

Element 2 (Essay)

Explain the definition, commercial uses and legal implications of Blockchain on the music and entertainment industries.

The music industry has long been an environment of ambiguity. From Taylor Swift's infamous row with Spotify over streaming royalties (Sweeney, 2017), to, sticking with Swift, the ticket tout fiasco for her latest tour resulting in fans suing Ticketmaster (Snapes, 2022), it's a fair statement to say that communication, transactions and rights have been shrouded in uncertainty in the music and entertainment industries. Some would even go as far to say that "everybody hates record labels" because "artists typically get the worse end of the deal". (Newton, 2021).

Blockchain has disrupted the industry, and is set to continue to do so. Looking at it from a mass perspective, Blockchain is relatively misunderstood or perhaps not fully appreciated for the impact it can have on the music and entertainment sectors; it's not limited to just 'Bitcoin' or 'Cryptocurrency'. The core nature of Blockchain technology being decentralized opens up a multitude of huge questions for all stakeholders in the music business (Daley, 2022); how can record labels trace streams? How can artists connect on a deeper and more direct level with their fans? How can blockchain combat the long-standing issue of ticket toutting? These are just some of the questions I will cover in this essay, plus what other commercial uses are there for blockchain in the music and entertainment industries and what potential legal implications there may be, such as the impact on Intellectual Property rights and its impact on royalty collection.

What is Blockchain?

At its simplest, a blockchain is a "shared, immutable ledger that facilitates the process of recording transactions and tracking assets" (Gupta, 2018, p. 3). In the traditional world of

business transactions, each individual (or ledger) typically keeps records of such tasks including tracking assets - whether they're bought or sold. Many obvious examples of centralised systems can be drawn from society, such as the banking or government systems. Whilst various technological advancements over the past few decades have enabled such business processes and transactions to be carried out much quicker and simpler, starting with the emergence of the internet in the 1980s through to cloud technology in the early 2000s, there are multiple areas of concern around the safety and integrity of these methods. Gupta (2018) highlights some of these concerns; firstly, within the intermediaries themselves who charge expensive fees for their services. Another area is inefficiency in communication when agreements aren't met. And lastly, if an intermediary is prone to a cyber-attack or fraud then this affects all end-to-end users. Blockchain eliminates these vulnerabilities by adopting four key characteristics. The first characteristic is that it must have consensus, meaning all parties agree that the transaction is valid. Secondly, it must have provenance so that all parties know where the asset came from and any ownership changes over that time. Thirdly, it must be immutable, meaning no participant is able to alter the transaction after it has been processed. The fourth characteristic is finality, meaning a single, shared ledger is the only place to go to complete the transaction or determine ownership of the asset. All four characters ensure blockchain transactions are secure, authenticated and verifiable. Taking this into the context of the music business, a transaction could be a set of data or digital assets such as gig tickets. The ledger would be the event organiser, who would have a complete overview of where tickets have been sold, including any further transactions which may happen down the line. This ultimately combats the ongoing issue around ticket touting and fraud, as these transactions have to be verified. (Skift, 2021). I will now delve deeper into some different key commercial uses of blockchain in the music and entertainment businesses, and the legal implications this has had.

Commercial Uses and Legal Implications of Blockchain

Blockchain technology has already disrupted a range of processes and transactions in the music and entertainment industries, one of the major uses being in Digital Rights Management. One of the major issues in this area has been with piracy. In the late early 2000s, the illegally downloading music from platforms such as Napster resulted in 80m users downloading free music at its peak, serving severe damage to record labels' profits (Forde, 2019). Whilst some say this opened up positive discussions around copyright in music (Keegan, 2008), this highlighted the implications of artists being properly credited, and fairly compensated, for their work. How Blockchain impacts Digital Rights Managements is that it offers a transparent, fair and secure way to manage intellectual property of music, ensuring proper credit where it is due. Companies such as Media Chain are paving the way, by allowing "digital creators to attach information to their creative works, timestamp that data to the bitcoin blockchain and store it with the InterPlanetary File System (IPFS), a distributed file system" (Rizzo, 2016).

Another area is Digital Rights Managements which Blockchain technology has had a positive impact on is around Smart Contracts. In the industry, Smart Contracts can be used to manage agreements such as royalties, licensing and other types of deals around revenue. Media Chain also offers this type of service, ensuring artists get paid fairly, issuing smart contracts with artists that clearly and directly state their royalty terms without the hassle of confusing third parties (Daley, 2022). Looking at Smart Contracts on a wider industry perspective, Blockchain technology has the power to "save the music industry billions by revolutionising the rights and royalties process, ensuring artists, writers, publishers and everyone in the music industry value chain is paid appropriately" (PWC, n.d.). Every year, there is around \$250 million in lost revenue from unclaimed royalties (Christmas, 2019) due to the traditional publishing agreements lacking in transparency and often taking a long time to be tracked back to the correct credits. With

Blockchain technology and the use of smart contracts, ownership and credits can be tracked in a transparent way to ensure songwriters are rewarded for their work.

Companies such as Digimarc are offering this kind of service to musicians. Their mission is to “protect your brand’s reputation with covert watermarks that make it easy to prove ownership of your digital assets with a simple scan. Using Digimarc Validate Online brands can track and monitor misuse of their assets in unauthorised locations.” (Digimarc, 2023). In other words, it is a music fingerprint technology linking to the art’s metadata to ensure it is tracked properly enabling accurate and timely payments back to the artist.

