

**Statement of Scope Response**  
**CMA Music and Streaming Market Study**

The CMA's Statement of Scope sets out two objectives: (i) deepening the CMA's understanding of how the music sector works; and (ii) assessing how competition serves the welfare of consumers and music creators. Google supports these objectives and welcomes the opportunity to assist the CMA in its market study.

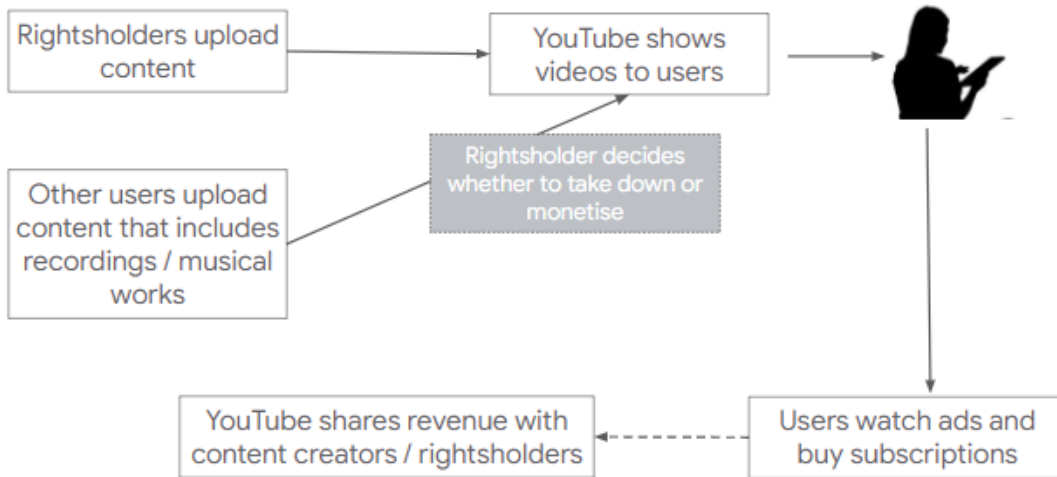
Our music-related offerings include YouTube Music, YouTube Music Premium, YouTube, and YouTube Premium:

- YouTube Music, launched in 2018, is a free-to-the-user, ad-supported music streaming service. It focuses on commercially released sound recordings in the form of individual tracks, albums, and playlists, and licenses music from record labels, publishers, and collecting societies in return for a share of revenues from showing ads. YouTube Music also offers consumers access to audiovisual works, including label-produced music videos, user-created videos, and artist interviews.
- YouTube Music Premium is an ads-free subscription-based version of YouTube Music. In addition to playing music without ads, YouTube Music Premium allows for [special features](#), such as (i) 'background play', meaning a subscriber can close the YouTube Music app and still listen to music; (ii) offline listening, meaning a user can download music to their mobile phone and listen without an active Internet connection (e.g., when in airplane mode); and (iii) the ability to listen to music in audio-only mode, meaning the consumer does not need to watch an audiovisual work in order to listen to music while the app is open. As with ads revenues, a share of subscription revenues is paid to record labels, publishers, and collecting societies.
- YouTube, launched in 2005, is a free-to-the-user, ad-supported video streaming service with videos that may include music. It allows users (including artists) to upload videos directly and take a share of ads revenues that their videos generate. It enables artists to build an audience base (e.g., by uploading videos showcasing their work), market tickets to live concerts, host virtual concerts, create channels and sell memberships. And it enables rightsholders to take a share of revenues generated from ads shown on third party videos that use music over which they hold certain rights. Consumers can enjoy this music content, alongside the wide range of other interests that YouTube videos cover, such as sport, gaming, and education.
- YouTube Premium is an ads-free subscription-based version of YouTube that offers extra features, such as downloading videos for offline consumption. A subscription to

