What's "Fair Trade for Culture" and how can supply chains in the (digital) music industry become more fair and sustainable?

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Introducing the "Fair Trade for Culture" Concept

Fair Trade has largely been applied to the goods trade, mostly agricultural trade such as coffee, tea, bananas, etc. where the focus has been on producers' interest and their risks and shares in global value chains. However, the concept of Fair Trade goes beyond a focus on enhanced *market access* and *market entry* to speak to the broader goals of creating more balanced and sustainable development outcomes such as a fair living wage for producers, gender equity and diversity, responsible production and consumption.

The global trade in creative content is one of the fastest growing sectors in the contemporary global economy with the rise of the digital trade however it is unbalanced between developed and developing economies as well as between digital platforms and artists/ content producers. Some of these concerns were anticipate by the UNESCO 2005 Convention which speaks to the issue of *preferential treatment* to facilitate:

- The mobility of artists and cultural professionals
- The balanced flow of cultural goods and services
- International treaties and agreements

Can Fair Trade be applied to the cultural/ creative sector that embodies multiple trade flows (e.g. trade in goods, services and intellectual property) and mechanisms (e.g. cultural cooperation and cultural protocols)? In addition, Fair Trade for Culture is exemplified by four key challenges that relate particularly to the rise of the Digital Creative Economy:

- The Value Gap (i.e. the widening gap in remuneration between artists and digital platforms).
- The Genre Gap (i.e. the increasing concentration of content distribution).
- The Trade Gap (i.e. the expanding deficit among most developing economies).

- The Financing Gap (i.e. there is wide disparity in the investment climate and availability of investible capital).

How can these issues be addressed to the advantage of content producers and distributors from the developing world? In the following sections the paper looks at the rise of the digital creative economy and its impact of the music industry specifically. The paper concludes with an assessment and recommendations for Fair Trade in Music.

The Rise of the Digital Creative Economy

In the wake of the global economic crisis, the creative sector has outperformed most other sectors. This is in part due to the growth of the digital economy where intellectual property and trade in services have expanded as a share of global value-added.[1] Today, creative content accounts for a significant share of economic activity on ecommerce and ICT enabled platforms. A key driver of this process has been the rapid growth of social media and networking which has facilitated a shift away from the passive consumer model to a prosumer and user-generated framework (e.g. YouTube, Facebook, Instagram, Snapchat, Flickr, etc). As such, the rise of the digital creative economy has generated significant earnings for top media companies as the fast-rising valuation of FAANGS stocks[2] illustrates. The new on-demand and online consumption models for the music industry have created increased possibilities for the distribution of content. For example, it was reported in June 2018 that there were 229.56 million paying music subscribers globally up 16% over the figure for the year 2017. Of the total number of subscribers, Spotify had a market share of 36% with Apple Music growing to 19%.[3] In terms of valuation, Apple reached the $1 trillion mark[4] and Apple Music was valued at $10 billion[5].

The FAANGS growth has largely come from the monetization of data. Data is increasingly viewed as the "new oil" in reference to the rapid expansion of the digital knowledge economy. It is argued "that data have economic value at the macroeconomic level is mirrored by the fact that they are intensely valuable for firms that generate or collect them online. This value stems largely from the ability of firms to monetize data through selling their characteristics to advertisers." Additionally, "access to data also permits firms to tailor new products and services to meet the preferences of individual users, raising the

[1] See UNDP/UNESCO (2013) *The Creative Economy Report 2013: Widening Local Development Pathways* UNDP/UNESCO, New York/Paris, p. 161-163.
[2] The term FAANGS refers to the top tech stocks: Facebook, Apple, Amazon, Netflix Google (parent company Alphabet) and Spotify.
[3] Music Business Worldwide. (2018, September 13). Apple Music gains global streaming subscription market share - as Spotify holds firm. Retrieved from https://www.musicbusinessworldwide.com/apple-music-gains-global-streaming-subscription-market-share-as-spotify-holds-firm/
[4] Apple just became the first American public company to cross $1 trillion in value. (n.d.). Apple reaches $1 trillion value. Retrieved from https://money.cnn.com/2018/08/02/investing/apple-one-trillion-market-value/index.html
[5] Apple Music Is Now Worth $10 Billion. (n.d.). Retrieved from https://money.usnews.com/investing/stock-market-news/articles/2018-02-28/apple-inc-aapl-stock

