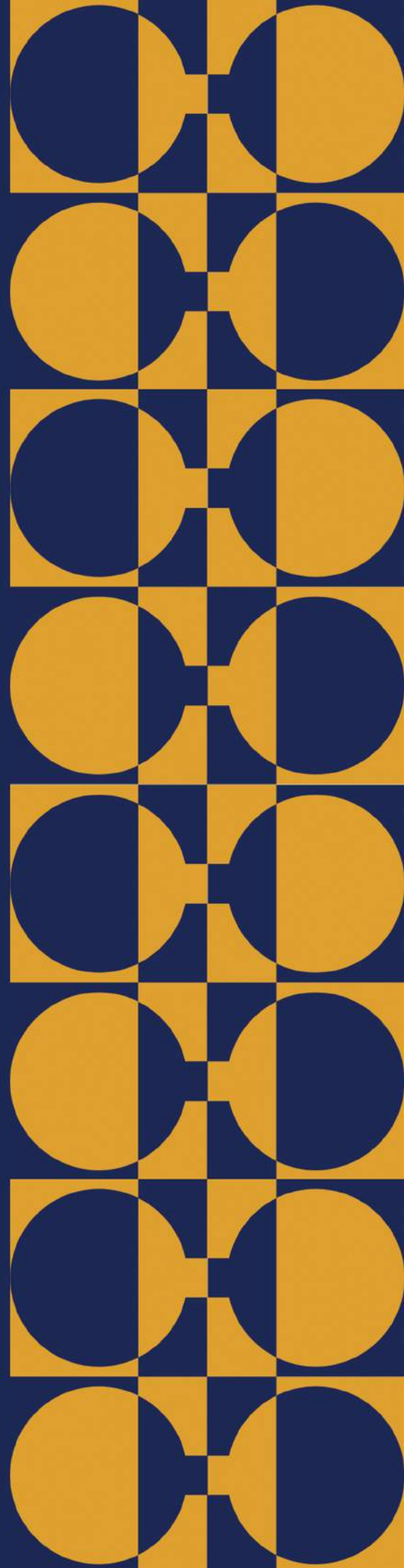


Central & Eastern European Music Industry Report 2020

Daniel Antal, CFA



Central and Eastern Music Industry Report 2020

Author:

© Daniel Antal, CFA, 2020.

Contributors:

Richard Bancroft (proofreader)
Theo Gardner (data preparation)
Andy McFarland (data preparation)
Jerome Wynne (data preparation)
Aistè Zabitaité (cover design)

Catalogue information:

DOI: 10.13140/RG.2.2.21450.31686

Keywords: 1. Music business; 2. Music – Economic Aspects;
3. Music – Europe; 4. Popular Music.

This book can be viewed as interactive website or downloaded in other formats from <https://ceereport2020.ceemid.eu>.

Publishers:

Consolidated Independent, London, United Kingdom.
CEEMID, the Hague, the Netherlands.

Contents

1	Introduction	3
2	The Audience of Music	7
2.1	Seasonality Concentrated Demand	8
2.2	Entertainment Technology for Music Recordings	9
3	The Creation of Music	11
3.1	Market Players	11
3.2	Creators of Music	13
3.3	The Three Income Stream Model	14
3.4	The Royalty Gap	16
4	Market & Distribution	21
4.1	Live Music Markets	22
4.2	Recorded Music	24
4.3	Collective Management	30
5	Music Export and Music Import	32
5.1	Cultural Tourism: Imported Audience	32
5.2	Touring	33
5.3	Exporting & Importing Recordings	33
5.4	Import and Regulatory Quotas	35
6	Conclusions, Policy & Business Strategy Recommendations	40
6.1	Support Schemes for Developing the Music Scene	41
6.2	Industry Advocacy, Economic Impact and Taxation	43
6.3	Valuing Music	44
6.4	Private Copying	47
6.5	Algorithms & AI	49
	Appendix	51

1 Introduction

The first Central European Music Industry Report is the result of a co-operation that started among stakeholders in three EU countries five years ago to measure the economic value added of music – the basis of a modern royalty pricing system. This gave birth to CEEMID, originally the Central & Eastern European Music Industry Databases, a data integration programme that now in 2020, covers all of Europe. CEEMID fulfils similar roles to the planned European Music Observatory and supports all pillars of the future pan-European system.

The comparison of Western and Eastern music audiences reveals key demographic differences that make the unchanged adoption of business practices from mature markets in the region questionable. Chapter 2 of this report will show these differences and their consequences on music markets, in terms of visiting and acquisition likelihood, frequency, seasonality and purchasing capacity. This is an example of how CEEMID fulfils the role of Pillar 3 (music, society and citizenship) in the planned European Music Observatory.

Chapter 3 contrasts market demand with the supply strategies of musicians. CEEMID has been surveying music professionals, including artists, technicians and managers about their working conditions, market conditions and plans for five years across a growing number of countries. In 2019 we invited 100 national and regional stakeholders to distribute our surveys. In some countries, our surveys already have several years of historic data, making the resulting musician database probably the largest ever source of data about how music is produced and how musicians live. We are constantly looking for partners to roll out this survey to new countries in new languages.

The CEE region has comparative advantages in big music events like festivals, and it has become one of the most important hubs for cultural tourism in the world. We explain this phenomenon in Chapter 4 by showing the differences in demand composition, demography and supply of venues in the second chapter. The lack of a modern and dense network of permanent music venues gave rise to magnificent music festivals in the CEE. Open'er, Sziget and Exit are among the biggest and best festivals in the world, closely

1 Introduction

followed by several smaller festivals in all countries. The share of festivals in the live music market is many times higher than in Western Europe and they provide vital export revenues to the local music economies. However, they play a limited role in finding new audiences for local artists, as they are increasingly programming for Western audiences by providing shows of international hits. They can only very partially fill in the gaps left by the small venue problem that hit the emerging markets harder than the UK or Australia, where policy action had been already taken to reverse the decline of the availability of smaller live music venues.

On the recording side, our analysis shows that modern digital services are growing at a faster rate than in mature markets. Because of lower repertoire competition, streaming quantities are similar for a typical Austrian, Czech, Hungarian, Polish or Slovak track than in the mature markets. However, revenue growth is limited because of the interplay of several analysed factors. Our analysis of the live and recorded music markets shows that CEEMID fulfils the roles of the Pillar 1 (music economy) of the planned European Music Observatory.

Most recorded music sales revenue in the region comes from streaming platforms, just like in the mature markets. Successful sales strategies require a solid knowledge of the global marketplace and the ability to understand and train sales algorithms. Micro-enterprises, such as independent labels, have very limited ability to cope with these functions, given that they do not have market research or R&D functions. CEEMID and Consolidated Independent have started initiating open, national R&D consortia to create the necessary concentration in data assets, analytical capacity and budgets to close this gap. As a first step, CEEMID and Consolidated Independent have created a large, independent music dataset based on hundreds of millions of royalty statement entries to create our market indexes, styled after stock market and bond market indexes. Streaming opportunities are fast changing as roll-out of streaming services is happening at a different rate in various territories; subscription charges and the exchange rate to the producer's currency vary and repertoire competition emerges in the market. Our volume and revenue indexes in Chapter 5.3 are aimed at creating sales algorithms that optimize sales volumes and expected revenues. We believe that this analysis also reveals that CEEMID partially fulfils the roles of Pillar 2 (music diversity and circulation) and feeds important data into Pillar 4 (innovation).

The region has far bigger untapped potential than most music business executives believe. Households in the region spend a significantly lower share of their recreational budget on music than their Western, Southern or Nordic

1 Introduction

peers. The region has a lot of untapped cultural purchasing power because servicing is particularly challenging in both the live and recorded sides of the business.

This upside potential cannot be tapped without better pricing. Royalty levels are often very low in the region. Due to many combined effects analysed in this short report, the gap between royalties earned in the CEE and Western Europe is several times bigger than the difference in GDP or national average wage. These gaps are partly caused by special interests preventing collective management from charging appropriate tariffs for restaurants, media companies or electronic appliance importers and manufacturers, and partly by unfavourable taxation of cultural products and services.

CEEMID was designed to create economic evidence on royalty pricing, private copying compensation and the creation of economic value added in the industry. In the first Hungarian Music Industry Report of ProArt and in the first Slovak Music Industry Report we have shown that economic and taxation policies of the CEE countries aimed to support car and electronics manufacturing create a distorted, unfavourable economic regime for creative industries. We want to help local stakeholders with economic evidence to correct these discriminatory policies during the overhaul of the EU VAT system. We have been helping various national organizations with economic evidence, presented in the light of latest EU jurisprudence, to improve their pricing activities. Our thousands of indicators were also used in *ex ante* evaluations of granting schemes.

In 2020, all EU member states will change their copyright administration legislation because of the national implementations of the 2019/790 Digital Single Market directive. CEEMID provides evidence in several countries about the size and impact mechanism of the value transfer, and generally the widespread use of the copyright exemption for private copying. We believe that the thousands of pan-European music industry indicators that we have aggregated over the five years will play a vital role in these regulatory processes.

CEEMID fulfils its roles with a very thorough exploitation of the EU's 17-years-old Open Data regime with the re-use of public sector information, and a very careful mapping of the music industry. These maps help us conduct annual surveys among musicians and the audience, and they help us connect (always with pre-approval and with a user mandate) to industry databases. We do not only cover the EU countries, but increasingly (potential) candidate countries and neighbourhood countries.

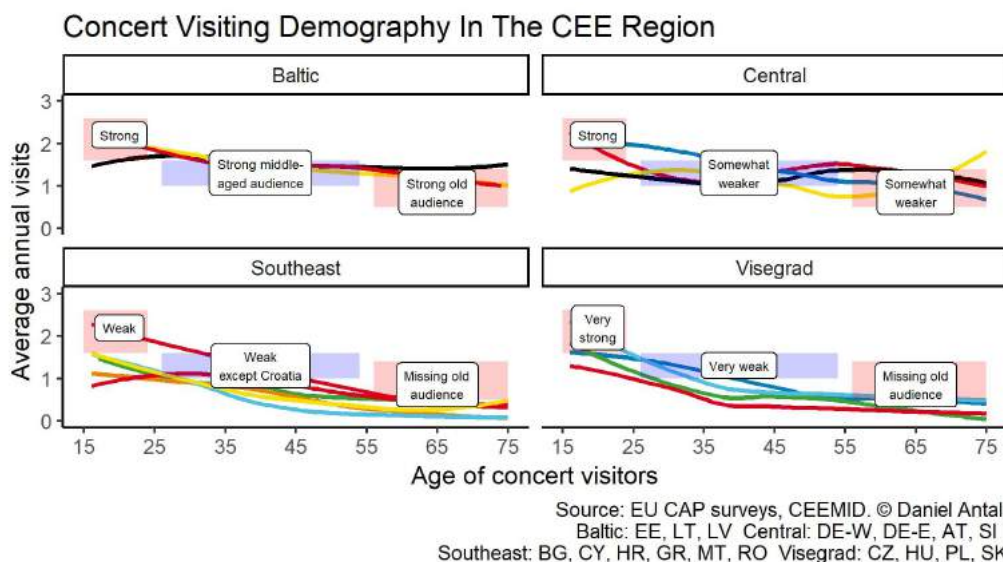
1 Introduction

In our vision, this data collection and integration, i.e. Pillars 1-3 should be available for all music stakeholders, should remain public and publicly funded. The last Pillar of the observatory, innovation, is where private entities should compete. The founders of CEEMID and Consolidated Independent believe that this report demonstrates the business and policy benefits of such a system with the analysis of the Central & Eastern European music markets. We believe that this way CEEMID is in a position to serve most of the planned functions of the envisioned European Music Observatory, and we are looking for ways to make either our thousands of indicators, or our data collection and integration software open source and available for all stakeholders in the EU and its neighbours. CEEMID was born out of necessity to level out the different levels of public research and statistical coverage of the EU member states. In our view, private entities in the future should focus their investments in Pillar 4 of the planned observatory, i.e. competing in innovation with creating new models, algorithms and services based on data that is available throughout the European Union without giving further advantage to the already mature markets.

2 The Audience of Music

The Central & Eastern European music audience is significantly different from US, Western European and Nordic audiences. Importing business practices from advanced markets is questionable because of these differences.

The CEE music audience is younger, less educated and poorer than the Western and Nordic audience – but not because of more young people attending shows. In the region, middle-aged and older audiences are sadly missing from the venues. These characteristics are slowly changing as newer and better educated cohorts are entering the audience, but the demographic differences will be very significant for a long time. They must be accounted for when adopting grant schemes, planning an international tour or event, or adopting business models from more mature markets.



Our research shows that previous access to music education is a very strong indicator of lifelong concert visits and buying music services. Throughout the region this creates a significant handicap, because much of the region is lagging behind Western and Northern Europe in music education. In the CEE, most music education is classical music education, which plays a very different role than popular music education. Some countries, most notably

Hungary, had been pioneers in introducing then-popular music into the general education with the Kodály method, but the method became largely irrelevant throughout the decades as the dominant popular music changed from folk-based music to rock and hip-hop based music.

In some parts of the CEE the main languages of global pop music, i.e. English, Spanish and Portuguese, are only spoken by a relatively small minority of people as a second language. The linguistic preferences of these audiences are distinctly different from other countries. The use of English as a language of songwriting is also less prevalent than in some other, non-native-English regions like Scandinavia.

2.1 Seasonality Concentrated Demand

The CEE region has characteristically a smaller audience proportional to the general population, and a lower visiting frequency than Western and Northern Europe. The technology and economics of music production and the competition from other cultural and entertainment opportunities do not create an equal shortfall in concerting opportunities throughout the year. All cities in the region exhibit highly seasonal concert demand with a peak in December. Compared to the peak, the demand in the low-season, for example, in January, is lower in the weaker markets than in Vienna, the strongest city market in the region. For performers, the seasonality makes tour scheduling more critical than elsewhere.