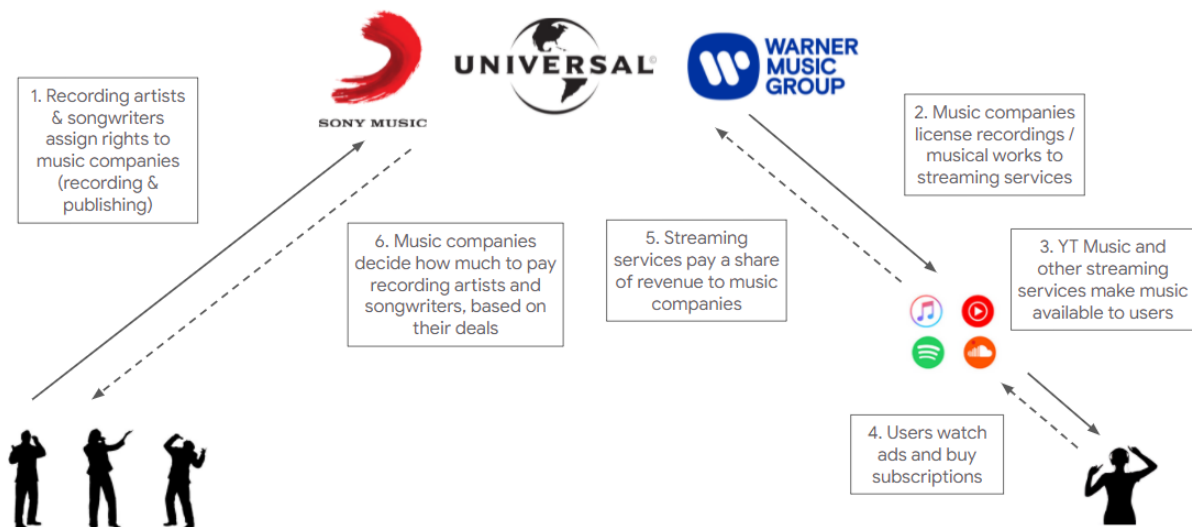
YouTube Premium includes YouTube Music Premium. As with ads revenues, content creators can earn a share of subscription revenues.

These simplified diagrams illustrate how our YouTube and YouTube Music services fit within music streaming:

### How YouTube Works



### How YouTube Music Works



Based on our experience of combining consumer experiences with monetisation opportunities for rightsholders, artists, and songwriters/composers, we set out our initial observations on the Statement of Scope below. In summary:

- Streaming generates substantial consumer benefits, including a greater choice of music – and opportunities to discover new music – at a lower cost than ever before.
- Streaming also generates significant revenue for record labels and publishers, addressing piracy and contributing to record labels’ and publishers’ high profit margins, which they can share with artists and songwriters/composers.
- Dedicated music streaming services face intense competition: users can choose from multiple rival platforms, barriers to entry are low, and the majors have substantial negotiating power.
- Platforms focusing on user-uploaded content (**UUC**) complement dedicated music streaming services. They broaden consumers’ access to music and create additional opportunities for rightsholders, artists, and songwriters/composers.

We look forward to participating in the market study, providing information and evidence, and facilitating the study’s objectives.

#### **A. Streaming generates substantial consumer benefits**

***Streaming gives consumers more choice than ever.*** Streaming has made it incomparably easier for consumers to access more artists and music than ever before. Rather than having to go to a shop and physically browse a limited selection, consumers can access hundreds of thousands of artists and millions of songs from any location and using any device. YouTube Music now offers over 80 million tracks as well as high quality audio, deep cuts, B-sides, live performances and remixes.

***Streaming has dramatically reduced the cost to consumers of accessing music.*** Before streaming, consumers had to buy singles or albums, either as physical CDs or paying for downloads from services like iTunes. By contrast, streaming services offer unlimited access to music for free or for a low monthly fee. For example, with YouTube Premium, UK consumers can obtain an ad-free, feature-rich experience on both YouTube and YouTube Music for [just £11.99 per month](#) – less than the cost of buying just one album in the pre-streaming era; a 1995 New York Times article [lamented the \\$16.98 price tag](#) for Rod Stewart’s “A spanner in the works” album. [Student and family YouTube Premium plans](#) offer consumers even more value, charging a fee of just £17.99 per month for a family of five, or £6.99 for students. YouTube

Music Premium – which covers only YouTube Music, not YouTube – is cheaper still at [£9.99 per month](#) (£14.99 for the family plan and £4.99 per month for the student plan).