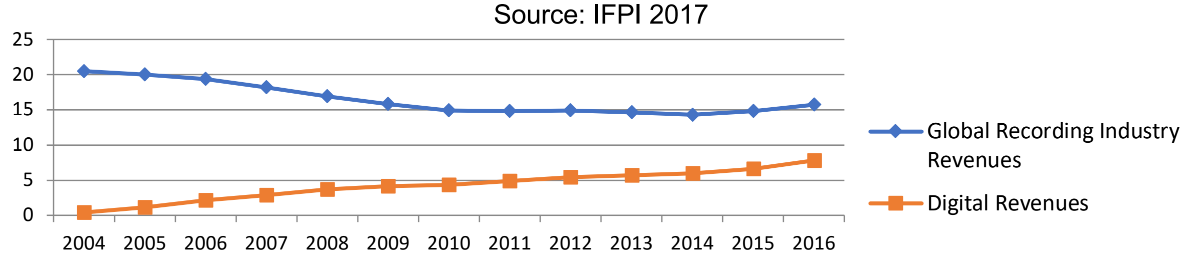
value of data even more.”[6] This is becoming even more evident with the emergence of the new business models of firms like Netflix and Spotify that have challenged and supplanted traditional ‘bricks and mortar’ competitors. Indeed, the competitiveness of these firms comes in part from their capacity to leverage the data from their subscribers and users and in turn utilizing that data to commission and produce new original programming targeted at these audiences.

The significant increase in demand for creative content has been the key driver of the digital economy. It is estimated that as much as seventy percent of the content on the Internet is creative content, much of which is amateur or user-generated content. Nonetheless, the key observation is that the burgeoning digital economy relies heavily on creative content which generates copyrights and so the commercialization of digital creative economy is required to take into account copyrights to balance the interests of creators and that of users.

Digitalization of Music

Digitizable creative content such as music, for instance, has been subject to high levels of copyright infringement, by way of piracy, bootlegging, counterfeiting, unlicensed broadcasting, illegal downloading and unauthorized file sharing (e.g. Napster, Grokster). The impact of the digital economy on the copyright and creative sector is well illustrated in the experience of the global recorded music sector. As figure 1 shows the sector lost significant revenue due to the digitalization. Physical sound-carriers’ share of the market plummeted from US$ 20 billion in 2004 to a low of $14 billion in 2014.[7]

Figure 1: Global Recorded Music Revenues, 2004-2016 US$bn
Source: IFPI 2017



In the same period revenue from digital sources have climbed dramatically. Indeed, the year 2016 is considered an inflection year as digital revenue accounted for 50% of total revenue surpassing the combined earnings from physical format, performing rights and synchronization income (see Figure 2). At the end of 2017 digital revenues accounted for 54% of the global recorded music market with streaming revenues being the single largest

[6] Keith Maskus (2018) “Fostering Innovation in Digital Trade” in Xavier Seuba, Christophe Geiger, and Julien Penin (eds), *Intellectual Property and Digital Trade in the Age of Artificial Intelligence and Big Data,* Global Perspectives for the Intellectual Property System, CEIPI-ICTSD, Issue Number 5: 23.
[7] IFPI (2017) Global Music Report 2017: Annual State of the Industry. http://www.ifpi.org/downloads/GMR2017.pdf. Accessed April 10, 2018.

revenue source for the first time with an increase of 41.1% over 2016. This is accounted for by the huge jump in paid subscriptions by 64 million to a total of 176 million users. The market for downloads declined by 20.5% while physical format sales dropped by 5.4%. It is important to note that revenues for 2017 are still only 68.4% of the peak revenues for the music industry in 1999.[8]

