

Fanchon Dehillotte

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Blockchain In The Music Industry

Ian Penman

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Table of Contents

1. Introduction to Intellectual Property Rights
2. The Music Data Rights Problem
3. Blockchain: Definition and Background
4. Blockchain Technology Diagrams
5. Blockchain in The Music Industry
 - a. Transparency and Protection from Piracy
 - b. Cutting out the Middleman and Increased Artist Control
 - c. Royalty Micropayments
 - d. New Revenue Sources and Enhanced Fan Interaction
6. What is Blocking Blockchain ?
 - a. Perception
 - b. Integration
 - c. Part of the Solution, Not a Panacea
7. Case Studies
8. Conclusion
9. Works Cited
10. Bibliography
11. Appendix

THE ROLE OF BLOCKCHAIN IN THE MUSIC INDUSTRY

Intellectual Property Rights (IPR) were created to protect intangible creations of human intellect, crucial to the music industry in ensuring that artists can be recognised and financially compensated for their work (GOV.UK. n.d. *Intellectual Property and Your Work*.). There exists four types of IPR; trademarks, copyrights, registered designs and patents. Recorded music contains two copyrights. The performance rights associated with the sound recording are typically owned by the artist or label. The composition right lies within the written words and instrumental and is typically owned by the writer or publisher (Lowe, B., 2020.). The management, administering, licensing and exploitation of copyright is crucial to generating income for the music industry.

This report will discuss the current issues of the music industry's storing and sharing of IPR data and how this affects songwriters, musicians and businesses such as record labels. Blockchain technology will be examined as a tool in addressing and resolving the music data rights problem and its consequential harmful impacts on the music economy. Although blockchain offers valuable advancements to the infrastructure for data, licensing and payments, it is only part of an increasingly urgent wider solution that will require collaborative efforts from a unified industry. This report will explore which music business concerns blockchain can propose alternative practises for and how these can function within the music ecosystem.

THE MUSIC DATA RIGHTS PROBLEM

Although the nature of IP protection should guarantee creator's rights, the current structure malfunctions in practice due to the accessibility of online content stealing. The rise in streaming has decreased the income generated by physical sales and the inefficiency of royalty claiming means creators are increasingly struggling to sustain careers. Furthermore, the lack of transparency in the streaming domain means artists see monies received but not their calculations, albeit streaming being a micropayments business that could generate mass data if there were a line attached to every stream.

The automacy of copyright in many countries means it doesn't necessitate registration (GOV.UK. n.d. *Intellectual Property and Your Work*.). Copyrights of current and future works are often assigned to outside parties through licences with periods and territories, potentially assigning elements to different entities. Commonly, songwriters assign mechanical rights to publishers and performing rights to collecting societies like UK's PRS For Music. This is where the data rights issue originates. As it does not need to be registered, there is no industry inclusive record of IP information. Hence, when a third party seeks permission from owners to utilise their work, the challenge begins in finding out who owns which rights. Substantial data could be pulled from Digital Streaming Platforms (DSPs), ticketing services and social media analytics and funnelled into the one-stop public music rights database that is crucially lacking today.

Some attempts have been made at constructing public resources; however these platforms are incomplete, share conflicting information or only offer one type of information. A progressive step would be for all existing databases, notably the more reliable and complete private ones, to publicise IP information for startups to catalogue and declutter (De Groot, J., 2018).

The question remains of who should have access to this data and who must claim the responsibility of classifying it into a standardised, public database. Although there appears to be general consensus within the industry that the music data rights problem is a pressing concern escalating alongside the rise of streaming and impeding upon all practices, debate remains as to who might be most responsible for addressing the situation. Many artists have aggravated change by filing lawsuits against DSPs such as Fourtet against spotify, see appendix (Paine, Four Tet launches legal action against Domino over streaming royalties, 2021). The publishing sector tackled this in its development of Global Repertoire Database with Deloitte, although this contained composition rights without recording rights and ultimately collapsed in 2014 (Cooke, Trends: Global music data and blockchain – the story so far, 2017).