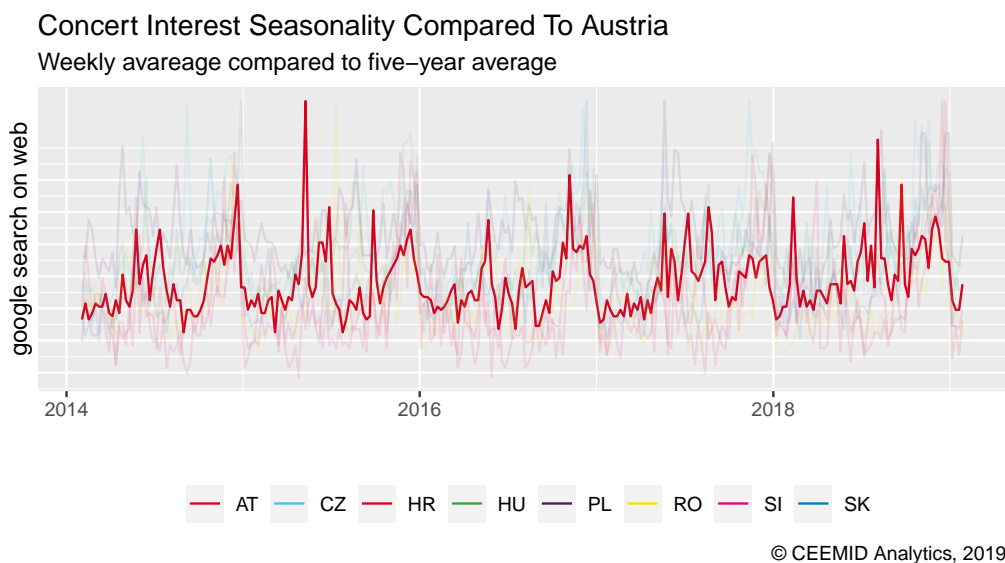


Figure 2.1: Seasonality of Concert Demand Compared to Austria

Figure 2.1 shows Google search intensities by weeks in the time period 2014-2019. Our more in-depth analysis earlier revealed that search intensities are very highly correlated with tickets sales. Compared to the stronger, red line of Austria's ticket searches for *Konzert*, searches in the region for *koncert*, the spelling of concerts in most CEE languages, tend to have a much higher fluctuation between good weeks and bad weeks. It means that the difference compared to an 'average' week can be 2-3x bigger than in Austria, and the difference between 'good' and 'weak' weeks 4-6x times bigger.

Our model compares Google Search data with other relevant data, and we can compare competing interests for festivals, theatres and cinemas. Scheduling is very challenging because in many cities' cinema and concert interest peaks in December, when venues and crews are running at peak capacity.

This is a chicken and egg problem: peak demand periods could accommodate more shows, but that would require the maintenance of even more largely empty crew and venue capacities throughout most of the year's low season. The CEE music business accommodated to this high level of seasonality by developing a far stronger festival scene than Western Europe. As we will show in the 4.1 subchapter about live music markets, festivals create a dense concentration of audience demand and artist supply in time and geographic space on *temporary festival infrastructure*.

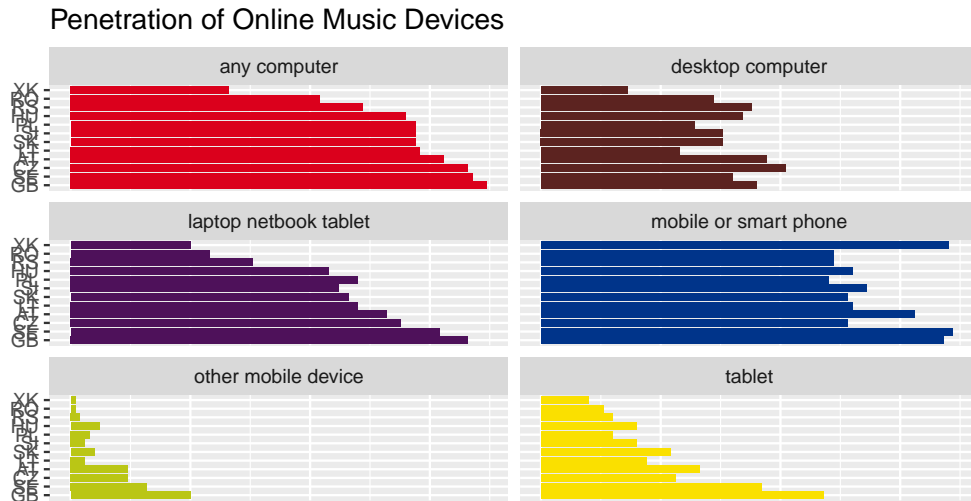
2.2 Entertainment Technology for Music Recordings

The CEE region is lagging a few years behind Western and Northern Europe in the adoption of new entertainment technology, gadgets, devices, and significantly lagging behind in music services available on these gadgets, and it is not necessarily following the same path.

We selected a few countries to highlight the regional differences. Kosovo has the lowest number of computers in households in all Europe, yet it has a high penetration of mobile or smart phones. Generally, Romania and Serbia have significantly fewer connected devices that can play music than households in Hungary, Slovenia, Poland, Czechia or Slovakia. Usually the penetration of entertainment technology is the best in Austria, the richest country in the region, which is slightly behind roll-out rates of the United Kingdom or Nordic

2 The Audience of Music

markets (not shown in the chart). In some device categories several countries have already leapfrogged the richest, most mature market, Austria in the region.



CEEMID based on Eurostat, 2019.

The use of mobile internet for telecommunications, i.e. the use of free alternatives to mobile calls and text messages, such as WhatsApp or Viber, or other similar services, usually leads to a very fast roll-out of cheap smartphones and tablets through the world. Therefore the difference between smartphone penetration is smaller than the difference between computers or laptops (not shown separately).

The *availability of licensed streaming services* is lagging behind the roll-out of technology, not necessarily because of the small potential market size in terms of euros. Slovenia, as a small population country with a unique language is similarly disadvantaged as the poorest and smallest territories in Southeastern Europe, i.e. Montenegro and Kosovo.

All in all, partly because the households have smaller budgets, and partly because the legal alternatives are partly or fully missing from these territories, *private copying* and *torrenting* remain very important sources of music. In the countries where private copying remuneration collection is low (like in the Baltic states, Poland) or virtually non-existent (like in Bulgaria, Slovenia, or outside the EU) the royalty gap as defined as a proportion of household recreational and cultural spending is usually extremely large compared to Austria and Western Europe. (See further Subchapter [3.4 The Royalty Gap](#) and [6.4 Use cases: Private copying](#).)

3 The Creation of Music

The creation, live and recorded performance of music is different in the case of popular music and classical music, and has special characteristics for jazz and world music.

Throughout the world, and even more in the CEE region, the cultural sectors, and music in particular, are dominated by freelancers and micro-enterprises. In European countries, freelancers and micro-enterprises are subject to various simplified tax and financial reporting requirements, and are exempted from most mandatory statistical reporting. Furthermore, they often creatively combine various economic activities, such as performing arts and technical services. As a consequence of this, the creators of music are often invisible for policymakers.

3.1 Market Players

When analysing the creation of music, we have to design specific surveys after carefully mapping the activities of musicians.

- We have to bear in mind that the simplified financial accounts of most music enterprises do not allow for sophisticated financial analysis.
- As a consequence, national statistics offices only *estimate* the *combined* economic performance of such related activities as sound recording, music publishing, film- and TV production.
- Any more music-specific analysis must rely on industry-specific surveys that are usually not included in the government statistical programme, and the industry itself has to organize it ¹.

¹Bína, Vladimír et al. (2012)

3 The Creation of Music

CEEMID used the three income streams model presented in subchapter 3.3, which is essentially a value chain based model that was developed in the United States and adopted by the European Commission's Joint Research Centre for European creative and cultural industries for policy purposes. We made minor adaptations in the three-income model for applicability in Central Europe, and created survey programmes to estimate the strength of demand and the actual income in the three main streams ².

In the original American music business model recording income is the "main" income stream. In the 21st European music business, just like in the early 20th century, live performance creates far more revenue than recordings. The author's income stream is the oldest, traditionally and analytically first business-like revenue, which is dominated in the US by music publishers. In the fragmented and less developed European markets, most artists are not represented by publishers and the relevant revenues are collected by collective management societies. We modified our model's labels according to these regional differences. See, for example, the mapping we used in Croatia (see Figure 3.1 Mapping the Music Industry).

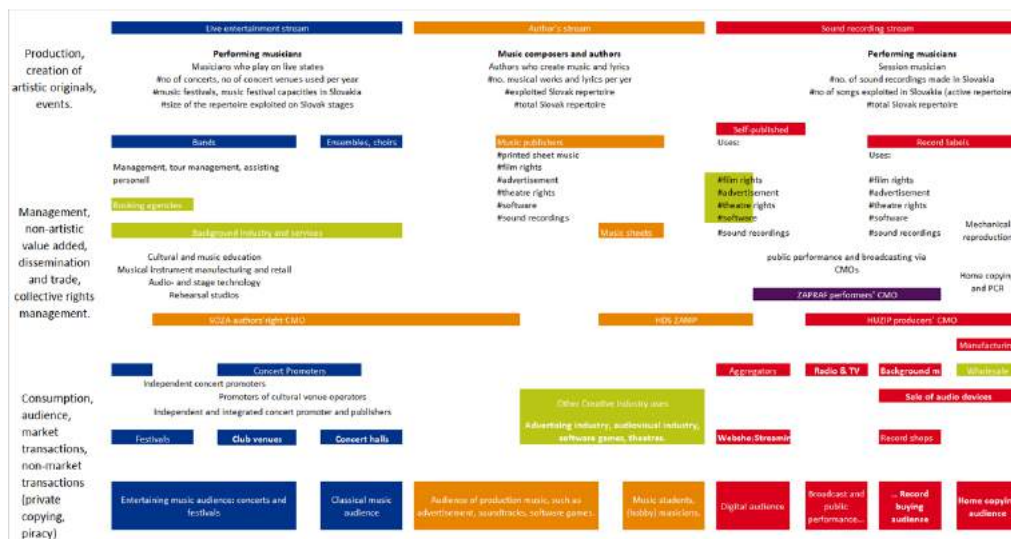


Figure 3.1: Mapping the Music Industry

The most important difference between the emerging markets of the CEE and the mature markets of the US or the UK is that only 5-10% of the artists have a publishing agreement or an (exclusive) recording agreement.

Because royalties are low for both compositions (copyrights in the common law countries) and for the neighbouring rights of recordings (sound record-

²In the bibliography see Artisjus et al. (2014); Hull et al. (2011); Leurdijk and Otilie (2012); Antal (2015a)

ing copyrights in the common law countries), publishers and labels do not see a business opportunity to represent music, and musicians do not see the added value to pay for these services. Similar to the hard to reap opportunities in the live music market, here is another chicken-and-egg problem of the emerging market: publishers and labels do not have a sufficiently large income base to invest into new music and promotion, which undermines their credibility. Many artists do not believe in the necessity of label and publisher services, even though they do not have the time and the skills to sell or claim revenues in many music uses. Most of the artists remain self-managed and self-published, even though in the absence of label and/or publisher representation, they have to perform the roles of accounting, promotion, marketing, auditing or rights management.

In our view, one of the most important business challenges in the region is the development of adequate record label and, especially, publishing services that are tailored for the lower monetary value and lower cost bearing capacity of the emerging market repertoires. Existing market practices, technology used and regulation should be reviewed in the light of designing cheaper services to tap new or not well managed revenue flows. We believe that this is the only way forward to professionalize the publishing and recording side of the business.

3.2 Creators of Music

Musicians and their bands create new music works, they record them, and in the CEE region in most cases they are self-producing and self-publishing their work. Because of the small revenues in these markets, there is little specialization. Creators often must play several artistic, managerial and technical roles, and even this way they cannot make a living from music alone.

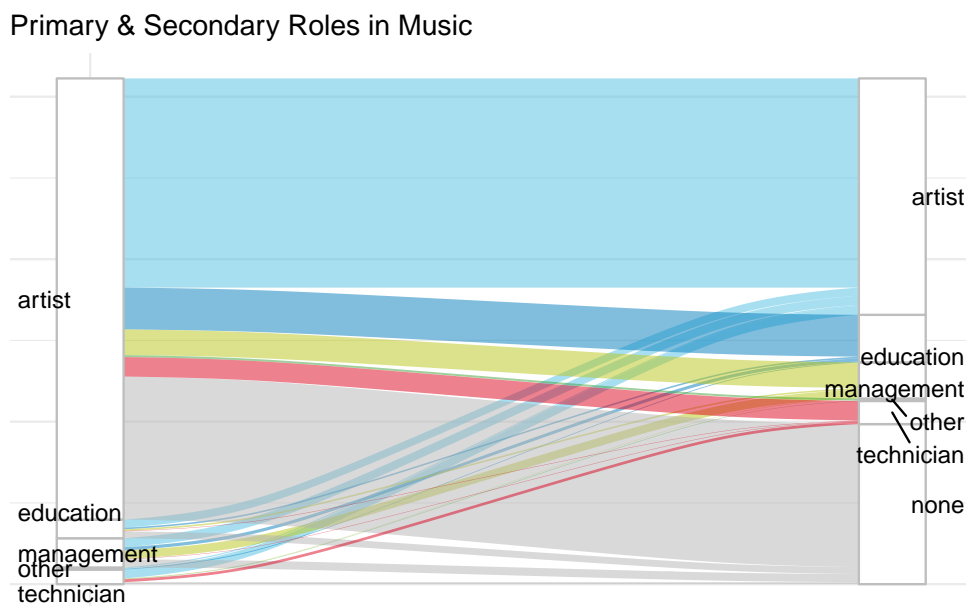
For example, technical roles related to the production and distribution of sound recordings belongs to division 59 of the **Section J Publishing, audiovisual and broadcasting activities** of the statistical classification of economic activities in the EU countries, whereas creating music works and performing them belongs to **Section R Arts, entertainment and recreation**.³ Creative workers usually build a multi-path career that

³This statistical nomenclature is largely harmonized worldwide, and the problems mentioned here are relevant in the United States, Australia or elsewhere, too. In the European Economic Area, Regulation 1893/2006 makes the use of this statistical system mandatory in all countries.

3 The Creation of Music

incorporates various economic activities. Many musicians, even rather popular, successful ones have a other jobs because they cannot make a living alone from these music related activities.