However, Harrison (2021) raises a valuable point that whilst “the concept seems to be sound... it does rely on ‘clean’ accurate data” and concludes that “I think you would need to build a database from scratch specifically for this purpose if it were to work well”. This raises a valid question around the trust and validity of the original source data in music companies, and how this backdata is being transferred over into Blockchain technology; can we simply move data over without having to start the process from scratch? If this is a true factor to consider, then backdating data to ensure its validity before being transferred to blockchain technology could take a very long time to fully come into practice for some more traditional companies in the industry..

Building a more solid and direct artist-to-fan engagement is also elevated through the use of Blockchain technology, one way being in NFTs. NFTs, or Non Fungible Tokens, is a huge buzzword in the entertainment industry and has generated massive amounts of revenue going straight to the artist. NFTs are the digital version of unique collectibles, and can be in the form of a jpeg, wav, mp4, gif - any type of digital asset (Herstand, 2023, p. 479 - 480), which is sold and

distributed using Blockchain technology. Many musicians have made enormous profit from selling their NFTs, including electronic artist 3Lau is made over \$11 million dollars selling his NFTs (Herstand, 2023, p. 470). Whilst this is great for the artist, what does the fan get out of it? Companies like eMusic are creating new and innovative companies that aim to build a stronger direct artist-to-fan relationship through NFTs. They claim that “the eMusic NFT platform is the world’s most advanced exchange created expressly for the music industry where eMusic has millions of users globally” (eMusic, 2023). By a fan having an NFT created by an artist, they are able to engage with exclusive content and show off their NFT to their friends - its a form of currency to show how much of a fan you truly are.

Taking this to the next level, companies such as Royal (Royal.io, 2023) offer a system where artists and fans own music together.. Musicians build their bespoke NFT package to be sold to their fans, where they are then able to earn royalties from artists’ songs, as well as have a host of other benefits such as having access to exclusive content directly from the artist straight to the fan. The feature of earnings royalties from the NFT is truly pioneering, as it makes the fan feel a part of the artists journey, bringing them closer to the music more than ever. There is a limit to the number of NFTs available too, meaning there is a level of exclusivity which true fans will jump to the chance to own - much like a valuable collectible.

Record labels will have to adapt to this way of transparent and fair royalty splits, as traditionally speaking they have always took a larger share of ownership of artists’ works, as well as centralised streaming platforms such as Spotify who have been considered to pay artists unfairly. Emerging record labels such as DAOrecords aim to improve the distribution and royalties of their artists’ music, to “help artists participate in decentralised governance, request funds, and ultimately see every activity recorded on the blockchain.” (Near Team, 2022).

Blockchain technology has the power to change the overall view of the record label, and be a service which ensures artists are paid fairly supported.

Another area which Blockchain technology has had and will continue to have a positive impact on the entertainment industry is around Ticketing. Ticket touting and fraud has affected around 59% of those living in London, losing between £100 to £149 for each ticket (Shah, 2023). With huge incidents continuing to occur in ticket fraud, such as the Taylor Swift tour tickets being sold by touts for an extortionate price (Snapes, 2022), there is clearly a problem in transparency and validity that needs to be solved. New, emerging companies such as GUTS tickets (Guts.tickets, 2023) “uses blockchain technology to issue honest tickets that put an end to disgraceful secondary market prices and ticket fraud”. Due to the nature of ‘finality’ in Blockchain technology, event organisers will essentially have complete control and insight of the event cycle showing real-time data of the ownership of tickets, as well as ensuring tickets are purchased by a verifiable and valid buyer. Going back to the definition of Blockchain technology being transparent and accountable, it essentially means that the ticket can be “seen” by essentially everyone in the process. This in turn would make it difficult for ticket touters to then sell on at a higher price.

The impact of Spotify on artist’s revenue streams has long been highlighted in industry news, where their current system is at a disadvantage to independent musicians in particular (Wright, 2022), but the overall consensus of Spotify and other streaming platform is that artists are not being rewarded fairly for their music when it comes to streaming. Streaming platforms could move to a decentralised system, like BitSong, where they bring artists, fans, managers and labels in “one single holistic ecosystem” where artists get paid every single play, every single time and in real-time (BitSong, 2023). It also allows artists to upload advertisements along with

their songs (Daley, 2022) opening up wider revenue streams for the artist, such as integrating any brand endorsement deals or sponsorships alongside the songs their fans are streaming.

Conclusion

In conclusion, the music industry has typically been shrouded in ambiguity but as I delved into this essay it is clear that the industry has already made movements to be more transparent and will continue to do so. Blockchain technology has the potential to revolutionise the music and entertainment industries by providing not just transparency, but efficiency and fairness too, to various aspects of the creative process from creation to distribution to monetisation. By music businesses adopting a decentralised and transparent model, all stakeholders of the industry are positively impacted. The nature of blockchain transactions being immutable can benefit the music industry by addressing issues such as piracy, royalty transparency and rights management. Fans will see the positive impacts of Blockchain technology too, where it will help to tackle ticket fraud and build a more direct relationship with their favourite artists through transparent NFTs transactions.

The future of blockchain in music is promising, with increasing adoption and experimentation by artists, platforms, and companies. As blockchain technology continues to mature and evolve, we can expect to see further innovations in the music industry, including more efficient royalty collection and distribution, improved rights management, decentralised and democratic music landscape, and new business models that empower artists and fans. As we can see in the news with new and emerging companies, some successful like Media Chain, who were acquired by Spotify in 2017 (Perez, 2017), but some unsuccessful such as Choon (Svarda, 2019), it is important for stakeholders in the music and entertainment industries to stay informed about the

ever-changing developments, commercial uses and potential legal implications of blockchain technology to proactively adapt to the constantly changing landscape.

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