An example of a startup dedicated to the music rights data issue is MusicBrainz; a publicly accessible, crowd sourced music encyclopaedia. Collecting societies are arguably in the most advantageous position to advance this work as they manage licensing and hence store valuable IPR. Three of the most internationally recognised collection societies SACEM France, ASCAP US and PRS UK have joined forces on a blockchain-based system to manage links between International Standard Recording Codes and International Standard Working Codes. The triumvirate aim to prototype how adopting a shared database could improve royalty matching (Music Business Worldwide. *ASCAP, PRS and SACEM join forces for blockchain copyright system*. 2017). Nevertheless, there is need for industry oversight on these repertoires.

Establishing a decentralised database of musical work metadata with real-time updates for the industry to adopt offers a practical improvement to the processes of royalty matching, consequently enhancing licensing practises and reducing errors and costs.

BLOCKCHAIN: DEFINITION AND BACKGROUND

Blockchain technology refers to a chain of blocks storing immutable information, meaning one block cannot be retroactively altered without modification of its subsequents. It is the foundation of cryptocurrency, particularly bitcoin. Blockchain can facilitate automated contracts, secure online transactions and provide transparency to business practises by providing a locked record of affairs carried inside multiple independent locations with no central point of failure (Fowler, D., 2020). It is a valuable means of establishing authenticity and identity of both digital and physical assets ranging from houses and cash to IPR. Blockchain's network is different to the currently standard centralised systems (refer to figure 2 below); providing equitability, security, privacy and accessibility for users. There is a distinction to be made between permissioned, private blockchains whose participants must be authorised, and permissionless, public alternatives (Hayes, A., 2021). Evidence from The World Economic Forum suggests economic adoption, such as estimates that 10% of global GDP will be stored on blockchains by 2027 (Korizky, R., 2015.).

BLOCKCHAIN TECHNOLOGY DIAGRAMS

Figure 1: How Blockchain Works (Lastovetska, A., 2021)

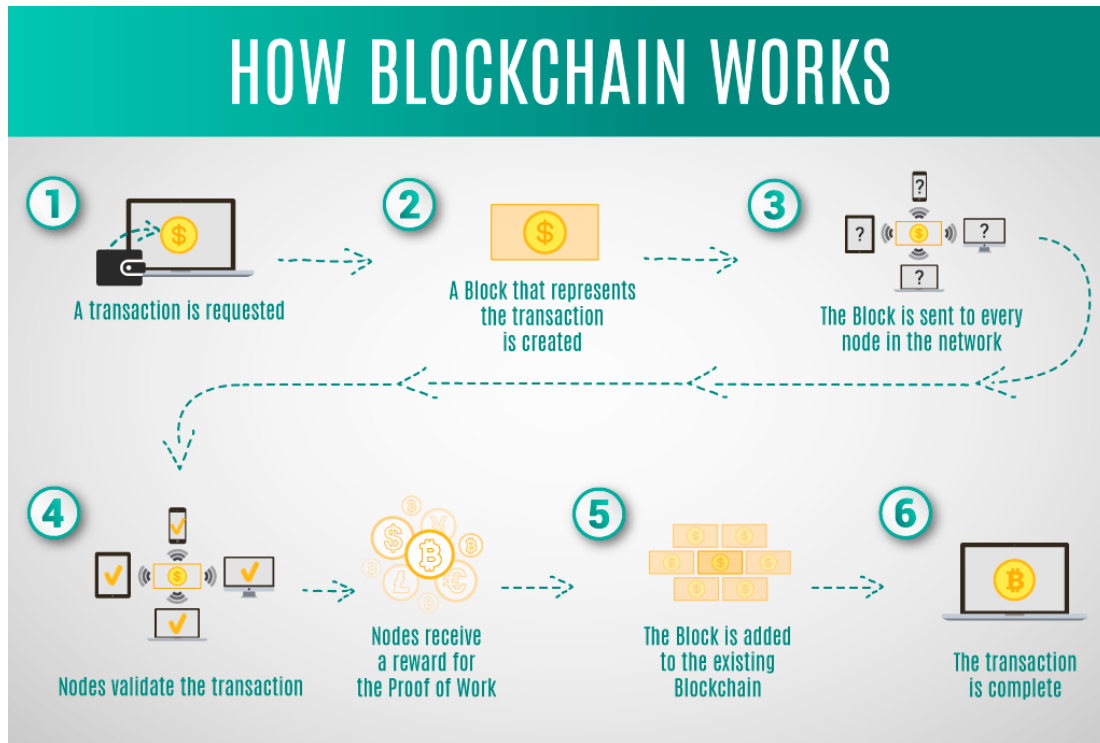
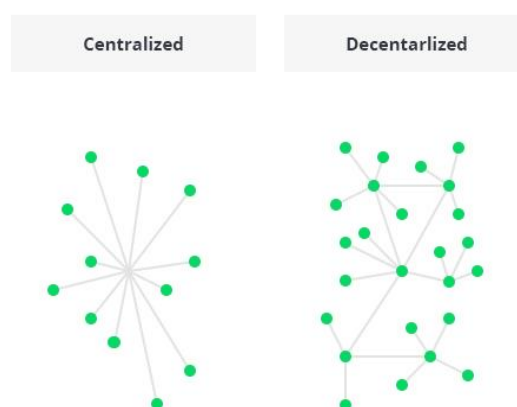