This is one of the reasons why creative and cultural industries, and particularly music is so hard to understand for outsiders. Freelancers and microenterprises carry out various economic activities, which are not related in the governmental economics statistical system or in the tax systems. Statistical offices do not create detailed economic statistics where most of the activity is carried out by microenterprises and mixed profile businesses. In these cases, the music industry can only represent itself on a factual basis if it organizes the representative collection of this information.



Source: CEEMID Music Professionals Survey 2019.

Figure 3.2: Mixed Career Routes: Primary And Secondary Roles

CEEMID has been organizing representative music industry surveys since 2014. These music professional surveys are very important inputs to our datasets, and our national policy documents, advocacy reports and royalty valuations.

3.3 The Three Income Stream Model

In every country, the relative majority of artist income is earned in live performances, with important differences. In Figure [3.3 The Relative Importance](#)

of Income Streams by Country we depicted the average share of live music income with light blue.

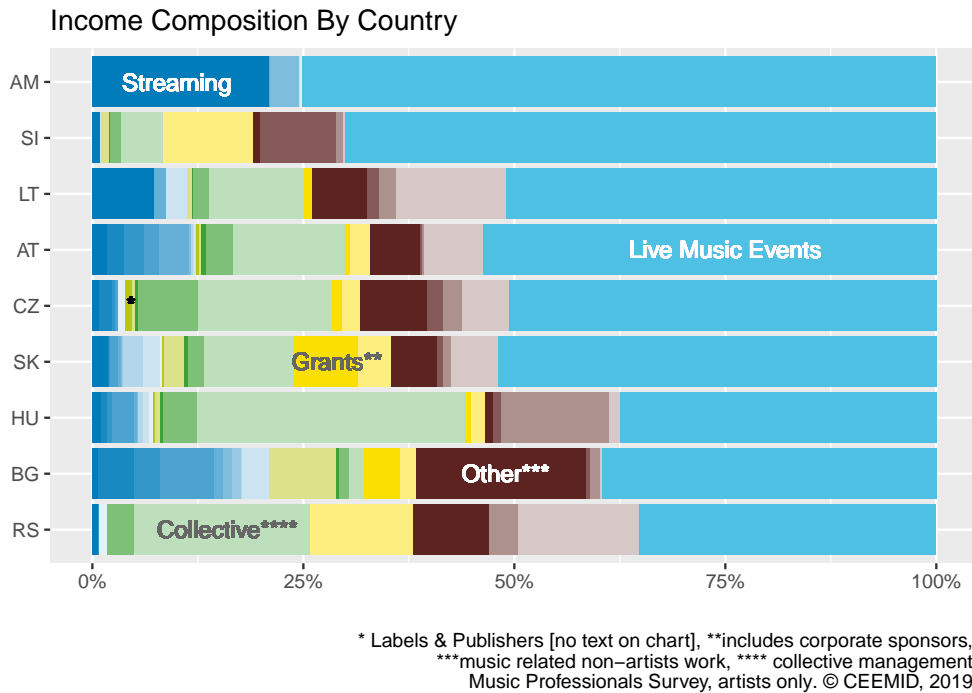


Figure 3.3: The Relative Importance of Income Streams by Country

The other colours:

- Brown shades: other music related income, such as teaching, management, technical roles besides primary artistic role
- Yellow shades: public grants and private sponsorship
- Green shades: various forms of collectively managed royalties
- Blue-to-green: various forms of label, publisher and individually managed royalties

It is notable that recording revenues are only significant in the richest market, i.e. Austria. In Bulgaria they appear strong, but in fact this is mainly a result of the weakness of other income streams. In Hungary, royalty levels are high because of the high level of collectively managed royalties. In this country, as we have shown in more in-depth analysis, the decline of small venues and the collapse of the concert infrastructure hit performing musicians especially hard.⁴

⁴For details, see the first Hungarian music industry report Antal (2015b)

3 The Creation of Music

Slovenia is a particularly interesting country. Even though it has one of the strongest live music markets in Europe, because of the small size of the country, many services, for example YouTube, are just not monetizing the music products. Furthermore, Slovenia did not have any meaningful private copying compensation in the past 10 years. While the country has very strong fundamentals for growth, the market building tasks are the most pressing in this territory.

The new digital sales channels are very important in the emerging markets where collective management cannot produce significant income – this is particularly true in the former Soviet republics and most of the countries of the Balkans.

5

It is not easy to compare the income levels of musicians from Vienna to Yerevan, or from the Lithuanian countryside to Salzburg province. In our survey research, we used the same subjective income question that has been asked in Pan-European surveys for more than a decade. We asked how often the music professional had difficulty with paying his or her bills.

With the exception of Bulgaria our respondents were more likely to have difficulty with paying their bills from time-to-time or almost all the time than the general population.

3.4 The Royalty Gap

The biggest difference between how the music business works in the CEE region and in mature markets is determined by the total amount and the level of royalty payments. In the region, fewer composers, producers and performers receive royalties, and the level of royalties is lower⁶.

- Households in the region have lower income than in mature markets

⁵Our research is well representative of Hungary, Czechia, Slovakia, and Austria, and to a lesser degree in the other countries, and more in-depth research in those countries may lead to slightly different results. We surveyed 'hobby', 'part-time' and 'full-time' musicians. Because of the low revenues, much of the national repertoire are produced by individuals whose income is only partially made from music events and recordings. Many individuals work in music-related technical or managerial roles, too, or in completely different walks of life.

⁶We have analysed this phenomenon in detail in Slovak Music Industry Report [Antal \(2019b\)](#)

3 The Creation of Music

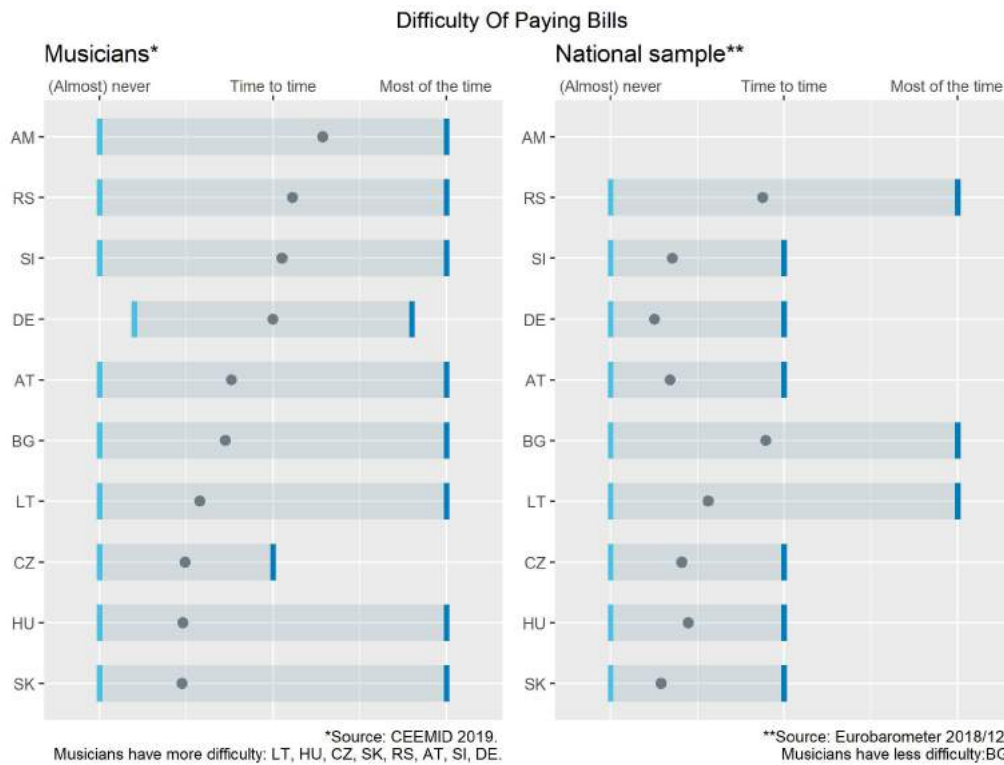


Figure 3.4: Relative income levels: difficulty of paying bills among musicians and the general population. *No comparative national data is available for Armenia.

- Out of this lower income, a higher percentage of the available household budget goes on necessities and less on entertainment and culture
- Participation in music is lower than in the mature markets
- The music business can achieve a lower market share in the recreational and cultural spending in the region than elsewhere in Europe

The first two factors are demographic, macroeconomic factors that need to be quantified, but music stakeholders can do little about them. The third and the fourth factors can be directly influenced by better or worse policies and business practices in the sector.

As Fig.3.5 [Digital Revenue Gap](#) shows, digital music business revenues are disproportionately low from household recreational and cultural spending, which is already adjusted for lower household income and lower percentage of recreational spending in the region.

With significant national differences, we found the following problems:

3 The Creation of Music

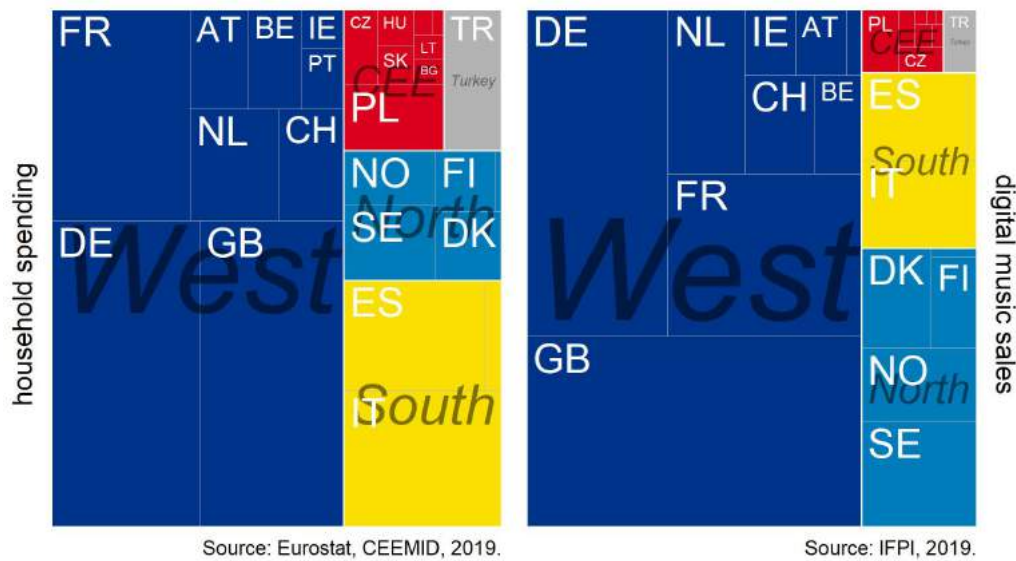


Figure 3.5: Digital Revenue Gap

- In almost all countries, recently including Austria, the taxation of music is less favourable than in other sectors of the economy. In most countries, there are no credible economic impact assessments that could change the tax profile of the industry in the forthcoming regulatory debates around the modernization of the EU VAT system.
- In some countries, the participation level in music, both on active, singing, playing, and passive, listening levels is very low. We believe that an important factor is the inadequate music education. The institutions and stakeholders of popular music must take the initiative, because music education in many countries only serves the needs of classical music.
- A far smaller portion of the households is paying for music, and a higher portion is engaged in home copying and torrenting. Some countries, like Hungary and Slovakia, significantly increased their private copying compensation levels. Others, for example, Lithuania, Poland, Romania, Bulgaria or Slovenia, do not compensate private copying as it would be required by the EU law. Outside the EU, such compensation is minimal.
- Royalty levels in some collective management channels are low. In some cases, this is due to mis-pricing, i.e. too high or too low royalty tariffs, and in some cases this is due to problems with market monitoring or enforcement. In many countries, we see serious problems with public performance royalty collection in background music; and in almost all countries there are serious problems with the way broad-

3 The Creation of Music

casting royalties are administered or collected. Some countries have very unfavourable legislation for enforcing payment in the case of unlicensed, illegal uses.

- In some cases, the pricing of digital streaming services appears problematic, and there are no clear national marketing or roll-out strategies present.
- Some national market protection quotas are present, and most countries spend significant taxpayer money on public broadcasting, but the efficacy of these government actions is questionable. This reduces the market share of the domestic repertoires.
- Music promotion in the new, super-competitive global sales channels, such as on YouTube, Apple Store, Spotify or Deezer, requires significant R&D investment, and an understanding of AI, machine learning and data-driven algorithms. Given the small repertoire sizes in the region, this is challenging even on a national level and poses an impossible challenge for small local labels.
- Revenues are collected from more and more sources, which means that royalty payments are increasingly micropayments. The cost of collection requires extremely high levels of transactional efficiency at the level of labels, distributors and collective management. The cost of collection often exceeds the actual income, yet throughout the region, isolated, costly, small systems are being developed. This is extremely problematic in the SEE markets.
- After years of policy and regulatory debates, the new [DSM directive](#)⁷ gives hope to close the value gap and increase royalty revenues from certain platforms, including YouTube and Facebook. However, in most countries, no calculations and case studies have been made, and there is very little preparedness on the side of rightsholders for the national transposition of the DSM directive.
- In some countries, the granting of popular music is non-existent, like in most SEE countries, or uncoordinated among different levels of government, like in Czechia. Grants are usually not based on *ex ante* assessment of the needs of music stakeholders, and often follow the logic of classical music, jazz or authentic folk music grants, even though such areas of the music scene have distinctly different needs.

⁷Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC

3 The Creation of Music

- In many cases, the music sector faces similar problems to the film sector, broadcasting or other performing arts, including theatre, ballet, opera. Cooperation in policy advocacy, grant design, research and development, market research and business development is very weak.

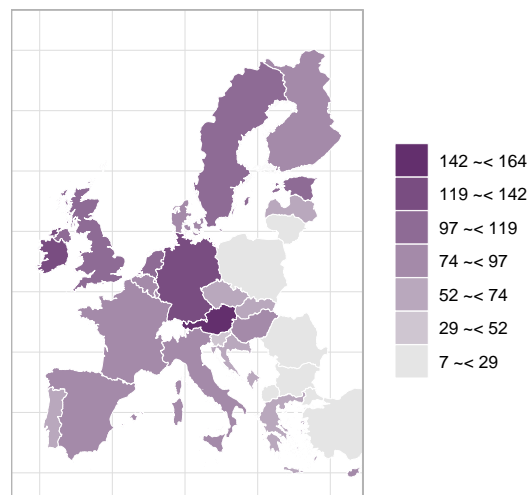
We hope that the subsequent chapters will help national stakeholders to reassess their strategies in these fields, where the initiative clearly must come from the music business.