**Streaming helps consumers discover new music.** Streaming services offer ways for consumers to discover artists and music they were not previously aware of – for example, through recommendation lists, curated playlists, and tools to share playlists with friends and family. YouTube Music offers [personalized mixes](#) – such as the Discover Mix and New Release Mix – to keep users up to date with new music and introduce them to a wider range of artists, while also taking account of users’ tastes. At the same time, being included on these lists provides a great opportunity for artists to reach new fans.

#### **B. Streaming generates significant revenue for major labels and publishers to distribute**

**Streaming is addressing the existential threat from piracy.** Piracy threatened to eviscerate the music industry when consumers downloaded copyright-infringing music files rather than paying for music from legitimate sources. Only the streaming model, offering an attractive user experience at low cost, brought consumers back to lawful music consumption, once again enabling artists to make money from their content.

**Major labels have made record profits from streaming.** The DCMS parliamentary committee inquiry found that, from 2015 to 2019, major record labels’ turnover increased by 21%, operating profit grew by 64%, and their operating profit margin on turnover increased from 8.7% to 11.8%. In Q3 2021, [Sony reported](#) 29% year-on-year growth in streaming revenue in recorded music; [Universal reported](#) 14% growth in subscription and streaming revenue; and [Warner reported](#) that streaming revenue grew 32.6%. These trends are due in large part to streaming services addressing the piracy threat and providing efficient ways to monetise through subscription services and ads. For example, [Statista estimates](#) that between 2017 and 2021 the number of music streaming users in the UK increased from 10.9 million to 18.7 million, and will increase further to 20.7 million in 2022.

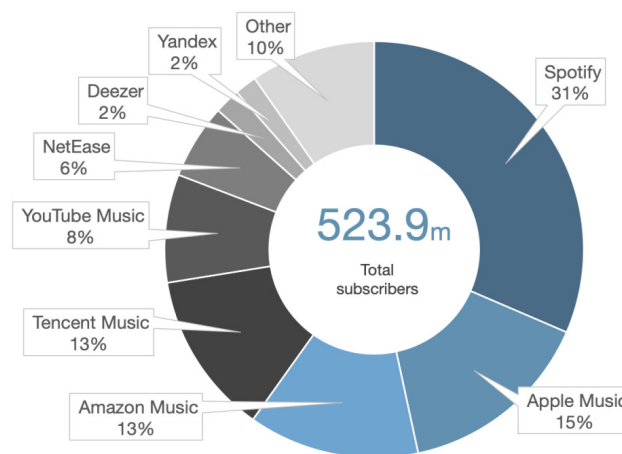
**Record labels and publishers – not streaming services – decide how much to pay artists and songwriters/composers.** Music streaming services, such as YouTube Music, licence music from record labels, publishers, and collecting societies. Streaming services pay them a share of revenues generated from subscription sales and ads. It is entirely up to record labels and publishers to decide how much to disburse to artists and songwriters/composers; streaming services have no involvement in setting the terms that major labels and publishers negotiate with artists and songwriters/composers. For example, record labels – not streaming services – decide what royalty rates they pay artists and what level of costs have to be recouped before any payments are made.

**C. Competition among streaming services is intense**

**Streaming is characterised by multiple rival players.** Music companies – and record labels in particular – operate in a concentrated environment, with the three major labels accounting for a large share of revenues. In contrast, streaming services operate in a highly competitive environment. Users can pick from a wide range of services, such as Spotify, Apple Music, Amazon Music, Deezer, Tidal, YouTube Music, and many others. As shown in the following [MIDiA chart for Q2 2021](#), streaming services’ shares of music subscriptions are fragmented.