Figure 2: Visualising a Centralized and Decentralized Network (Lastovetska, A., 2021)



BLOCKCHAIN IN THE MUSIC INDUSTRY

Blockchain offers part of a solution to the music data rights issue by facilitating a networked metadatabase. Information previously stored in multiple discrete bases could be progressively placed on the blockchain eventually developing one comprehensive collection. Recorded music's two copyrights would be stored inside as 'cryptographic hash function'(CHF). This metadata could be embedded within every sound recording to determine the terms of use and contact details for owners, therefore simplifying acquisition of licences (O'Dair, M., 2016.).

Transparency and Protection from Piracy

The transparency in the value chain would further address remuneration problems of the streaming economy, where funds are sent to the wrong parties and royalty revenues pile up in a 'blackbox'. Presently, there is difficulty for songwriters and artists to monitor whether labels, publishers or societies are processing payments correctly; partly because many streaming agreements are non-disclosure. An accomplishment of bitcoin is to settle consensus without verification from an intermediary or central authority. Embedding metadata into recordings could furthermore protect against piracy by giving songs a unique number and blocking illegal downloads. This would further assist the ticketing industry by preventing actors from changing resale prices (2015. *Part 1: How streaming services are licensed and the challenges artists now face.*).

Cutting Out The Middleman and Increased Artist Control

The development of blockchain-based DSPs could trigger immediate payments for streams or physical sales without middleman services taking profit portions or prolonging the process. This would be constructed upon ‘smart contracts’ created when a work is finished, a feature which can enscript royalty splits within the block’s function in the chain. Payments would become peer-to-peer and advance towards a more ‘fairtrade’-based ecosystem. Consequently, artists would gain control over pricing and terms of use for their works. Currently, prices personalisation is available on artist-owned websites but not most DSPs (Middlesex University London, 2016.).

Royalty Micropayments

It may presently take months to years for royalty payments to reach rights-holders. Moreover, there is often a ‘friction’ issue as multiple performance rights organisations may be deducting administrative fees to already minute payments.

Micropayments are made possible by the low transaction costs and denomination range of digital currencies and smart contract’s automatic distribution of remuneration could make these payments almost instantaneous according to split agreements rather than intermediary administration. This would allow artists to receive minute payments such as youtube rates or early career stages and also to receive small fan ‘tips’.

The debate concerning the speed of royalty payments disregards the advances paid to artists, where publishers or labels keep royalties until ‘recoupment’ without pressing speed. Regardless, accelerating this process would positively impact artists who do not receive large

advances or are given non-recoupables as is increasingly practiced (Cooke, C., 2017. *Digital Dollar Guide: Transparency Guide*.).

New Revenue Sources and Enhanced Fan Interaction

Additionally, blockchain could enhance crowdfunding systems as artists could issue their own tokens, shares and smart contracts guaranteeing for pledge contributions to be returned if targets are unmet.

Seed funding has proven itself another challenge in the record industry. ‘Artist accelerator’ programmes could benefit from smart contracts by automating monitoring of careers, ergo introducing new sources of capital by gathering groups of emerging artists and offering access to mentoring, facilities and networking in exchange for future earning stakes. This could become a viable business model for portfolio investors. The inherent transparency could be further attractive to investors due to the predictability of investment outcomes and returns. Blockchain could also facilitate buying shares in music royalties, as presented by online marketplace Anote Music (ANote Music. 2018.).