4 Market & Distribution

The CEE markets are emerging and future markets with very different demand characteristics than the mature Western and Nordic markets, and sometimes they show resemblance to the markets of Southwestern Europe.

On the live performances market, Estonia, Hungary, Czechia, Slovakia and Latvia are medium developed markets.

Private Expenditure: Concerts, Theatre, Cinema
Demand driver for live performances



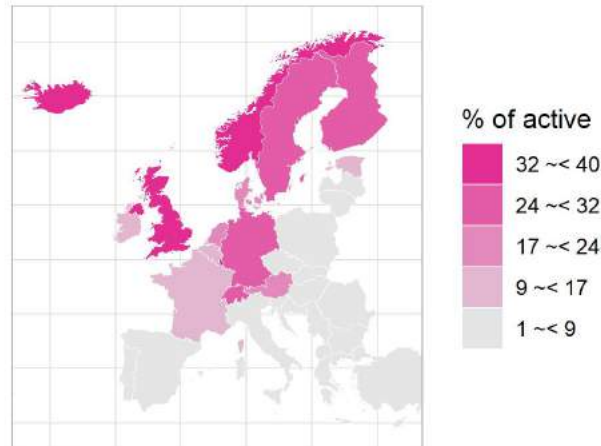
Source: Eurostat.
Visualization: © CEEMID, 2019.

Figure 4.1: Comparison of CEE Median Concert Ticket Prices

In the case of recorded content, the whole region, with the exception of Estonia is underdeveloped. Only a very small segment of the population is willing and able to pay for services.

4 Market & Distribution

Mobile Internet Users Who Pay For Music And Film Demand Driver for Music Subscriptions & Downloads, Private Copying



Based on standardized European survey data,
© EuroGeographics, © CEEMID 2019, details on last slide

This makes the whole region dependent on collective management, similarly to the emerging markets of Latin America. In the publishing and recordings market, around half of total revenues are made from public performance and private copying remuneration. In those countries, where any of these income sources are not performing well, there is very little recorded business at all.

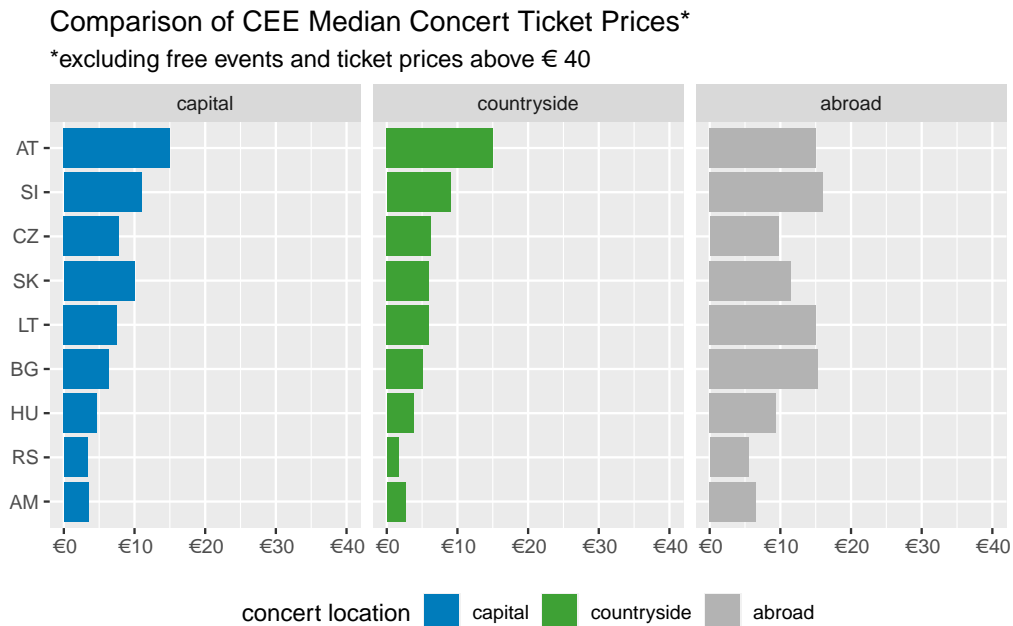
4.1 Live Music Markets

The current price level of concert tickets more or less reflects the differences in purchasing power in the regional countries. Some markets are very much centralized around the capital city. The comparison below is made with the help of the CEEMID Music Professionals Survey 2019. In the comparison we excluded free concerts and ticket prices above 40 euros.

The typical audiences are reported as 30-130 visitors, which shows the importance of small venues, and the fragility of the live music business: the total ticket revenue in the case of small venues is between 500-1000 euros. Pre-sales are rare, and even these small revenues are very risky. Foreign performers visiting the region can usually expect somewhat bigger audiences, higher ticket prices. (See Figure 4.3 for national differences in the region.)

As we have seen in the Subchapter 2.1 [Seasonality](#), the demand for live music performances is extremely seasonal in the region. Most of the concerts, and the most valuable concerts (in terms of ticket revenue) are usually held in

4 Market & Distribution



Source: CEEMID Music Professionals Survey, at 2018 average EUR/national currency rates.
 © CEEMID, 2019.

Figure 4.2: Comparison of CEE Median Concert Ticket Prices

December. Another peak is the summer festival-season, but the largest festivals often target foreign audiences and put foreign performers on the stage. The festival season can account for a quarter of the total revenues, but not for the artists. The festival season provides income for the technical ecosystem of sound, light, stage engineers, promoters, but only to a lesser extent to local artists. Most of this income is an export income in the national accounts (domestic production is financed by ticket sales to people earning their income abroad) and it is the most important music export revenue source in Hungary and Serbia, and probably several other CEE countries.

The income structure of musicians and bands is very fragmented. In the 20th century advanced market model, the main income source was related to recordings, and it was received from one quasi-employer, the label. Even in the case when an artist is represented by a label or a publisher in the region, it is likely that the main income source is live performance income. A typical professional plays in about 10-50 events in a year, which means payments from 10-50 sources. A consequence of this structure is that musicians do not have 'employers', their earning structure does not even resemble an atypical wage income. The special taxation, social security and pensions problems of musicians are usually not well represented in the national social dialogue, because popular music is not well unionized, and the employer side is not taken by any institution. The income of musicians is volatile, cyclical, risky,

4 Market & Distribution

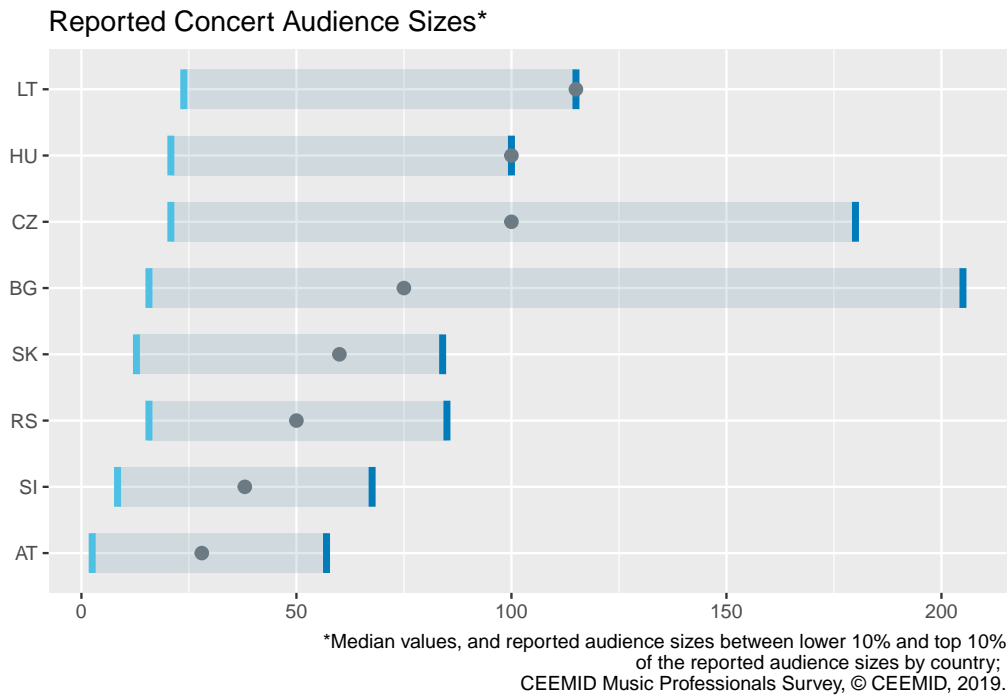


Figure 4.3: Reported Audience Sizes in CEE countries

and often very unfavourably taxed.

Royalty income plays a very important role in stabilizing the volatile live music income, if and when it is available. However, only very few musicians are represented successfully by publishers and labels in the region. While publishers and labels can perform certain roles that are usually the roles of human resources and legal affairs at an employer, these services are not available for most of the music professionals in the region. This gap is sometimes partly filled by collective management organizations, but not to the point that would be usual in other business sectors. In our view, in the CEE, probably authors' societies are in the position to play some quasi-employer roles, and represent at least tax and social security issues in the social dialogue.

4.2 Recorded Music

The market conditions are very different across Europe, and the headline figures known by market players are misleading for a typical artist or label, because their sales prospects are based on many unknown factors:

- The (future) availability of new platforms in their key markets

4 Market & Distribution

- Number of subscribers in their domestic territory and key foreign markets
- Strength of repertoire competition in their domestic and key markets
- Subscription fee and advertising revenue in the respective markets
- National currency exchange rate in platform / distributor functional currencies
- In the early stages of market development, minimum licensing requirements distort the revenues

4.2.1 CEEMID-CI Volume indexes

The combination of these six factors cannot be intuitively guessed and the information is not available to local market players. To make a meaningful comparison, we combined c. 700m royalty statements and selected for in each national territory the 'typical' songs in each month between January 2016 and February 2019. We defined the typical song(s) in a territory as the sound recording that took the median position in number of plays on Spotify, Deezer and Apple Music. The "median position" means that half of the songs in our database had fewer, half of them had more plays on the channel - in other words, the recording's performance was typical.

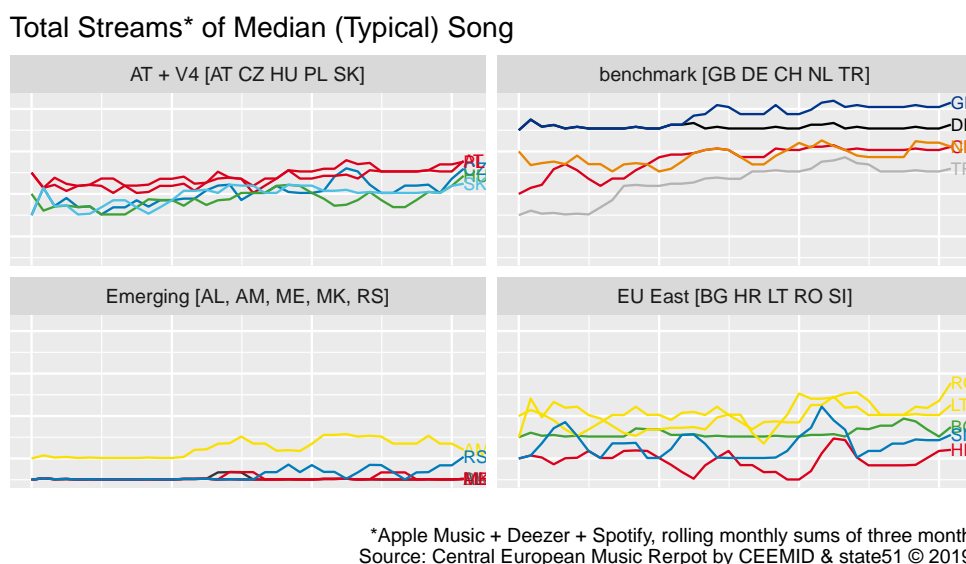


Figure 4.4: CEEMID-CI Volume Index for Typical Recordings. Streaming income of the typical (median) song from Spotify, Deezer and Apple Music. If Spotify or Apple Music was not present in the market in a period, we treated their median value as if it was zero.

4 Market & Distribution

Even though the United Kingdom or Germany are much bigger markets than Austria and the Visegrad region of Hungary, Czechia, Poland and Slovakia, the exploitation of song in these mature markets was not much higher than in Austria and the Visegrad region. In fact, the exploitation level of a typical song is similar to Switzerland, the Netherlands or Turkey.

In these smaller markets, the number of subscribers is smaller, and the repertoire competition is also smaller: a smaller number of subscribers will almost certainly select fewer songs to play than a larger number of subscribers. In the emerging markets of Albania, Montenegro, Macedonia the number of plays is very low because the number of subscribers is small and the only available platform is Deezer.

After analysing the path of the typical (median) sound recordings, we re-created the same analysis for relatively successful songs. We defined a song successful if it had more plays on Deezer, Spotify or Apple Music than 90% of the songs that were played at all in our reference database. These songs are not hits (the real hits are in the top 1%, or even in the top 0.01% of the songs), but certainly far more successful than most recordings on the market.