**Global streaming music subscription market, Q2 2021**

Global streaming music subscription market, Q2 2021, global

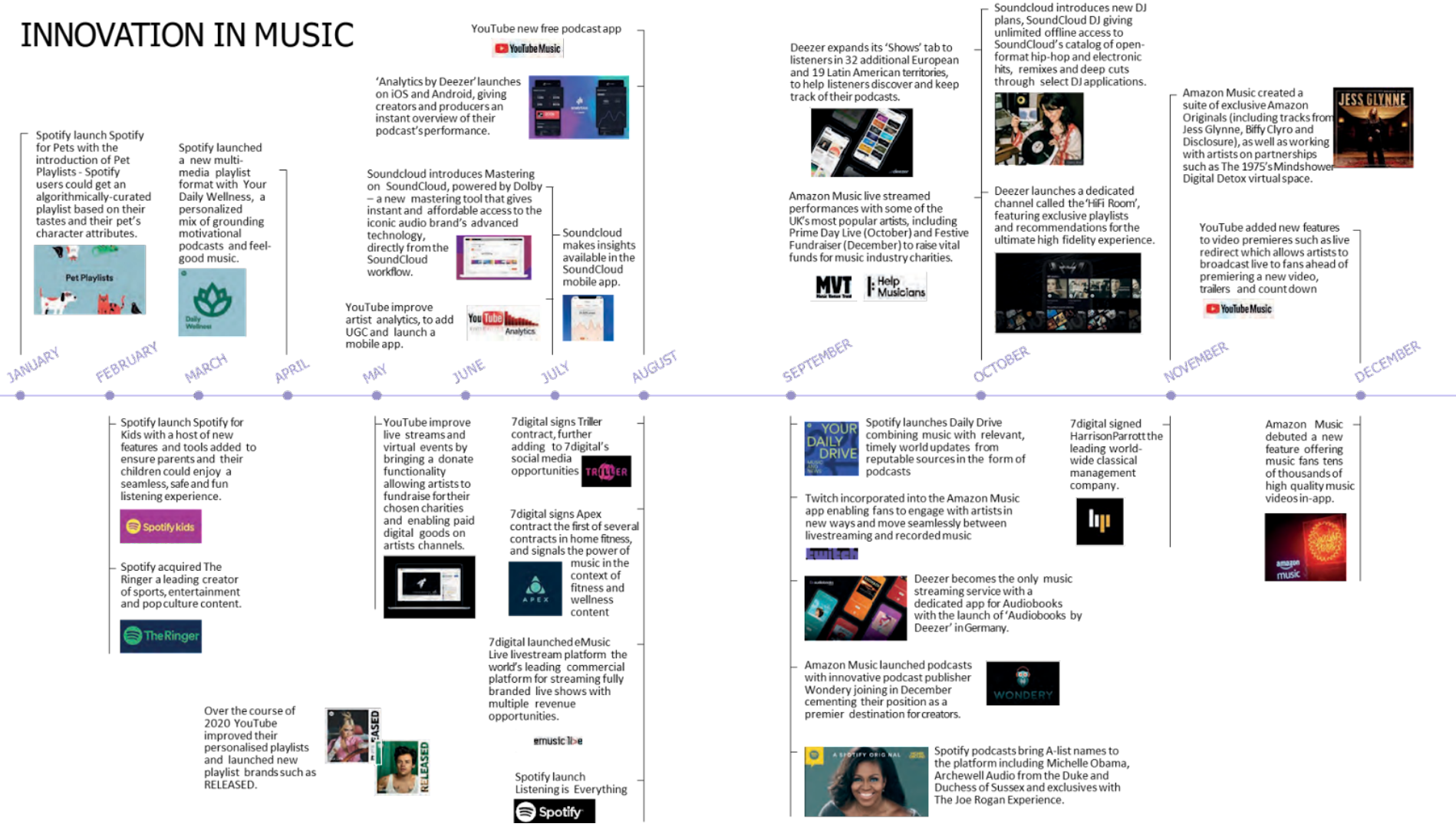


Source: MIDiA Research Music Subscriber Market Share Model 11/21



**Streaming services compete on innovation and quality improvements.** Streaming services generally carry the same music inventory, with non-exclusive licenses to music catalogues. And having already competed to a low price point, streaming services increasingly compete for new users through innovations and quality improvements, such as diversifying into podcasts, enabling users to download tracks and listen offline, offering sophisticated recommendations tools, recommending live events, showing videos and lyrics, and improving sound quality. For example, on YouTube Music, users are not only presented with recommended tracks but also recommended music videos and recordings of live performances. The following chart from the [Entertainment Retailers Association](#) illustrates just how much innovation the music streaming sector saw in 2020 alone.

## INNOVATION IN MUSIC



**Users can switch between and multi-home across services with ease.** Consumers can end their subscriptions with a given streaming platform at will. They can sign up to a new service within minutes. Free tiers and trial periods enable users to test out alternatives without committing. And streaming services can be accessed on a range of different devices (e.g., smart speakers, desktops, mobiles, tablets). While the Statement of Scope discusses the impact of preinstallation and default settings, the impact of these settings needs to be considered carefully on the evidence. For example, on mobile, a range of music streaming apps can and do secure preinstallation deals; downloading additional apps is quick and easy; and, where a user has a subscription with a particular service, they are more likely to install and use that service rather than take out a subscription with a different service simply because it comes preinstalled.

**Barriers to entry in dedicated music streaming services are low.** Direct network effects do not play an important role in competition among streaming services. Which streaming service a user picks is unlikely to depend on how many other consumers choose that service. Other factors – such as price, breadth of music, and innovative features – likely carry greater weight. Nor are there material indirect network effects. Record labels distribute their music catalogues to many streaming services in parallel, regardless of how many users those services have (the cost of licensing to an additional platform is low). In practice, lots of streaming services are active in the sector; the Entertainment Retailers Association identified more than 20 streaming services in its [review of developments](#) in the music sector for 2020.