Digital tokens like Non-fungible Tokens (NFTS) powered by smart contracts could make it possible for artists to offer direct to fan features such as merchandise, instant rewards and crowdfunding opportunities (ethereum.org. 2021.). This also suggests clear potential for brand sponsorship.

WHAT IS BLOCKING BLOCKCHAIN ?

Despite blockchain's resourceful solutions to multiple music industry challenges, barriers both within the technology itself and its adoption need to be addressed before maximizing its benefits. It can be argued that blockchain is still in early development stages and that its potential lies in creating new opportunities as opposed to how it may resolve existing complications.

Perception

In order to achieve critical impact, blockchain must be homogeneously embraced by the industry. This will require cooperation from distributors but also involvement from high-profile artists that can act as motivators.

Industry politics can hinder this process due to many organisations' reservations on the move towards transparent practices. To a label or publisher, losing opacity could equate to losing control of commercially sensitive information. This could also be the case for artists as has been seen in past crowdfunding campaigns. Less established artists could seek to be perceived as more financially successful than they truly are and major artists might wish to downplay their success, apprehensive that disclosure could discourage fans from purchasing work one way or the other due to prejudice about price and quality. Fans can also be opposed to sharing their data due to privacy concerns. Collecting societies may be resistant to sharing data in fear that inefficiencies of the collective licensing system could be brought to attention. Moreover, a one-stop publicly-accessible music rights data platform could reduce collective power by replacing the role of societies. An appeal of collective licensing, particularly concerning songrights, is that societies are attributed the hassle of determining who controls

the rights, despite the fact that it may inefficiently distribute monies. Therefore, adoption requires major groups to believe that increased transparency would be commercially beneficial, for consumers to trust the information processing systems and for participants to see simplification of business practices.

As has been seen in past technological advancements, such as the emergence of DSPs in the 2000-2010s, it is impossible to introduce new procedures into the ecosystem until it is embraced by the dominating major labels. It can be argued that industry change is inevitable and that the major and major-independent labels will be forced to consider blockchain as remuneration rates decrease despite the music industry's yearly growth. Diverse service providers like Apple, Amazon and Google don't rely on music for income, rather as a loss leader for their other products. Meanwhile, DSPs such as Spotify are losing almost half a billion dollars a year (Paine, A., 2017. *'Change in the industry is inevitable'*). The blockchain model exemplifies a streamlined 50-50 model, cutting out the inefficiencies of distribution and royalties.

The general trust issues associated with digital currencies remain problematic in raising positive reception. Much of the uninformed public misconceives such technologies as belonging to the 'dark' web and its accompanying currencies as volatile, although bitcoin has been acknowledged to possess more radical characteristics (The Music Man Podcast, 2021). Regardless, digital financing doesn't yet feel as 'official' or standardized to many as physically walking into a bank and it will take more case studies for public consensus to adapt. Predictions have stated it may take 10-15 years before the industry witnesses mainstream adoption of blockchain (Middlesex University London, 2016).

Integration

Envisioning the employment of blockchain into new record and publishing deals can be considered relatively straightforward through the use of platforms such as Bittunes⁷ or SHOUT⁴. However, the process is complexified in the context of major label back catalogues and deals struck pre-digital era which might generate resistance amongst incumbents. Although, there is potential for plurality in that permissionless networks can co-exist alongside permissioned ones. The latter could be appropriate for major labels and collection societies since such systems are more closely related to current standards in appearance and could financially benefit stakeholders.

A concern in blockchain's role in recordings is that the distinction between performance and composition rights occasionally blurs. Entering data could prove burdensome for musicians and teams, as credits and splits are sometimes unknown at the point of recording and instead negotiated post-session. Similarly, session players aren't necessarily notified to what extent their part was included on the final mix.

On a technological level, there are logistical considerations such as how microscopic edits of a track, for example subtle tempo alteration, could be incorporated into the chain as opposed to creating new CHF. Identification of sampling an existing and loaded industry debate, also remains uncertain. Additionally, CHF might not conclusively protect against data copying without assistance akin to Digital Rights Management, a specifically developed system of codes (De Groot, J., 2018).

