. Blockchain is much more than the cryptocurrency; it is a modern digitalised ledger system. A system that fundamentally changes the way that we store essential information and transfer money. Blockchain's database is a distributed ledger which is quite different from traditional centralised systems used by Banks, for example.

Based on a peer-to-peer (P2P) topology, Blockchain is a distributed ledger technology (DLT) that allows data to be stored globally on thousands of servers – while letting anyone on the network see everyone else's entries in near real-time. That makes it difficult for one user to gain control of, or game, the network. (Merian, 2019)

Whilst blockchain may seem overly complicated at first, it is quite a simple idea. We will be further discussing how Blockchain came to be and what exactly Blockchain technology is attempting to replace. Blockchain allows payments to be made on a peer to peer basis and can be completed anonymously without the need for third-party verification. The record of events and transactions cannot be modified, and records are kept in multiple independent locations. The issues arising from the ability to remain anonymous has brought negative attention to Blockchain and cryptocurrency.

Blockchain is a particular type of database. However, what exactly is a database? As Luke Conway explains:

A database is a collection of information that is stored electronically on a computer system. Information, or data, in databases is typically structured in table format to allow for easier searching and filtering for specific information.
(Conway, 2020)

The information contained in Blockchain is created and timestamped, thus becoming a "block" of information, and then it is added to the "chain" which is the database. It is one of the most secure forms of a digital database as it is decentralised; meaning that no one person can gain control and modify the data since the data is checked against the other records. The technology is still relatively new and is not yet fully developed; therefore, problems are sure to arise. In recent years there have been numerous incidents of breaches to security and the ability to commit fraud. We will be exploring this further in the legal implications section. However, once the technology is improved, and more prominent companies get behind Blockchain and

continue to develop the capabilities, it should be more viable to the broader world, especially the music and entertainment industries.

What are the benefits of using Blockchain over traditional systems?

What are the benefits of using blockchain technology instead of traditional methods of transferring ownership or storing information? For example, money, ownership rights and intellectual property. By using blockchain technology, there might be a way to get around the old-fashioned institutions like the banks or government organisations. Essentially cutting out the middleman and speeding up these processes to the point where they are instant.

It does this by filling three important roles – recording transactions, establishing identity and establishing contracts – traditionally carried out by the financial services sector. (Marr, B, 2017)

Whilst this does sound very enticing, it may take a while for the technology to be competent at replacing these old institutions. Inevitably, these institutions are anxious about what the technology means for their hold of these activities.

Nevertheless, for those in the music and entertainment industry, there are several different benefits which may be easier to implement than in the broader financial sector.

Commercial uses of Blockchain within the Music and Entertainment Industries

How can Blockchain be applied to commercial use in the music and entertainment industries? We will be focusing mainly on how Blockchain can be implemented in the music industry. The use of Blockchain within the music industry could fundamentally change the way copyright and payment systems operate and radically improve upon existing outdated and slow systems and significantly benefit rightsholders.

In Europe alone, 28 collection societies collect royalties for public performance rights and mechanical recordings in 28 different markets. This lack of transparency combined with the centralised nature of the industry has led to slower royalty payments or paid inaccurately. As a result, there continues to exist disconnect between the owners of music content, the artists themselves, and the end consumer. (PwC, 2019)

The quote above from the PwC report on Blockchain and the music industry demonstrates the need for a significant overhaul of the current system. Collection societies such as PRS for Music act as a centralised bank and hold rightsholders money for months, sometimes even a year, before they pay-out. By holding the money in their accounts, they are generating interest. However, these collection societies are flawed. New technology and the use of Blockchain could improve these flaws. Blockchain would allow for instant royalty payments as soon as music is used.

An excellent example of this is a new technology for venues that can monitor what is performed to allow for accurate payments to be made. Unlike currently, where one must report the songs manually and if they are not correctly inputted, the collection societies guess whom to pay and will usually pay the more prominent artist. The negative consequences of this process are obvious.

"The low transaction costs of cryptocurrencies facilitate micropayments. They also allow content creators to receive tips, even in very small sums" (O'Dair, 2016)

The low cost and instant payments would allow the music industry to cut out the middlemen of the collection societies in an effective way. It is likely that the collection societies, who are the old-fashioned institutions with massive control, will not like to give up their control and will want to find a way to stay in their positions of power.

Many companies have already begun to develop and roll out the software using blockchain technology, demonstrating how the technology works and how it can be effective at improving royalties' payments for all rightsholders. Open Music Initiative is a non-profit organisation which is calling for the use of blockchain technology to be used by the entire music industry. They described their aims as follows:

The Open Music Initiative is exploring the use of Blockchain to help identify the rightful music rights holders and originators so they can receive fair royalty payments. The Initiative believes that Blockchain can bring transparency and deeper data insights, which can help artists get fairly paid. (OMI, 2020)

Organisations like Open Music Initiative are vital to blockchain technology being implemented within the music industry. Through their efforts, trust for the technology and the systems could be built. A significant bonus is they count many significant companies as members including Soundcloud, Red Bull Media, Netflix, Sony, YouTube, and Spotify have also recently joined the Open Music Initiative.