**Record labels have substantial bargaining power.** Having a full set of licences from the major record labels is non-negotiable for streaming services. Losing a licence for, say, Universal's music catalogue would be fatal. Major labels therefore have substantial negotiating power. While it is important for record labels to distribute their music on streaming services, bargaining power lies in the major labels' favour. First, whereas all three majors hold essential rights to 'must have' music catalogues, streaming services vary significantly in their size and importance. Second, as outlined above, users could quickly and easily switch to alternative streaming services if their current service lost access to one or more of the major labels' catalogues. Third, the fact that record labels – rather than streaming services – are making significant profits is consistent with their having the upper-hand in negotiations.

**D. UUC-focused services broaden music access and grow revenues for artists and songwriters/composers**

**UUC-focused services are complementary to dedicated music streaming services.** UUC-focused services have different business models to dedicated music streaming services, attracting uploaded content, as opposed to licensing content primarily through traditional licensing deals with record labels, publishers, and collecting societies. They attract different users, meet different user needs, and provide additional opportunities for monetising music.

Accordingly, dedicated music streaming services compete more closely with each other than they do with UUC-focused services such as YouTube.

***UUC-focused services broaden music access for consumers.*** While subscription fees are low and have reduced in real terms over time, there will inevitably be some consumers who cannot pay – or are unwilling to pay – for music. Previous research suggests that users who access music content on YouTube (rather than dedicated music streaming services) come to YouTube instead of seeking out piracy or other low-value sites. Accordingly, UUC-focused services supplement – rather than detract from – dedicated music streaming services. [Prior research](#) found that if music videos were no longer shown on YouTube, 85% of users' time would be lost or shifted to lower or similar value channels. Moreover, historical examples show that when particular songs were blocked on YouTube, in Germany, there was generally no significant increase in audio streaming volumes for those same songs. These data suggest that UUC-focused services complement, rather than displace, subscription-based services.