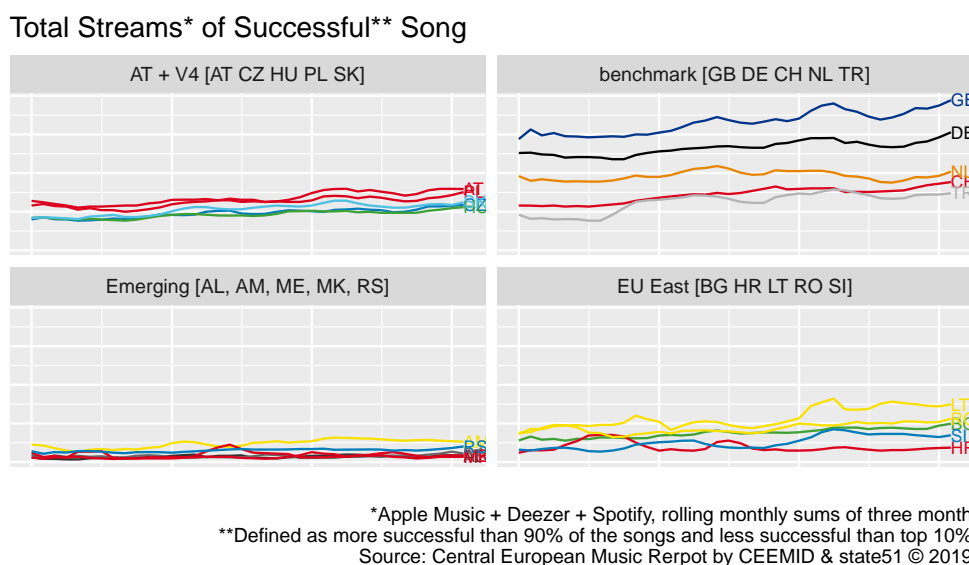


Figure 4.5: CEEMID-CI Volume Index for Successful Recordings

The picture in Fig. 4.5 somewhat different than in the case of typical songs. Overall, a relatively successful song can gain a larger audience in the United Kingdom and Germany than in the smaller countries. Successful songs in Turkey benefit from the size of the population, but due to lower penetration rates a Turkish success in terms of listening quantity can expect as many

streams as a successful Austrian, Czech, Hungarian, Polish or Slovak song.

4.2.2 Typical income

In the Central and Eastern European markets artists are disadvantaged by the smaller local population size, but the lower level of repertoire competition also benefits them. If a song starts its career in Austria or Hungary, it does not typically reach a much smaller audience than in Germany or the UK, but the revenue prospects are clearly different.

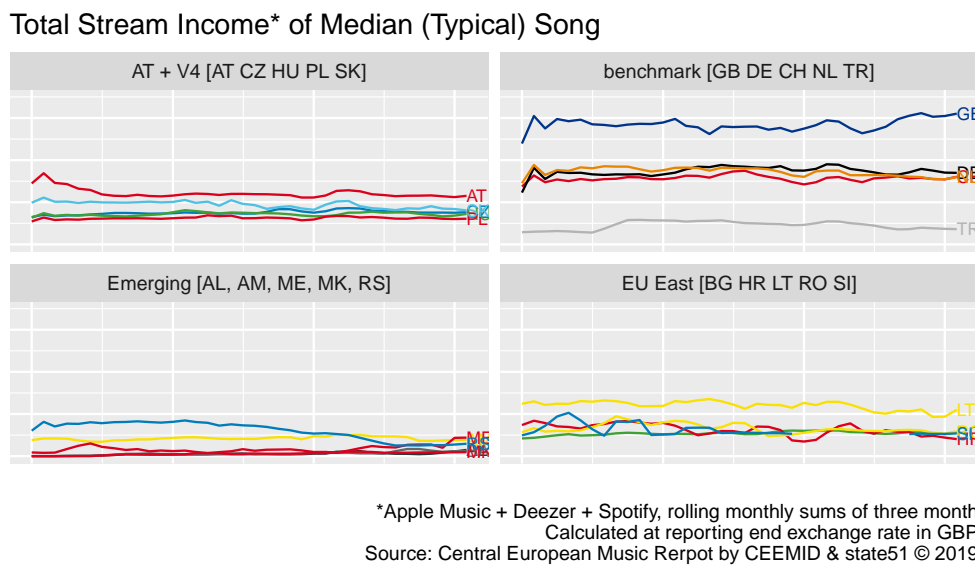


Figure 4.6: CEEMID-CI Revenue Index for Typical Recordings

As we can see 4.6, the typical revenues were relatively flat in the past three years. While listening quantities were growing, so was the number of subscribers and range of exploited songs. In fact, as more diverse audiences entered the market, the market shares of the typical labels started to shrink. As a consequence, the typical artists did not see any significant revenue growth from the rising number of users.

We can clearly group the countries into five groups:

1. The United Kingdom
2. Germany, Switzerland and the Netherlands
3. Austria, Czechia, Hungary, Poland, Slovakia, Southeastern Europe and Baltics, Turkey
4. Non-EU emerging markets, except for Turkey

4 Market & Distribution

In fact, the least developed, emerging markets saw significant decreases. We believe that this is mainly caused by the diminishing revenue from telecommunication cross-sales and the levelling of the minimum licensing fees per territory.

4.2.3 Successful recordings' income

The difference among successful songs is similar to the typical songs, but in the emerging markets, where relatively small audiences listen to a relatively small number of songs, occasionally local hits can achieve great success, especially if they are helped by transitory factors. ¹

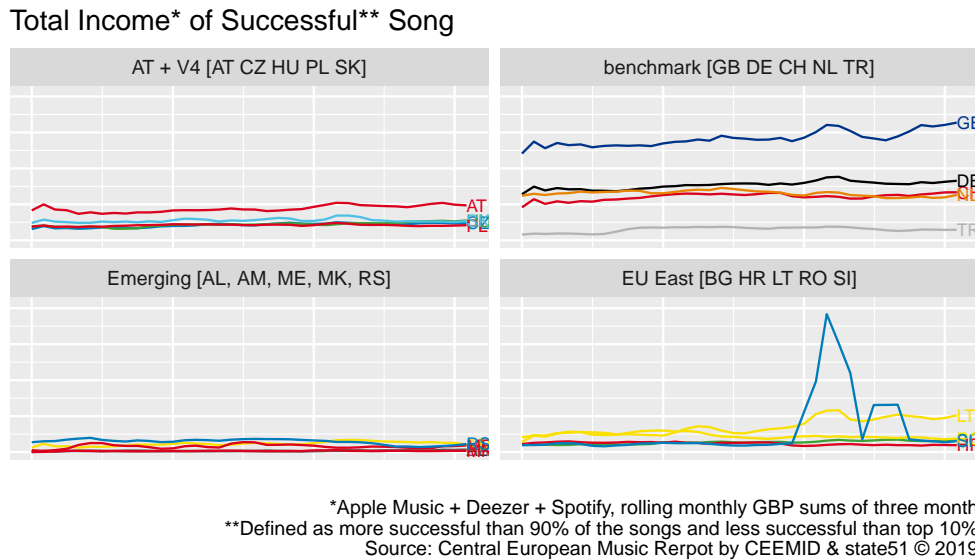


Figure 4.7: CEEMID-CI Revenue Index for Successful Recordings

4.2.4 Summary

Streaming completely altered the way recorded music is sold. The key difference is the extraordinary growth in competition. Whereas national markets did not have on inventory more than a hundred thousand songs in record shops, in streaming, about 1000x more, maybe 100 million recordings are available. The level of competition is extremely high in the mature markets, and somewhat lower in the emerging markets.

The emerging markets apply lower prices, which naturally result in lower income in these markets. The combined effect is huge: a typical song in the UK earns about 10x more than in the CEE markets. Obviously this makes rich markets very lucrative for exports.

For some CEE market players, access to all global markets creates an opportunity. For most of them, they pose an existential threat. Not only do they

¹A similar pattern is present in quantities and we removed the few outstanding quantities for clarity in the previous, quantity-based chart.

bring in 10x less revenues in their home markets than their UK or German peers, but they are facing increased competition from foreign producers in this small, fragile market.

We will address the problem of music export and import in Chapter 5 about music exports.

4.3 Collective Management

Many markets in the region are very reliant on revenues from collective management. This is not a CEE but more an emerging market phenomenon, because similarly developed Latin American countries have a similar income structure.

In some countries, for example Czechia, Hungary, Croatia, we see rather strong collective management revenues, with a much smaller gap compared to rich countries than in the case of individual digital revenues.

Fig. @??fig:dependencecollective) is made from the IFPI Global Music Industry Reports' data². We have made estimates for small countries not included in the report. We can clearly separate the regions by their income structure. The Nordic countries and Switzerland have the highest level of individual royalties due to the strong performance of subscription streams. They are followed by Western countries, except for France, which has very strong individual and collective revenues. The CEE countries and Turkey rely the most on collective management.

We have analysed the radio, television, and background music tariffs and collections for several producer or performer societies in the region. Our analysis shows that their tariffs, or collections, or both, are significantly below any properly set benchmarks within the single EU market. The heavy dependence is not based on strong collective management, but on extremely weak digital sales.

In the absence of strong streaming revenues, the audience appears to be more inclined to rely on torrenting and home copying than in Western Europe. Our CEEMID databases started out from measuring the value of home copying in Hungary, Slovakia and Croatia.

As we will see in the next chapter, the relative strong performance of collective management is both a blessing and a curse, because it is unusually

²IFPI (2019)

4 Market & Distribution

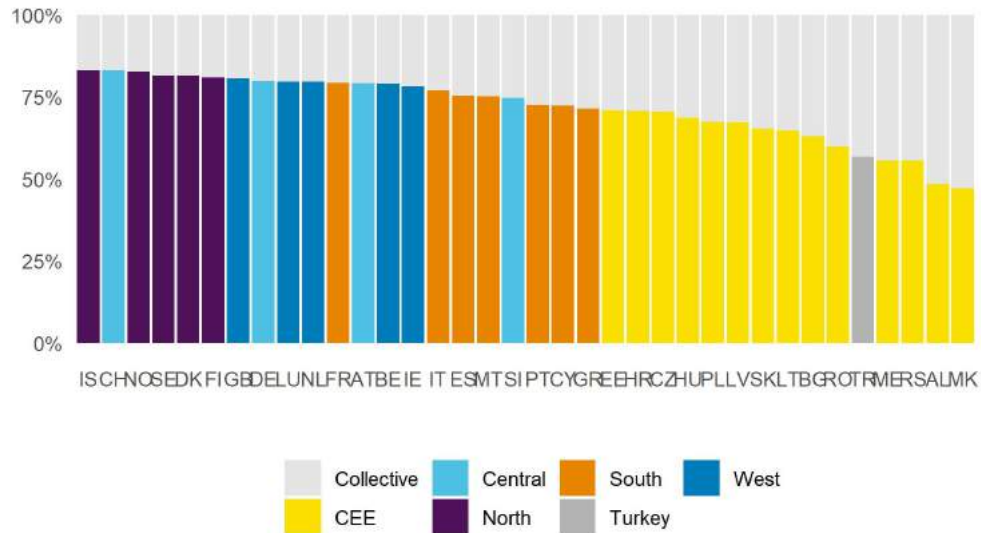


Figure 4.8: Ratio of individually managed and collectively managed revenues in various regions of Europe

heavily tilted towards author's rights. It provides a relatively stable lifeline for the recorded business, but it does not align well with the innovative nature of digital music, because normally producers are better placed to invest in new recordings and promote them than authors.

However, there are some countries, for example, Moldova, Bosnia-Herzegovina, or Armenia, where we cannot talk about a functional collective management system.

5 Music Export and Music Import

The region, like most regions of the world, is a net importer of music, but has very significant export potential. In this decade, the live music sector created greater opportunities for exports, both because of its higher value and because of the comparative advantages of the region in creating music events.

5.1 Cultural Tourism: Imported Audience

The most important source of revenue for the local music scene is export revenue from visitors to the region. Cultural tourism is the best carrier of music export both in economic and cultural terms. When foreign visitors buy tickets to music events, they create export revenues while they spend foreign earned money in the local economy. These events also have the potential to introduce the work of the local music business to foreign people.

Austria is one of the most important global destinations for cultural tourism, and particularly music tourism throughout the year. Music and opera related tourism has a very long tradition, which had been increasingly diversified with jazz, rock and new music. Bratislava, Budapest and Prague because of their cultural and geographical proximity often play a role in these programmes, especially when visitors are arriving from other continents. Budapest, the largest capital city in Central Europe, attracts many classical music and opera fans in her own right.

In popular music, the region has strong comparative advantages for festival tourism. First of all, the festival market is relatively strong, because the domestic demand is less condensed in space and time, and there is a strong ecosystem present to stage events on temporary infrastructure. Live music, particularly festivals, is very labour intensive – large stages are often served by hundreds of people, and large festivals employ temporarily up to 10,000 people. Because of the relatively cheaper labour and locations, such mega-events can be organized in the CEE with a cost advantage.

In the period of 2009-2019, Open'er (Poland) won 3, Exit (Serbia) and Sziget (Hungary) won 2-2, and Untold (Romania) won the Best Major Festival Award, allowing the prize of the European Festival Association to go to Western Europe only three times to other regions of Europe.

5.2 Touring

Our research in the past five years has tried to map, with an increasing number of countries and regions, the touring map of the CEE region. This period coincided with the closure of many domestic small venues, which further forced bands to seek new tour destinations. These tours follow the European touring routes, but they are heavily influenced by cultural factors. Cultural and linguistic proximity plays a huge role in the interconnected Czech and Slovak live sectors, or the Hungarian band's routes in Eastern Romania and Southern Slovakia where many Hungarian-speakers live. Another, increasingly important demand driver for tours is the large Central European diasporas in major British, German and Benelux cities. Vienna for Serbs, or London for Hungarians and Poles, are the second largest cities in terms of purchasing capacity, and in some cases, the population of the diaspora is approaching the size of the second largest cities in these countries.

5.3 Exporting & Importing Recordings

As we have seen in chapter 4.2, if a CEE recording has only a domestic audience, its income prospects are very poor compared to similar recordings in mature markets.

In the countries that we compared, domestic recordings had the best prospects in our large, independent reference database. This is the case in very underdeveloped markets (in our example: North Macedonia) or in developed markets.

Cultural and geographical proximity played a great role in the performance of foreign tracks: in Austria, German songs; in Czechia, Slovak songs; and in Slovakia, Czech songs had much better sales prospects than songs from any other countries.¹

¹We have to highlight that we only dealt with typical and mildly successful songs, and did not analyze the greatest hits on the charts - which are usually the same international hits.