Figure 2: Global Music Revenue Segments, 2016
Source: IFPI 2017

The shift towards the digital economy is also evident in global copyright collections. Global collections rose by 18.5% between 2012 ($7.7 billion) and 2016 ($9.2 billion) of which 87.4% of that growth was in the music industry. The increasing pivot around the digital economy is also evident as collections in this sector rose above 50% in the last year.[9] The dominance of North America and Europe in royalties' collection is such that they are six times that of the Latin America and Caribbean (LAC) region, fifteen times that of Asia/Pacific and over sixty times that of Africa. When measured as a share of GDP the gap narrows considerably to the point where the LAC region is just below half of the European average and on par with that of North America. The Asia/Pacific and Africa regions are close to a fifth of the European GDP share. The data therefore provides evidence to support a claim for a correlation between region and share of royalties' collection, with most developing countries with largely under-developed market for copyright exploitation, featuring at the lower end of the scale.

Recommendations for Fair Trade in Music

The analysis suggests that digitalization of the creative sector and the music industry is no panacea. Based on the current trajectories developing countries are likely to experience a widening digital divide and a decline in the diversity of music to the disadvantage of non-mainstream, developing music industries unless they develop and implement a roadmap for global value chain integration. This would require an innovative governance framework and a strategic industrial upgrading programme.

In this regard, there are four key recommendations, which developing countries can pursue to enhance participation in the burgeoning digital marketplace and thereby establish Fair Trade for Music and Fair Trade for Culture as a general principle. The

[8] IFPI (2018) Global Music Report 2018: Annual State of the Industry. https://www.ifpi.org/downloads/GMR2018.pdf. Accessed December 11, 2018.
[9] Ibid.

following Box 1 provides a summary of some of the key recommendations from the UNESCO funded study of the CARIFORUM-EU Economic Partnership Agreement and the ways it facilitates preferential trade in culture.

Key Recommendations from CARIFORUM-EU Economic Partnership Agreement
• Support export-ready firms to participate in trade fairs, expos and festivals thereby pairing of beneficiaries with buyers, distributors and investors; • Facilitate in-market representation or agent for post trade fair follow-up activities and promotion with buyers, distributors and investors; • Establish sustainable channels through which CARIFORUM professionals may access EU trade fairs, expos, festivals. • Build a framework for market intelleigence (i.e. a database) of relevant EU industry professionals and firms in key sub-sectors; • Strengthen the process for building regional industry associations in the key sub-sectors. • Establish a strong clustering, incubation/accelerator programme linked to market integration. • Promote and institute innovative financing mechanisms through the regional development banks and export-import banks that allow for the collateralization of intellectual property assets.

The first area for implementation would be the promotion and facilitation of the distribution of music on digital platforms. This might be achieved through the facilitation of and partnership with existing digital aggregators or new aggregators emerging from the developing world. It might also mean making use of blockchain technologies and investing in business models which allow for more direct to producer-consumer relationships.-The productive use of technologies could assist with closing some of the gaps in developing countries' music industries which are plagued by a weak investment climate and with limited capabilities among key stakeholders like record companies, music publishers and creative entrepreneurs.

Closely tied to the above would be to expand the institutional and human resources in the creative industries to tap into the opportunities in the digital and blockchain arenas. Improving access to finance should accompany incubator and accelerator mechanisms, which facilitate enterprise development and market integration. Strategic initiatives should also exploit the synergies between live and digital music particularly in the social media realm.

Employ targeted marketing strategies suitable for the various genres and styles of creative content on digital platforms. This can assist artists and rights-holders in establishing greater visibility on playlists and potentially accessing higher incomes from royalties. It can also help in the tailoring of strategies to service homes in the region, diaspora and in global markets.

Last but not least, it is imperative that developing countries recognize the role of Copyright Music Organizations in their music industries and once this is understood to be positive, whether in the analogue or digital markets or both, then strengthen the legal, technological and institutional infrastructure for collective management. An effective CMO stimulates creativity and musical diversity through the creation of works of local genres, generates royalties but also undertake support activities such as education, awards and social-welfare actions.