Furthermore, the governance of information must be considered with its impacts on the integrity of data. There is the question of what information to include and who to manage it on top of sorting the magnitude of existing data.

Finally, it is uncertain whether consumers who have been habitually desensitised to paying for individual pieces of music would be willing to pay per stream after years of subscription or advertising based models. Furthermore, the fact that artists could self-determine track pricings may present new challenges for chart eligibility.

Part of the Solution, Not a Panacea

Blockchain is a progressive method for distributing and storing music rights data. Hence, the issue of where this data is to be sourced remains. The sheer volume of data necessitating filing and storing and the conflicting information to be resolved still pose threats to the integration of blockchain. The failure of the Global Repertoire Database attempt is often cited as evidence of the difficulty of this task.

CASE STUDIES

Music Industry Examples of Blockchain Technology Integration	
Gramatik	Electronic producer selling music and merchandise as NFTs. (Gramatik. 2021)
NFT sales	‘Ethereal Pop’ artist Grimes sold \$6 million worth of promotional digital artwork with an avatar named ‘War Nymph’ on Nifty Gateway platform. (Willings, S., 2021)
Bitcoin Payments	EMPIRE; US distributor, label and publisher, paid a \$1million bitcoin advance to artist MoneyMan ahead of his <i>Blockchain</i> album. (Stassen, M., 2021)
Ticketmaster	Leading live-events ticketing service Ticketmaster acquired Upgraded startup that combines encrypted barcodes with blockchain technology preventing fraud of paper and pdf tickets. (Music Business Worldwide. <i>Ticketmaster acquires blockchain ticketing company Upgraded</i> . 2018)
Eluvio Live	Launch of new blockchain secured streaming and ticketing platform.

	(Paine, A. <i>Blockchain-secured Eluvio Live streaming and ticketing platform launches</i> . 2021)
Music Coin	Streaming service with no subscription or advertising. \$MUSIC blockchain model that allows free streaming of independent music and instant artist pay.
Music Blockchain Suppliers	- UJO: digital currency - KTune: creator platform - Copyright Coins: digital currency
Major Group Investments	- Warner invests 11 million in Dapper Labs blockchain firm, making available limited NFT merchandise and memorabilia (Cooke, C. <i>Dotblockchain announces Warner Music alliance</i>. 2018) - Spotify acquires blockchain team at Medialabs (Cooke, C. <i>Spotify acquires blockchain team at Mediachain Labs</i>. 2017) - United Masters, a US distributor, struck deal with Coinbase to allow independent artists to be paid in cryptocurrency. (Stassen, M., <i>EMPIRE just paid a \$1m advance to an artist in Bitcoin via Cash App</i>. 2021)

CONCLUSION

To conclude, blockchain technology is potentially transformative to the music industry as a database and distribution network. A new infrastructure could be established for information sourcing, licensing and remuneration with automated processes consequently decentralising the music industry.

However, blockchain is only part of a solution necessitating further assistance. The music data rights issue has more facets such as availability, accuracy and authority. Various types of blockchain exist to address some of the complications, though political turmoils of the industry need to settle in order for these to be embraced. Artists, record labels, publishing companies, societies and such key members must work together to be part of solutions that encompass the entire music ecosystem. Blockchain technology being a nascent alternative, there will be new opportunities and challenges to be explored in time though this does not take away from its current revolutionary potential to assist contractual relationships and artist communication.

Words: 2635

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APPENDIX

“With the **industry, government and regulators currently scrutinising streaming remuneration for artists**, *Music Week* can reveal that one of the biggest independent labels is facing a legal action over its royalty rate applied to a historic contract.

Kieran Hebden, the pioneering UK electronic music artist who performs as Four Tet, has made the claim for damages against **Domino Recordings** based on its royalty rate for streaming and downloads of albums and singles first released in the noughties.

The case could set a precedent for **streaming royalty rate** disputes, particularly for contracts signed in the pre-digital era. While other artists may have disputed their DSP royalties with labels, Hebden is believed to be the first to pursue the claim as far as the High Court.

Hebden and his lawyers entered into a legal dialogue with Domino over his claims that the label was in breach of contract. With both sides unable to reach an agreement, the case is set to be tried by a judge at the Business and Property Courts of the High Court of Justice. “

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