5 Music Export and Music Import

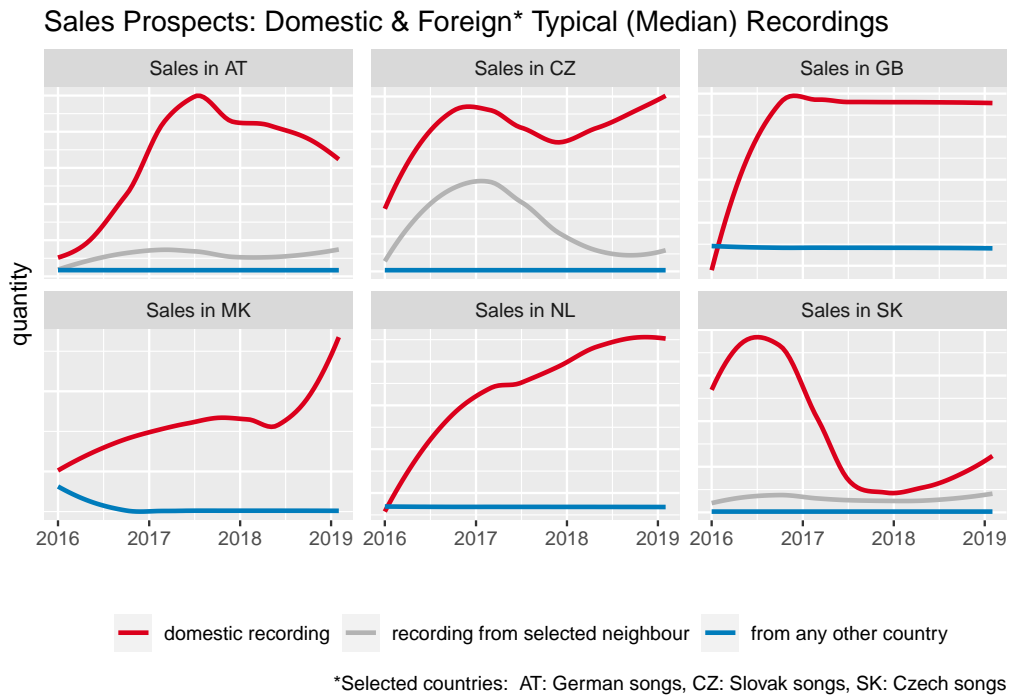


Figure 5.1: Market Position of Typical Songs in Select Countries

- typical Austrian (red) and German (blue) song in Austria, with the listening quantities of 'any other typical song';
- the typical Czech (red) and Slovak (blue) song in Czechia and – in this case the Czech song is the 'domestic song';
- typical Slovak (red) and Czech (blue) song listening quantities in Slovakia, in this case, the Slovak song is the 'domestic song'.

For comparison, we show the 'typical Macedonian', 'typical Dutch' and 'typical British' recordings' position against a song coming randomly from all over the world.

There are about 200 countries and territories that are trying to export their music globally. No wonder that a 'typical song' from anywhere in the world has very little chance of success in any of the countries. A 'typical' song has a far better prospect in its home market, where the musicians have fans, friends, and where their language is understood.

The distinctive feature of popular music is that it is mainly vocal, and the artists are usually composers and performers at the same time. Since the rock and roll revolution, audiences expect artists to interpret their own songs with their own voice. As opposed to classical music and jazz, the language of the artist is a very important feature. The cultural proximity of another

country, the common language, as in the case of Austria and Germany, the presence of native ethnic minority or new diaspora, open routes to Serb, Slovak, Hungarian, Romanian songs within the region and beyond.

The cultural geography of the CEE region is famously different from Western Europe. Population density is lower, resulting in less dense and strong national markets. The number of languages used is high, and most countries have mixed-language populations. Slovak speakers are spread out in Slovakia, Czechia and Serbia; Hungarian speakers in Hungary, Romania, Slovakia and Serbia. Serbian speakers are not only spread around in all the former Yugoslav republics, but their songs are largely understandable for speakers of the Croatian, Bosnian or Montenegrin language/dialect. In the case of the CEE repertoire, it is better to talk about 'regional' and not 'national' markets. These regions do not strictly follow the 'territories' defined by copyright jurisdictions.

In these loosely defined cultural boundaries, for example, in Slovakia, the Czech market is important; for Czechs, the Slovak market may bring as much volume as several regions of Czechia. Becoming a hit and reaching the top 50 is challenging in these near markets, and less likely than taking a hitlist position by a British or American superstar, but infinitely more likely than breaking into the chart by a 'typical' British or American performance.

The situation is similar if we take a look at relatively successful songs, which are ahead in listening quantities of 90% of the songs in our sample. It is important to keep in mind again that the sample does not contain any major international hits.

5.4 Import and Regulatory Quotas

While the sales prospects of 'typical' domestic songs are usually much better than the sales of foreign songs, this does not really reflect the market share of the domestic or international repertoire. Most of the artists and labels never, or almost never, make it to the national hitlists, or get into the top list of the streaming services – not even in their domestic country. However, most of the listening time and money goes to these top hits. Because there are about 100 million songs available in each country, the competition is very strong and a small number of artists and producers are moving the national market shares.

5 Music Export and Music Import

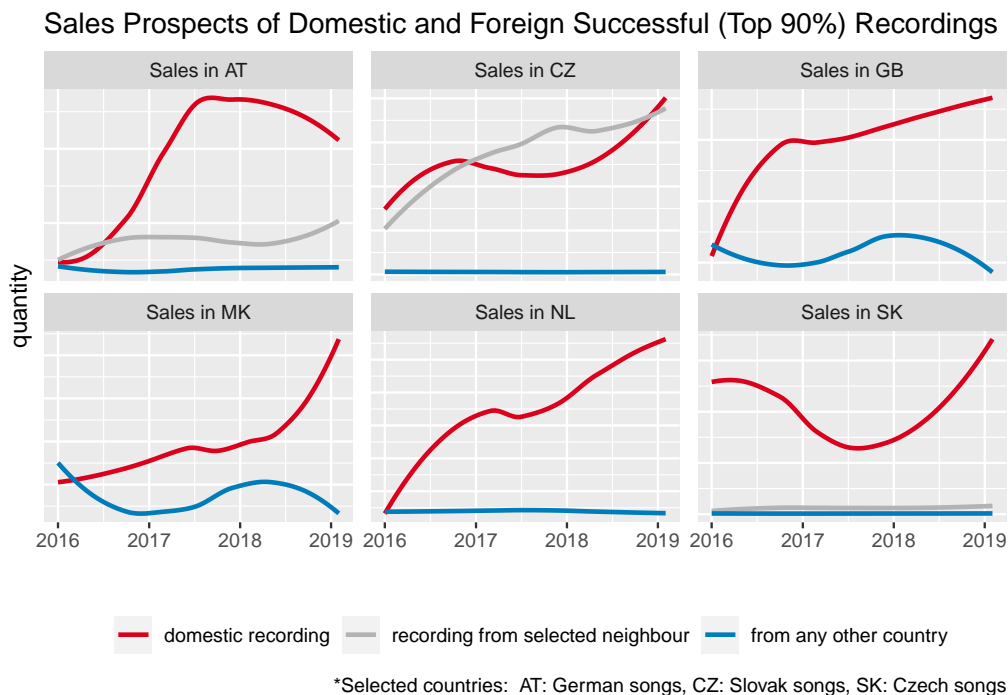


Figure 5.2: Market Position of Successful Recordings in Select Countries

There are about 100 million songs in competition globally, but there are only a few thousand songs altogether in the European charts. Every year, only a few hundred songs make it to the national charts, and these songs take probably 80-90% of the total royalties. We have seen in the previous chapters that it is possible to find a sizable audience in the region, but to gain a sizable market share of the royalty distribution is beyond the reach of most artists and labels.

If we take a look at the streaming charts of the region, we usually find that the vast majority of the streamed songs are foreign songs – except for in Austria, US songs. For comparison, we added a similar, middle-income emerging market (Argentina) and a rich, small-population English-speaking country, Australia, to the chart. These countries seem to be in a similar position to the CEE countries.

Arguably, the strongest countries for songwriting are the United States and Brazil – these are the countries that have run out of the ISRC recording identifier range. Their charts are filled with their domestic songs, but they are not alone. Japan and the bigger EU countries, France, Germany and Poland have very strong domestic performance, too.

Of course, there are many factors at play here. Large countries with large artist populations generate a lot more recordings, so local fans always have

5 Music Export and Music Import

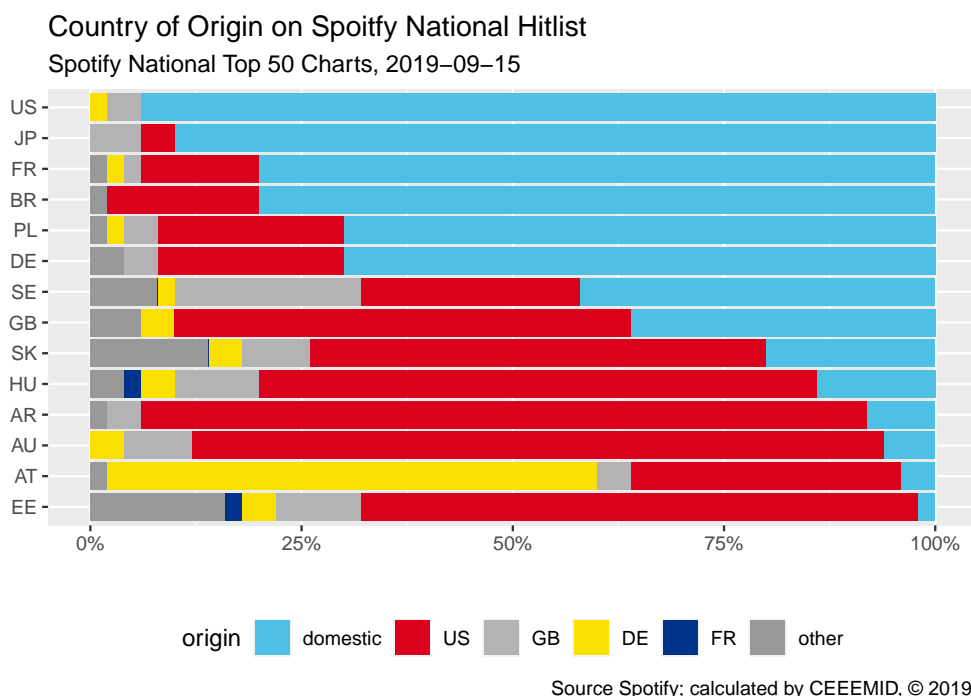


Figure 5.3: Country of Origin on Spotify National Hitlists

thousands of new songs to select from. In small countries, the total annual creations, from pop to jazz, from authentic folk to classical, amounts to a few thousand tracks. But it is not only size that matters. Sweden's population is similar to that of Austria, Hungary and Czechia, yet the Swedish repertoire performs better in Sweden, and as we will see in the next chart, abroad, too.

We created a second chart to visualize how hits are travelling across national borders. To make the chart easier to read, we omitted the United States, Brazil and Japan as countries of origin, and concentrated only on intra-European hit flows.

The second week of September 2019 (see Fig. 5.4) was not an exceptional week. Most EU countries' producers did not score any hits in any other EU countries' Spotify Top 50 hits. The UK exported many great hits all over Europe, as usual, but there were other important hit flows. These hits mainly follow cultural proximity.

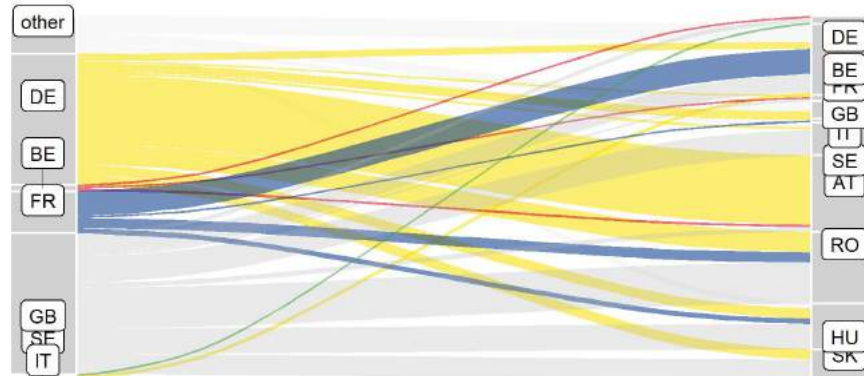
France exported hits to the two Francophone countries of Europe, Belgium and Romania, and furthermore to Greece, a Southern country with particularly unique chart composition. Germany exported many hits to Austria, another German-speaking country, and some hits to other Germanic countries. Dutch producers placed a few hits in the Germanic countries and in Belgium, where the Dutch-speaking Flemish community has its own radios, TVs, press

5 Music Export and Music Import

and hitlists. The Netherlands is a powerhouse of electronic pop music that is not bound by language, which finds an audience in several countries.

Cross-Border Hits in Europe

European hits in other European countries on 2019-09-15



Source: Spotify Top 50, © CEEMID 2019.

Figure 5.4: Country of Origin on Spotify National Hitlists

The strength and competitive position of the national market where an artist is most known and has a fan base is usually a determining factor of track performance and revenue. The overall revenue prospects and competition situation of a Hungarian or Croatian song are very different from a British or even a Polish song. But overall, most European recordings are not bound to a domestic country. Because of cultural proximity, the presence of native minorities or new immigrant diasporas, even small-language songs are being listened to in a much wider territory than the artists' original countries. Some relatively small EU countries, such as Sweden and the Netherlands, successfully export their music on a regular basis.

Nevertheless, as the streaming services slowly overtake all other forms of use, the charts above depict a very fundamental market change. Whereas in the traditional channels of physical sales, digital downloads and broadcasting, the CEE countries, like other small- and medium-sized EU countries, enjoyed 30-50% market share, among the streaming hits their producer's share is below 10%. It is not unusual to find only domestic recordings in physical sales hitlists, while domestic songs rarely enter the streaming charts in the region, with the exception of Poland.

The traditional sales channels protected CEE markets in several ways. After EU accession most import duties are gone, but physical products have very significant logistics costs, which give local producers a competitive edge. Because physical products are increasingly sold at concerts and festivals,

where the market share of domestic performers is usually very high, the traditional, mechanically licensed sales had a protected market.

The broadcasting channel, which used to be the most important promotion channel, too, was protected in many European countries by national content quotas, or supported with generously funded national, regional, local public broadcasters who gave a preference to national composers, producers and performers. These market barriers are not present in the streaming markets, which poses many questions. Our research is aiming to answer these questions, but it took several years to build a data infrastructure that can help produce an accurate market overview.