***UUC-focused services help new artists break through.*** UUC-focused services help new and emerging artists acquire the assets they need in order to have the best possible chance of breaking through and, ultimately, being signed by a record label. Artists can use YouTube to build up a loyal fanbase in domestic and international markets – more than 84% of views of UK content on YouTube come from overseas and, [according to the BPI](#), 1 in 10 of all tracks streamed globally are now by a British artist. UUC-focused services also enable artists to create dedicated channels that attract interest from record labels. And artists can [obtain key metrics](#) – such as unique views, watch time, reach, engagement, audience demographics, and revenue generation – which enable them to assess their (potential) value and negotiate more favourable terms with record labels. Dua Lipa is a case in point. She went from being an artist with a limited profile to attracting 1 billion views on a YouTube video for her song “New Rules” in 2018, winning Grammy and BRIT awards in 2019, and gaining 15 million YouTube subscribers, all before being signed to Warner Records. As a further example, TikTok has become a powerful UUC-focused service for artists to gain exposure for their music: in 2021, [over 40 trending TikTok songs](#) took the top spot on the UK official charts, compared to just 10 in 2020.

***UUC-focused services provide additional monetisation opportunities.*** UUC-focused services, such as YouTube, provide additional ways to monetise music, above and beyond labels, publishers, and collecting societies receiving revenues from dedicated music streaming services, a portion of which they pay out to artists and songwriters/composers. Out of the \$4 billion that YouTube and YouTube Music paid out to the music industry in the 12 months leading up to Q1 2021, [30% came from UUC](#). YouTube exemplifies the range of opportunities. First, our content management system, Content ID, allows rightsholders to choose either to block videos that use recordings or songs/compositions over which they hold rights, or to monetise



that content by taking a share of the ads revenues that they generate.<sup>1</sup> More than [95% of the time](#), they choose to monetise. Second, videos can link to trusted sites where users can easily [purchase verified tickets](#) to live concerts near them. Third, artists can livestream concerts on YouTube, [monetising them with ads](#) and icons – known as ‘[super chats](#)’ and ‘[super stickers](#)’ – that allow fans’ messages to stand out. In 2020, BTS is reported to have [drawn 50 million fans](#) to their two-day ‘Bang Bang Con’ on the band’s YouTube page. Fourth, artists can [sell membership to their ‘artist channels’](#), where they can offer benefits, features, and members-only content. Fifth, artists can [create a ‘merch shelf’](#) to sell branded merchandise on their channel. Sixth, artists can [earn a share of YouTube Premium subscriptions](#) based on how frequently premium subscribers view their videos.

***UUC-focused services have stringent anti-piracy tools that protect rightsholders, artists and songwriters/composers.*** YouTube has a [range of powerful tools](#) for identifying videos that use artists’ recordings and songwriters’/composers’ works. When a UUC video is uploaded, it is compared to our database of millions of ‘fingerprints’ corresponding to copyrighted works. Partners provide YouTube with reference files for the works that they own, along with metadata such as the title and detailed ownership rights. Based on these references, YouTube creates digital ‘fingerprints’ for the copyright owner’s works, and then conducts automated scans of the platform to determine when audio or audiovisual content in an uploaded video matches the reference content. Using the system, rightsholders in the UK can be automatically notified of user-uploaded videos that contain their creative work and can choose in advance what they want to happen when those videos are detected. These tools apply independently to a song performance (by a particular artist) and to the underlying song/composition (by a particular songwriter/composer). Content ID in particular is a highly efficient and accurate process for addressing unauthorised use of copyrighted material. Over 99% of Content ID claims from the first half of 2021 were made through automated detection – partners did not have to undertake a manual process. And fewer than 0.6% of those automated claims were disputed. Further details of our copyright management tools are available from our [Copyright Transparency Report](#).

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<sup>1</sup> For example, Content ID tools can capture the underlying melody in a user-uploaded cover song or amateur performance (leading to the video being blocked or monetised as the composer or their agent determines).