Another area that Blockchain could completely redefine is copyright and allow for correct ownership. Blockchain is a database which is incredibly secure and combining that with music copyright, one has a secure database storing all the information regarding songs and their rightsholders. The metadata stored could

include terms of use and contact details for the copyright holders, helping contact them if required for example to license the music. This would be an incredible upgrade to the copyright system within the music industry, which would increase protection for rightsholders dramatically and make everyone's lives much more straightforward. However, the industry would need a body to verify that the information was correct to avoid fraudulent activities.

In 2017 the three largest collection societies came together to work on a blockchain project. These three societies were ASCAP, the American Society for Composers, Authors and Publishers; SACEM, the Society of Authors, Composers and Publishers of Music; and *PRS for Music*. They launched a partnership of prototype shared database for information regarding copyright using blockchain technology. The data they are entering into the database is music recordings International Standard Recording Codes (ISRCs) and music work International Standard Work Codes (ISWCs) (PRS for Music, 2017).

The goals and aims set out by the partnership are:

The goal of the project is to prototype how the music industry could create and adopt a shared, decentralised database of musical work metadata with real-time update and tracking capabilities. (PRS for Music, 2017)

The partnership is together working with IBM to utilise the open-source blockchain technology being made available by the Linux Foundation and Hyper Ledger. It is shown that even though this system is in its early stages, its show auspicious signs and three years on, it would be encouraging to hear an update about how it has been improved.

Soon this technology will be able to resolve the issues that are currently being faced by these collection societies and help settle privacy disputes, copyright claims and ownership—further protecting musicians and their lively hoods for the future generations.

The Legal Implications

The legal implications surrounding Blockchain technology in the music and entertainment industry and the legal issues facing the technology, in general, are significant factors in Blockchain technology being used more widely. The safety issues regarding the security, fraud, trust and overall reliability of this relatively new technology are the critical problems. Plus, the issues of who would overlook and verify the data being stored, or money being sent, are a big topic of conversation. On the other hand, there are associations with the "dark web" and criminal activities committed using these services in relation to cryptocurrency. At this point in time, these problems must be tackled and solved for blockchain technology to be effectively integrated within the music industry.

To begin with, Blockchain's relationship with the "dark web" is the first issue that people will mention. The negative associations with online criminal activities have painted an unfair image of Blockchain. Whilst the technology is the foundation of how Bitcoin functions, the benefits that the technology present is far more significant and make the issues regarding the "dark web" negligible. This relationship would have almost no impact on the legality of the adoption of Blockchain technology in the music industry.

The security of Blockchain as a secure database system is a crucial area to discuss. Whilst the technology is somewhat new, security issues have been noticed. These issues concern the hacking of bitcoin and have prompted people to oppose the adoption of Blockchain and use these concerns as reasons to avoid using the technology. However, many people believe that a full-sized hack of Blockchain would be exceedingly tricky. As Alex Tapscott says.

"In order to move anything of value over any kind of blockchain, the network [of nodes] must first agree that that transaction is valid, which means no single entity can go in and say one way or the other whether or not a transaction happened," Tapscott said. "To hack it, you wouldn't just have to hack one system like in a bank..., you'd have to hack every single computer on that network, which is fighting against you doing that. (Mearian, 2017)

The legal issues surrounding the security of Blockchain will ultimately be debated, but as it stands, Blockchain is currently more secure than any other system now being used. Once the technology becomes more manageable to control and more straightforward for the user, issues regarding the security should fade.

Another way that security issues could be eased would be the creation of a governing body to ensure that the companies operating these blockchain systems were meeting regulatory standards, and could be legally held accountable if a problem happened to arise. Governance would be a fundamental process needed to ensure safety for all involved and to make sure that laws were followed.

These measures would help build trust within the industry for the Blockchain technology and for the data and transactions Blockchain is carrying out. Trust is a fundamental area that needs to be tackled so that early adoption of the technology

can properly begin. PwC stated how they wish to promote trust and assure trust with the use of blockchain technology.

PwC are placing trust and transparency front and centre by offering a means to monitor transactions and establishing trust by independently validating transactions. This will allow a company to monitor, view and test transactions in near real time. So, trust is not merely established, but assured. (PwC, 2019)

Conclusion

In conclusion, the future is bright for the use of blockchain technology within the music and entertainment industries. Whilst there are still many challenges facing the technologies adoption into the sectors, with hard work and support of groups like the Open Music Initiative, these challenges will be overcome. The potential for faster payments and more secure, instant and accurate copyright data will be realised as Blockchain is implemented into the music industry. Blockchain could make the future of the music industry limitless and guarantee security and protection for rightsholders.

However, it must not be forgotten that many in the music industry still see blockchain technology as a threat, and they are likely to resist it being adopted into the industry for as long as possible. So, the fight toward modern and progressive music copyright and payment system has only just begun

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