5.4.1 Conclusions and discussion points

- What skills are necessary to promote the domestic repertoire on streaming platforms?
- In the increased international repertoire competition, domestic players will increasingly scrutinize the distribution of collectively managed revenues, such as public performance royalties.
- The role of public broadcasters at national, regional and local level, and community radios will have an increased importance in audience building for local acts. They have to find new strategies to re-build their audience in the streaming services.
- There is a growing discussion about the potential introduction of similar quotas on streaming services. This is not at all a straightforward task; a critical revision of existing quota definitions, market effects, and possibilities in the global services is absolutely necessary. Many quotas in the region are ill-defined, not well-monitored, and their effect on the market share of domestic creators is unknown.
- Most music is now sold in the world by various machine learning & other artificial intelligence algorithms. In the past, local wholesale and music professionals had an effect on the music sold, but currently their role is minimal. Understanding how algorithms work and how new music can be connected with its audience requires vast R&D investment and regional cooperation, because the data requirements and engineering investments needed for algorithm training are beyond reach for CEE labels. Often the total national repertoire is too small for competitive algorithm-training.

6 Conclusions, Policy & Business Strategy Recommendations

The initial motivation to create the CEEMID databases was the need to advocate for more favourable economic policies and regulation for music, and to decrease the royalty gap as defined in Chapter 3.4 between the Western and CEE regions of the EU Single Market with better pricing. This need has not changed: the royalty gap between East and West, North and South is large. There are new candidate countries where the situation is even worse. Recently business royalty payers increased their efforts to lobby for lower royalties and content prices. The value transfer is being groundlessly trivialised, and the 60-years-old private copying exemption is under threat in those countries where it would be most needed: in Czechia, Slovakia, the Baltic states and in the South. We believe that CEEMID can provide economic evidence in the national transposition process of the DSM directive, or during the discussions of local content quotas.

Our 5-year research programme has shown that most musicians work under much financial and regulatory uncertainty in the region in very precarious working conditions. Despite these difficulties, they have a calling that they follow passionately. Even though their material conditions are worse than the average of their country, they are usually more satisfied with their lives as the majority of the people where they live.

We believe that industry representatives and policymakers should build on these positive sentiments to make the working environment in the Central and Eastern European creative industries more favourable. The music industry has far more potential to create new jobs, new tax base and high value added in the national economy than most industries preferred by national economic policymakers, but currently this potential is largely untapped.

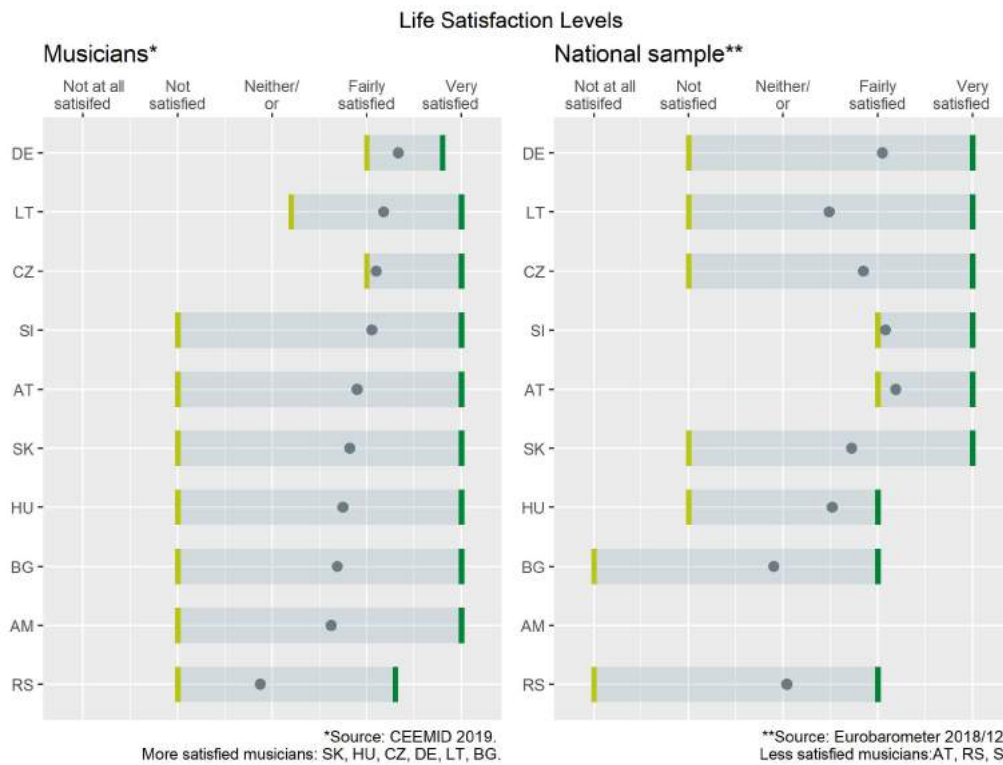


Figure 6.1: Relative income levels: difficulty of paying bills among musicians and the general population

6.1 Support Schemes for Developing the Music Scene

Throughout Europe, national, regional and local governments subsidize cultural activities, practices, and cultural enterprises. In many CEE countries, such subsidies are almost exclusively targeted at the classical music scene, and some parts of the cultural infrastructure. In Austria, Hungary and Bulgaria a very high number of respondents applied for grants, and many of them were successful. On the other hand, in Lithuania and especially Armenia the success rate was (very) low.

The problem with many grants in the region is that the grant calls were either generally prepared for culture, or developed over years for classical music and jazz only. In some countries, there is no national granting for modern popular music. If some forms of corporate subsidies or local grants exist, the sponsors and granting agencies are not well informed about the needs of musicians. We hope that our Central European Music Industry Report, and the earlier Hungarian, Slovak reports helped to shape a more focused view on the popular music scene.

6 Conclusions, Policy & Business Strategy Recommendations

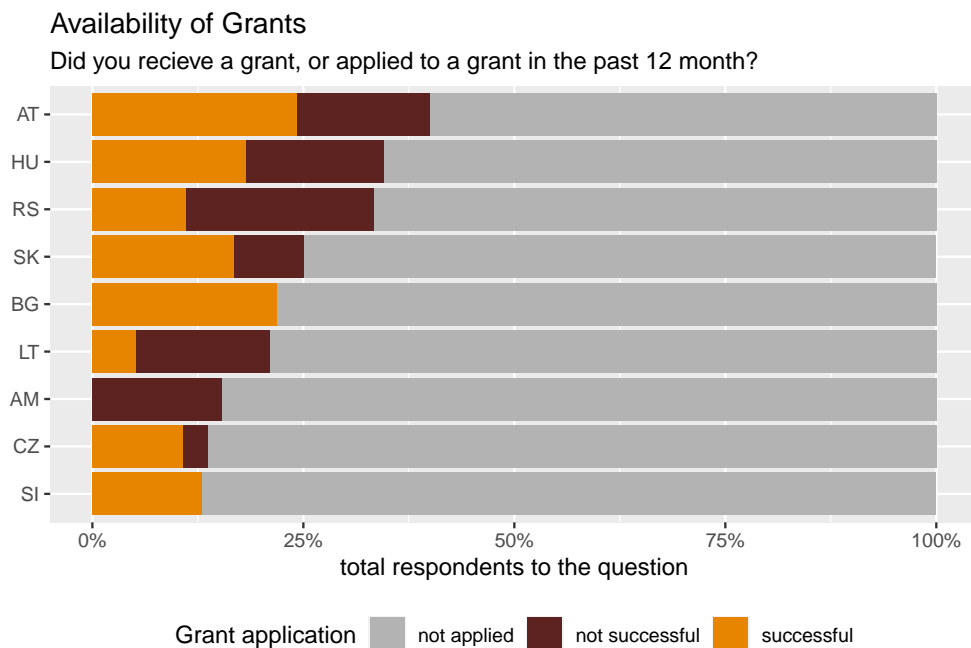


Figure 6.2: Availability of Grants in Select Countries

We recommend the use of our structured, 360-degree workshops to establish the strengths and weaknesses of a national granting system. This methodology takes into consideration all music professionals' views: not only the musicians, the manager, and the grant writer, but also the musician's technical staff including stage, lighting and sound engineers, the composers, the producers, the promotion/social media team, the band transporters. We usually try to make sure that at least 30-40 different roles are present. This is necessary to get a fair view of how live or recorded music is produced, what is available, what needs support, and what the pitfalls are. Unfortunately, in grant design, often only artists are asked, even though performances or recordings have obstacles much better known by technical professionals, engineers, or managers.

We are helping music granting authorities with *ex ante* and *ex post* indicators to make sure that they know what they want to change, and to measure if their grants have helped to achieve the required change.

Our detailed economic impact assessments have shown in Hungary and Slovakia¹ that the music business is very unfavourably taxed. In several CEE countries it is very likely that the music sector is not a net recipient of subsidies but a net taxpayer. In fact, proportionally the music business pays far

¹In the bibliography see [Antal \(2015b\)](#); [Antal \(2019b\)](#)

more taxes than manufacturing activities, such as car manufacturing, which is the preferred economic activity of the region.

6.2 Industry Advocacy, Economic Impact and Taxation

While classical music and national folk music have long merited public support, jazz and popular music have been seen, correctly, as market activities. Their important role in keeping national culture relevant for new generations is a relatively novel idea in the region. These well-intended, but not always yet robust support schemes usually only represent a drop in the ocean of an otherwise unfavourable market situation. In the region, the available grants are often dwarfed by taxes payable, and we believe that music businesses should place less focus on lobbying for better grants and supports systems, and more for less unfavourable taxation for musicians and generally for creative activities.

A more focused industry cooperation may be necessary in the forthcoming modernization of the EU VAT regulation which will change the VAT levels and brackets. This could be a once-in-quarter century opportunity to argue for more just taxation of music in the whole European Union ².

A more focused industry cooperation may be necessary in the forthcoming modernization of the EU VAT regulation which will change the VAT levels and brackets. This could be a once-in-quarter century opportunity to argue for more just taxation of music in the whole European Union.

Economic impact assessments are crucial parts of public policy and advocacy reports on better taxation, or in the design of better creative industry strategies and economic policies. They are also often statutory requirements for EU grant calls or increasingly for national and municipal grant calls, for example, some granting authorities for large grants often want to trace the effect of the grant for up to five years.

Our methodology enables music and other creative stakeholders to create impact assessments for economic and cultural policy consultations. For example, in the Slovak national music industry report [Správa o slovenskom hudobnom priemysle](#) we showed the relative economic impact of car manufac-

²On this important policy topic, refer to the thematic website of the [European Parliament](#) or the [European Commission](#)

turing and a music festival is similar in Slovakia, however, the music business creates a many times bigger tax base (Antal, 2019b). A similar argument could be made in Hungary and Croatia where the tax treatment of music is one of the biggest obstacles to growth.

CEEMID made [iotables](#), its data processing, integration and calculation tool for economic impact assessments, open source and available for peer-review and comparison with national statistics office calculations, for example, on value-added and employment multipliers³. The use of this software requires programming skills, an understanding of input-output economics and national accounts. We are currently looking for smaller users, such as concert halls, granting authorities or individual festivals to use our data, and to create tools such as web-based apps that can make this software more user-friendly, standardised, and can help smaller players who do not employ specialists to make their own impact assessments, which is often required by granting authorities for larger funding applications.

6.3 Valuing Music

When CEEMID was founded, most of the CEE stakeholders had little or no experience in valuing their intellectual property and setting its prices. Over the years it turned out that this is not a regional phenomenon, but very typical for all smaller national market players even in mature markets. While copyright administration usually follows national jurisdictions, many prices are set outside of national markets, or the CEE region in the form of various agreements (for example, in the case of traditional mechanical licensing) or in the case of global digital platforms. The nationally set prices are often set by collective management organizations. These prices are differently regulated in the region, and often have not been changed since gaining national independence or transition to the market economy.

While all EU member states are participating in international agreements that regulate royalty setting principles, this international law does not create an unambiguous ex ante price regulation. Ex ante regulation means that prices are not freely set by music stakeholders, but there is a regulated procedure that creates clear prices before they are entering force in general terms and conditions. Certain state governments and legislation have created de facto ex ante price regulations in the region, for example in Hungary, Lithuania, Croatia, which is at least contentious in the light of higher level international and

³In the bibliography see [Antal \(2018\)](#)

6 Conclusions, Policy & Business Strategy Recommendations

EU law, and in all cases, it is very difficult for rightsholders to work with. Such quasi-regulations politicize valuing music, and often give unfair advantage to politically better organized interest groups, such as IT manufacturers or the restaurant business.

However, in the absence of clear legal mandate for an *ex ante* price regulation, most price disputes go to competition authorities and special competition courts which have an EU-wide jurisdiction for *ex post* price reviews. Since competition law is directly applicable EU law, some cases are sent to the Court of the European Union for preliminary rulings. Because in the CEE region most music stakeholders have lower prices or revenues than would be justified, these procedures can create opportunities to decrease the royalty gap introduced in Chapter 3.4. However, competition policy is a double-edged sword. The proof of burden is very high, and litigation, which involves courts in both national capitals and in Luxembourg is very costly.

In our view, several legal precedents, which are binding now in all mature and emerging EU markets, were decided unfavourably for the music industry because of the weak evidence produced by music rightsholders.⁴ This jurisprudence was set out in the context of background music use in hotels, restaurants and catering, but may be applied to any licensed form of music. In these cases, the EU Court set out that royalty prices should be equal in the European single market, subject to objectively verifiable differences in social, cultural and economic conditions.]

Stakeholders in the creative and cultural sectors are micro-, small and medium enterprises, and often non-profit organizations who are lacking professional skills to fight a competition case. On the other hand, royalty payers are often large technology or media corporations who do have the expertise to enter price negotiations or competition disputes. Because the *ex post* nature competition disputes result only in downward price modification, the fact that competition law applies already starts a downward spiral in prices.

