

Clash on Web radio royalties hits Congress

November 28 2012

The clash over music royalties for Internet radio moved to Capitol Hill Wednesday, as lawmakers opened debate on a proposal to revamp the fee system.

Pandora Media, the biggest US Internet radio firm, stepped up its push for reforms, claiming at a hearing that the multi-tiered system for royalties is stifling innovation.

But backers of the music industry complained that writers and artists would be hurt by the proposed legislation.

Pandora chief executive Joe Kennedy told a House of Representatives panel that the "lack of a level playing field is fundamentally unfair and indefensible."

"The [inequity](#) arises from the fact that Congress has made decisions about radio and copyright law in a piecemeal and isolated manner," he said in his prepared remarks.

"The effect has been to penalize innovation when setting the rules for [music royalties](#). The current rate-setting structure is a clear case of discrimination against the Internet and innovative services."

Lawmakers are considering a bill called the Internet Radio Fairness Act, which to equalize [royalty payments](#) paid per song for [digital radio](#), whether it is transmitted over the Internet, cable or satellite.

Sponsors of the law say the current royalty system was established before anyone imagined the potential for Internet radio.

Royalty rates for Internet radio are set by a panel of three copyright judges who determine the "marketplace" rate. That differs from a standards of eight percent set for satellite radio and 15 percent for cable music.

Pandora has complained that it pays some 50 percent of its total revenue in royalties compared with less than 10 percent paid by [satellite radio](#) firm SiriusXM, which benefits from a pre-existing rate allowed under a 1998 law.

But pop artist and producer Jimmy Jam, who testified on behalf of the Recording Academy, said the bill would penalize those who create and produce music.

Jam said Pandora pays only a 10th of a cent in royalties for each song streamed.

"When Pandora tells you it's paying too much to the creators who are the backbone of its business, think about that 10th of a penny, and remember that small amount is shared by copyright owners, featured artists, session musicians, singers and producers," he said.

Michael Huppe of the music industry group Sound Exchange said [Pandora](#)'s argument is misleading because it intentionally limits advertising in order to gain listeners, and could easily fix its problem by increasing ads.

"It would be ill-advised for Congress to step in and manipulate the market to subsidize a thriving and innovative company," Huppe said.

Jeffrey Eisenbach, a visiting scholar at the American Enterprise Institute, told the panel that the proposal would distort the free market.

He said lawmakers should "resist entreaties to backslide by passing legislation that would replace the current market-based standard for royalty rates with one designed to tilt the playing field in such a way as to subsidize a particular class of copyright users."

But Michael Petricone of the Consumer Electronics Association said in a statement that the market is already distorted.

"By imposing disproportionately high costs on Internet radio companies, the government is effectively picking winners and losers in the digital music marketplace," he said.

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