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Mr Nick Champion, MP
Chair
Inquiry into IT Pricing
Standing Committee on Infrastructure and Communications
PO Box 6021, Parliament House, Canberra ACT 2600

Dear Mr Champion

Thank you for your letter dated 15 August 2012.

It may be helpful initially to explain ARIA's role and the extent to which ARIA has access to information relevant to the Committee's inquiry.

ARIA is an industry association. The role of ARIA is to assist the music industry mainly by: (a) managing the ARIA charts; (b) presenting the ARIA Awards; (c) collecting certain basic statistics (eg on the overall volume and value of sales of recorded music by member record companies); (d) supporting initiatives to combat piracy; and (e) making submissions to government on copyright reform, piracy and other issues where it has the information and expertise to do so. The role of ARIA is not to set the prices for recorded music that are charged by record companies or retailers. Nor is it to monitor, supervise or intervene in the pricing or other commercial decisions of its members.

As we explained when first contacted by the secretariat, ARIA has no relevant information on how music prices are set in the Australian market. ARIA is not involved in the setting of wholesale or retail prices in the music industry - ARIA does not supply music to retailers or consumers. Nor does ARIA have access to information about how record companies or music retailers set their prices. It would therefore be inappropriate for ARIA to comment on price.

The second part of the request in your letter dated 15 August 2012 states that "the Committee is aware that Australian consumers often pay higher prices for identical digitally-delivered content" and that the Committee would appreciate any information ARIA can provide to explain the reasons for these price differences. ARIA is unable to provide the specific explanation requested because it does not have the necessary information. In particular:

- ARIA does not have data comparing retail prices for recorded music in Australia with retail prices in the US, UK, France, Germany, Sweden, Spain, Italy, Japan, Korea, Canada and other countries.
- ARIA does not have access to the data relied on by the Committee as the basis for the suggestion that "Australian consumers often pay higher prices for identically digitally-delivered content" and hence is unable to test whether or not that suggestion is well-founded.
- Even if ARIA had access to all the relevant data, ARIA would not be able to explain possible differences in those retail prices because, as indicated above, ARIA is not involved in the setting of wholesale or retail prices for recorded music and does not have access to information about how wholesalers and retailers set their prices.



However, ARIA is able to make several general comments that may assist the Committee. These are based on its experience as an industry body.

First, Australian consumers have very considerable choice. In the digital sector of the retail segment of the market there are over 30 services that supply legitimate recorded music in a range of methods from downloads to streaming services. Some of these, including Spotify (a major multinational corporation that supplies streaming services), offer a very wide range of music free of charge to consumers.

Second, the Australian consumers' choice is likely to increase in that respect as more international services, potentially including Amazon and Google, enter the Australian market. Given this situation and given also the abundance of free or near-free services, there is no policy justification for governmental intervention by price regulation or by trying to prohibit national differential pricing. ARIA notes and endorses the position taken by the Australian Treasury in its submission of 9 August 2012 to the Committee that regulatory intervention is unnecessary.

Third, a major issue for the Australian recorded music sector today is the impact of piracy. Australian consumers have access to a plethora of unchecked and unregulated web-based suppliers that offer a very wide range of pirated music at no charge. Digitisation has enabled piracy on a massive scale, so much so that the wholesale revenues of record companies have been almost halved over the past 11 years, from \$648 million in 2001 to \$383 million in 2011 (based on ARIA annual data). Piracy accounts a significant amount of the music consumed in Australia today. For instance, in 2009 IFPI estimated that piracy accounted for 95% of all downloads, or 19 out of every 20 digital music downloads: see http://www.ifpi.org/content/section_resources/dmr2009.html). Unlike some other jurisdictions, there is no coherent industry or legislative framework in Australia to deal with the problem of unauthorised access to music.

Fourth, the contention that digitally-delivered content by a local company with an international parent is identical and should therefore cost consumers the same in Australia as in the US or some other country is unfounded. The following points, amongst others, need to be taken into account:

- Each national affiliate is managed and staffed by Australians conducting business in Australia under the particular national market conditions that exist in Australia. They invest substantially in Australian music creation and culture (and associated employment) and provide the risk capital and operating costs out of their local revenues. In other words, they must run as a viable business in their own right to optimize their activities in the interests of their shareholders (be they overseas parent entities or domestic individuals).
- Record companies are essentially marketing and talent finding enterprises, engaged in the highly skilled and complex task of finding, nurturing, investing in and subsequently developing high-risk talent activities. A success factor of one-in-ten or two-in-ten releases is standard. It is to a large extent the success of those one or two out of ten releases that provides the revenue to cover the significant losses on all the others. It is a highly speculative business, where small nuances in success ratios spell a loss or profit in any year. Quickly capitalising on the potential for success is a vital component of a viable business model.
- Effective marketing is therefore essential in achieving and maximizing that success. Sales success doesn't "just happen". A record company cannot launch or promote an artist or maximise sales of an artist merely by sending digital files directly from an overseas location and ignore the need for a strong local presence, which comprehensively engages with local media and customers.
- Achieving success in a local market requires strong local management and marketing skills, coupled with close engagement and investment in media campaigns etc. The costs involved in doing so are significant and tangible.
- The development of local artists and local marketing initiatives impose significant costs. Our members (both multinational and independent) invest a significant amount of resources in marketing and developing local Australian talent, directly employing significant numbers of Australians and indirectly generating positive economic flow-on effects in industries as diverse as live entertainment, radio and television.



Fifth, it is an incorrect assumption that the sale of digital goods imposes no physical or hard costs. Our members have significant marketing, labour and overhead costs.

Sixth, the methodology required to be able to make an informed and useful comparison of retail prices for recorded music in Australia and other countries raises significant design issues and collecting the necessary data is a considerable challenge. Some of the difficulties of making valid comparisons and the danger of making superficial comparisons are noted in the Productivity Commission Inquiry Report No 56 (November 2011), ch 6. Given the fundamental importance of methodology and relevant data to the value of the Committee's inquiry, full transparency is essential. Further submissions on methodology should be sought when details of the methodology proposed are published.

Finally, the Committee may find useful as background the statistics on aggregate wholesale recorded music sales in Australia at: <http://www.aria.com.au/pages/statistics.htm>.

We trust that the above information will be useful for the Committee in its inquiry.

Yours sincerely

Dan Rosen
Chief Executive Officer
ARIA