CEEMID has been used in competition cases, but we believe that the music industry should be more proactive, and not only react to such reviews, because they by nature can only decrease royalties. Another common problem is that in the absence of own valuations, stakeholders, if challenged in a competition court, usually rely on a comparison of market prices in the Single Market. While this is an accepted type of evidence in such cases, it brings

⁴Probably the most important, EU-wide applicable royalty setting precedents were set in the CEE region in [AKKA/LAA vs Konkurences padome](#) and [Léčebné lázně Mariánské Lázně v OSA](#)

6 Conclusions, Policy & Business Strategy Recommendations

no new information into the disputes, and it is free-riding in the few original valuations created by a handful of organizations. The current, one-sided application of competition law is a recipe for disaster, and will lead to a race to the bottom. This is not only a threat in the less developed markets, where usually both royalty levels and total royalty collections are very low, but in the richer markets like Austria, or even France, Denmark and Germany. Because of the methodologies adopted by the EU Court, royalty levels are compared across the EU and unjustified differences can be leveled out by the Courts.

The only way to close the royalty gap is to increase enforcement and increase prices. This requires investment into own, independent pricing capacities, that not only show that in an international comparison a certain price is not unlawfully high, but which also reveals if the value of music has increased in a certain use. As music stakeholders tend to be small in the region, they usually do not have human resources and financial capacities to build out financial analysis or economic analysis competences. The original idea behind CEEMID was to pool data and methodology resources and help stakeholders. CEEMID and Consolidated Independent has initiated national research consortia that aim at creating independent valuations.

There are several methods of counteraction by the music industry, but all require significant investments into data, economic and competition skills, and international cooperation among stakeholders. This is why we believe that making CEEMID open source, as a beta version of the planned European Music Observatory, would benefit the whole industry in a challenging decade. Our data in the past 5 years were used all pricing methods reviewed by IFPI's public *Valuing music* document (PwC, 2008).

- We used the hedonic price method to review and correct tariffs for restaurants and hotels, instead of relying only on international comparison in Hungary and Slovakia;
- A complex market comparator model to value broadcasting rights and private copying in Hungary and Croatia;
- We used experimental methods in disputed public performance payments in Hungary;
- We used hypothetical evaluations when no other data was available in Hungary, Slovakia and Croatia.

Our valuations must follow the international fair valuation principle, and must rely on objective data⁵. In valuations we commission surveys and collect data following Eurostat's ESSNet technical recommendations, whenever applicable.

6.4 Private Copying

Private copying has been a very important way of spreading recorded music, books and audiovisual works in the last 60 years, and when lawfully compensated, it remains a very important source of revenue for artists, composers, writers, film writers and performers. According to our empirical research conducted in several countries, the value of private copying is far bigger these days than when most CEE private copying remuneration mechanisms were set up.

In all countries of the region, large device manufacturers and media platforms are allying with various libertarian and pirate activist groups to campaign for abolishing or lowering the private copying levies. On the other hand, according to our research, in many countries of the region it should be increased by 100-1000%, because in the absence of willingness and ability to buy content online, the private copying exemption is widely used by households.

As opposed to licensed music sales, where the music stakeholders have market knowledge and data to set royalty levels, devise sales strategies and monitor use, in private copying this is not the case. The private copying exemption was created first in Germany and later throughout the EU and other countries because the representatives of rightsholders' would not be able to collect remuneration without infringing the privacy of households.

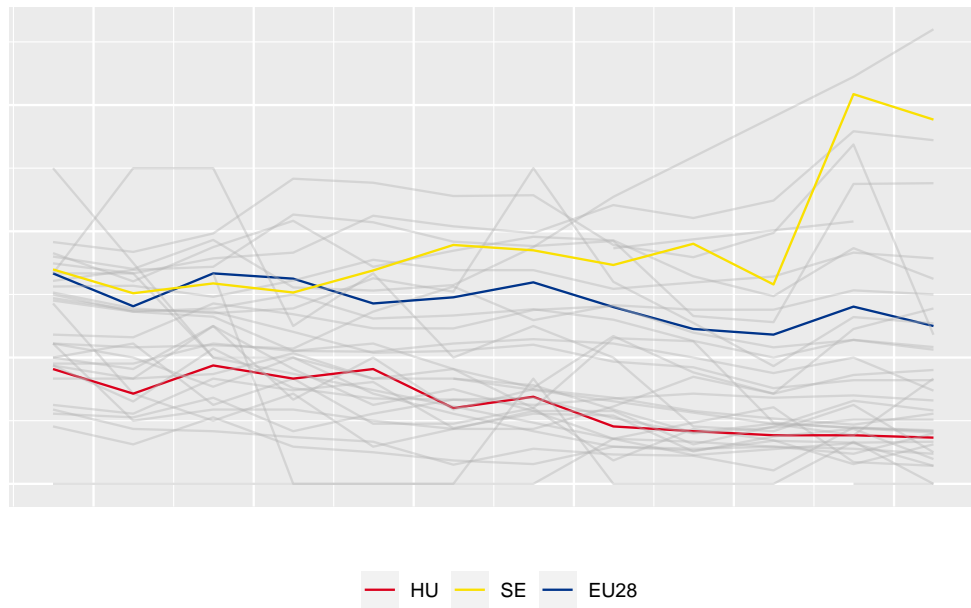
To set the level of private copying to an adequate level, home copying must be measured with the use of anonymous and representative household surveys, and such survey data must be integrated with other relevant data to set the appropriate price level. We work together with respected polling companies and use carefully adopted, standardized EU surveys following the Eurostat-ESSNet guidelines⁶ to create inputs for our economic models and to create hard-to-refute evidence for litigation.

⁵The Commission Regulation (EU) No 1255/2012 adopted into EU law the International Financial Reporting Fair Value Measurement Standard, which must be used in all EU member states.

⁶[Bína, Vladimir et al. \(2012\)](#)

6 Conclusions, Policy & Business Strategy Recommendations

Percentage of Online Purchasers Paying for Music or Film



CEEMID based on Eurostat surveys, 2019.

Figure 6.3: Percentage of Online Purchasers Paying for Music or Film



CEEMID data were used in the modernization of the Hungarian, Slovak and Croatian private copying schemes. While most of this work is business confidential, the less detailed Private Copying in Croatia⁷ gives a public glimpse into our approach and methodology.

The national adoption of the DSM Directive creates a unique opportunity to review and modernize the copyright administration laws of all EU countries. This would create a good opportunity to create new private copying remuneration systems in Bulgaria and Slovenia, where there are no workable systems in place, or replace the under-performing schemes in the Baltic countries. It would also offer a good opportunity to review the two examples where member states have opted to abolish private copying levies and promised to provide rightsholders with adequate compensation from general tax revenues.

6.5 Algorithms & AI

Most music is sold in the world by automated 'robot' programs using algorithms. Without a thorough understanding of the working concepts behind the buzzwords of 'big data' or 'artificial intelligence' it is impossible to create workable sales strategies for recordings, particularly for exporting purposes. Machine learning and algorithms are playing an increasing role in the programming of large music festivals or planning international tours in live music, too.

Digital streaming is provided by global players who are usually present in all mature and emerging markets, and often even in very early, fledgling future markets. This has increased repertoire competition in the national markets 1000 times. Understanding market dynamics or following releases is impossible for talent managers, music journalists or radio editors without 'artificial intelligence' tools.

Streaming platforms are the most important platforms for 'clean' music streams, but because of their strong technology and business model, they are increasingly taking over mixed, spoken word and music programmes, that were traditionally dominated by radio and, in the audiovisual world, by television. The strongest radio content providers, such as the public broadcasters of the United Kingdom, the United States or Australia, are successfully expanding the audience of their radio programmes to a global level.

⁷In the bibliography see [Antal \(2019a\)](#)

6 Conclusions, Policy & Business Strategy Recommendations

As Netflix and YouTube are increasing their market share versus traditional and cable television, podcasts are replacing the broadcast versions of radio programmes.

In the last century, the most important music platform was radio, which was often subject to the explicit regulation of local content quotas, and by the local gatekeeper activity of music journalists and radio editors. National, regional and local radio providers played a crucial role in communicating new music to a large audience. As the radio audience is migrating towards streaming platforms, and the most valuable radio programmes are becoming podcasts, these measures need to be modernized. Our music circulation indicators and indexes were designed to foster a meaningful policy discussion on local music content regulations and support schemes.

Most music stakeholders, even on the level of national, representative bodies, are too small to successfully train algorithms, which puts small nation repertoires at a new disadvantage versus major labels and large nations. They need large, consolidated data assets and the most up-to-date know-how to successfully create sales strategies, to adopt good sales and granting goals, and to become partners of the premiere radio and audiovisual content creators to find new uses for their music.

CEEMID is driven by the principle of data integration. We have been building regional cooperation since 2014 to reach critical data masses and make emerging European markets more competitive. CEEMID has teamed up with Consolidated Independent, a leading technology platform for independent music, to create large enough data assets for creating models and algorithms for smaller European national repertoires, and we have started to initiate open, national research consortia to build innovative tools to promote these national repertoires. We hope to bring these efforts to an EU level in the coming years.

Appendix

In 2014 three collective management societies, Artisjus, HDS and SOZA, realized the need to make further efforts to modernize the way they measure their own economic impact and the economic value of their licenses in order to remain competitive in advocating their interests vis-à-vis domestic governments, international organizations like CISAC and GESAC and the European Union. They signed a *Memorandum of Understanding Measuring and Reporting Regional Economic Value Added, National Income and Employment by the Music Industry in a Creative Industries Perspective* with their consultant to set up the CEEMID databases and to harmonize their efforts ⁸.

CEEMID cooperated over five years with almost 100 music organizations, and thousands of music professionals participated in our surveys and workshops. We would like to thank them for their support and their views here.

In no particular order, the author would like to thank Nenad Marčec, Anton Popovič, András Szinger for their initial support in initiating CEEMID; long-term users of our data, Ľubomír Burgr, Adam Dvořák, Marina Feric Jančic, Péter Horváth, Eszter Kabai, Dávid Kitzinger, Tereza Landová, Tomáš Mikš, Darko Stanicic, Péter Benjamin Tóth; in *ex ante* grant evaluations, Zsolt Bajnai, Márton Náray and Zsófi Sápi; great educators Emília Barna and Fruzsina Morcz; in music exports, Dávid Bali, the Hangfoglaló, the Lala, the Music Estonia and the SoundCzech teams, our partners in national surveys Dávid Bali, Agné Begeté, Lilyt Bleyan, Gergely Békés, Tanja Bukvic, Santa Cristescu, Richárd Demčák, Stefan Germanov, Mark Adam Harold, Franz Hergovich, Viljem Marjan Hribar, Zsolt Jeszenszky, Nikola Jovanovic, Kristina Delfin Kanceljak, Rumyana Koleva, Sandra Laura Luhtein, Dan Murau, Martin Nedvěď, Slobodan Nešović, Anton Petrov, Darjo Rot, Virgo Sillamaa, the Consolidated Independent data team Theo Gardner, Andy McFarland and Jerome Wynne; Tamás Falus and Péter Molnár at the Kantar-Hoffmann survey team; workshop assistants Kati Csatlós, Brenda Dobrovicsova, Zsuzsa Fried, Monika Klementová, research assistant Kátya Nagy, cover

⁸In the bibliography: [Artisjus et al. \(2014\)](#)

6 Conclusions, Policy & Business Strategy Recommendations

designer Aistė Zabitaitė; the consultants of European Music Observatory Marin Martin Clarke, Emmanuel Legrande, Fabien Miclet, Paul Vroonhof. Special thanks for their ideas and criticism to Tereza Raabová and Sanne de Rover.

This report was created in a reproducible research framework with *bookdown* (Xie, 2020), using the datasets of CEEMID. The visualizations were made with ggplot and ggalluvial (Wickham et al., 2019; Wickham, 2016; Brunson, 2019). Whenever European data was charted, we used the ©EuroGeographics administrative boundary visualizations published by Eurostat.

Bibliography

- Antal, D. (2015a). Creating better national cultural statistics with Eurobarometer datasets and ESSNet-Culture technical recommendations.
- Antal, D. (2015b). A Proart zeneipari jelentése. [The Music Industry Report of Proart].
- Antal, D. (2018). *iotables: Importing and Manipulating Symmetric Input-Output Tables*. R package version 0.2.4.
- Antal, D. (2019a). Private Copying in Croatia.
- Antal, D. (2019b). Správa o slovenskom hudobnom priemysle.
- Artisjus, HDS, SOZA, and Candole Partners (2014). Measuring and Reporting Regional Economic Value Added, National Income and Employment by the Music Industry in a Creative Industries Perspective. Memorandum of Understanding to Create a Regional Music Database to Support Professional National Reporting, Economic Valuation and a Regional Music Study.
- Brunson, J. C. (2019). *ggalluvial: Alluvial Plots in 'ggplot2'*. R package version 0.11.1.
- Bína, Vladimír, Chantepie, Philippe, Deboin, Valérie, Kommel, Kutt, Kotynek, Josef, and Robin, Philippe (2012). ESSnet-CULTURE, European Statistical System Network on Culture. Final Report.
- Hull, G. P., Hutchison, T. W., Strasser, R., and Hull, G. P. (2011). *The music business and recording industry delivering music in the 21st century*. Routledge, New York.
- IFPI (2019). *IFPI Global Music Report 2018*. International Federation of the Phonographic Industry, London, United Kingdom.
- Leurdijk, A. and Otilie, N. (2012). Statistical, Ecosystems and Competitiveness Analysis of the Media and Content Industries. The Music Industry. Technical Report 25277 EN, Joint Research Centre Institute for Prospective Technological Studies (IPTS), Luxembourg: Publications Office of the European Union, 2012.

Bibliography

- PwC (2008). Valuing the use of recorded music.
- Wickham, H. (2016). *ggplot2: Elegant Graphics for Data Analysis*. Springer-Verlag New York.
- Wickham, H., Chang, W., Henry, L., Pedersen, T. L., Takahashi, K., Wilke, C., Woo, K., and Yutani, H. (2019). *ggplot2: Create Elegant Data Visualisations Using the Grammar of Graphics*. <http://ggplot2.tidyverse.org>, <https://github.com/tidyverse/ggplot2>.
- Xie, Y. (2020). *bookdown: Authoring Books and Technical Documents with R Markdown*. R package version 0.17.

