



representing the  
recording industry  
worldwide

# IFPI PIRACY REPORT – PROTECTING CREATIVITY IN MUSIC

## EXECUTIVE SUMMARY

The music industry is stepping-up the fight against pre-release piracy on the internet; seizing record amounts of pirate discs and equipment; and pointing to a list of top 10 “priority countries” whose governments most need to act to combat digital and physical piracy. Despite these efforts, music piracy remains an acute problem that harms the whole music community.

John Kennedy, IFPI Chairman and CEO: “This report outlines a list of top 10 priority countries where actions – not lip-service – are most pressingly needed. Some of these governments have made progress in 2005. As this report outlines, much more is needed.”

- More than one in three CDs sold worldwide is a fake
- Record seizures of discs and equipment
- Canada, Italy, Greece among top 10 “priority countries for action”
- Public education and action against pre-release piracy stepped-up
- A new approach in Mexico
- Strong growth for legitimate digital sales
- 20 billion illegal downloads estimated globally in 2005

## HIGHLIGHTS

**A global US\$4.5 billion black market in pirate CDs. 20 billion illegal downloads.**

The report estimates the value of the global traffic of illegal CDs at US\$4.5 billion. An estimated total of 1.2 billion fake CDs were sold in 2005, meaning that more than one in three CDs sold worldwide was a pirate copy. An estimated 20 billion songs were illegally swapped or downloaded worldwide. This shows a high rate of piracy on the internet. But it also illustrates the vast growth potential for the legitimate online music market.

## Record seizures of counterfeit goods

There were record seizures of pirate discs and CD copying equipment in 2005, while Enforcement successes in countries including Brazil, Mexico and Spain saw disc seizures double to 80 million in 2005, while 40,000 CD burners were netted, up 40 per cent on the previous year

## Priority Countries

IFPI names 10 priority countries where enforcement efforts by governments most need to be stepped up. They are:

- **Brazil** One billion tracks were downloaded or swapped illegally on the internet in Brazil last year, while the physical piracy rate was 40 per cent. It is hardly surprising against such a backdrop that the music industry has lost 80,000 jobs in the country since 1997. There are signs though that the newly-formed National Anti-Piracy Council is starting to make an impact.
- **Canada** Outdated copyright laws have helped digital piracy flourish, with over one billion songs being downloaded illegally in 2005. The previous government failed to fulfil its long-standing pledge to ratify the 1996 WIPO Treaties. Annual retail sales of music fell by 42 per cent 1999-2005 and 20 per cent of music industry jobs have been lost. It is hoped the new government will take intellectual property more seriously.
- **China** The largest producer of pirate discs in the world with a physical piracy rate of over 85 per cent. The country also has 64 million broadband lines which is facilitating a rapid growth in digital piracy in a culture where paying little or nothing for music is ingrained. The government has made positive noises about protecting intellectual property but they need to be translated into hard action.
- **Greece** With a physical piracy rate of 50 per cent and legal sales falling by a fifth in the past five years, Greece is a new priority country and one of three priority countries inside the EU. The judicial system is weak and the Fiscal Police remain largely inactive in the fight against piracy.
- **Indonesia** A major source of imported pirate discs in Australia, Indonesia has failed to control its optical disc plants. There are more than 40 plants in the country and half of them are not even registered with the Ministry of Industry as required. An Intellectual Property Taskforce was established in March 2006 and it is hoped this may lead to a coordinated response to enforcement that has so far been lacking.
- **Italy** Italy is one of the biggest sources of piracy in Western Europe. Organised crime networks are playing an ever-increasing role in the black market trade in music. The government's recent anti-piracy laws and increased police action may help, but the problem is so big it will need a concerted and continuing campaign to have any effect. At the same time, the country also has a developing digital piracy problem with 2.7 million illegal music file-sharers.

- **Mexico** There were nearly 110 million physical pirate products sold in Mexico last year. Digital piracy is also beginning to take-off with more than 570 million tracks being downloaded or swapped illegally in 2005. The authorities have been working with the industry to tackle physical piracy, but a more sustained and widespread approach is needed.
- **Russia** One of the major sources of pirate discs found across Europe, Russia has a lamentable record of prosecuting the criminals behind this trade with only one in four cases resulting in a prosecution. At the same time, the country is host to a large number of copyright infringing websites, such as *allofmp3.com*, which sell music around the world without the permission of or payment to rightsholders.
- **South Korea** Internet piracy is rife in South Korea so it is not surprising that revenues from legal music sales have halved in five years. New technology has enabled the establishment of digital broadcasting services that transmit high-quality music videos to mobile phones via satellite without the rightsholders' permission. The government's anti-piracy campaigns remain sporadic due to the lack of a centrally coordinated enforcement agency.
- **Spain** Major police actions have led to a small significant reduction in physical piracy, although the rate remains unacceptably high (22%) for the sixth consecutive year. Internet piracy is beginning to take off however with nearly 500 million tracks downloaded illegally in Spain last year. The Spanish government needs to close loopholes in its anti-piracy laws to take action against digital piracy.

### **Stepping-up action against pre-release piracy.**

IFPI is stepping up its battle in particular against pre-release piracy. Anti-piracy teams tracked the evolution of Placebo's new album *Meds* on the world's pirate distribution networks from the moment of its first leak no fewer than 10 weeks before official release. A large number of "notice and take-down" warning letters were sent to websites hosting the illegal files.

The industry's anti-piracy effort focused immediately and effectively on the first leaks via web/FTP sites. Within only the first two weeks of the leak of *Meds*, these actions potentially prevented some 450,000 illegal downloads, based on an observed average of downloads per day. This figure would have multiplied rapidly in subsequent weeks, with files being transferred to other channels of distribution and further proliferating.

The subsequent proliferation of copies of *Meds* onto p2p networks was controlled as a result of industry action. By release week, some 14,000 uploaded copies of the album had been made available for download on P2P networks – far less than would have been available without the anti-piracy measures in the early weeks.

Pre-release piracy is not restricted to the internet. Four weeks after appearing online, pirate discs of *Meds* were being sold around the world; first being found in Lithuania, then Mexico, Thailand and Ukraine. In most cases these pirate copies originated in Russia.

## **Mexico – a new approach**

IFPI launched a new initiative in 2005 aimed concentrating resources intensely in specific problem areas. Operation ‘Mexico Plus’ saw authorities in the city of Guadalajara work with the industry to close pirate market stalls or convert them to legitimate trading. The campaign achieved some success. The number of pirate stands fell by 80 per cent and legitimate sales in the city rose by 27 per cent in 2005, compared to a national increase of 10 per cent over the same period. Despite this local success, Mexico remains one of the world’s music markets most hit by piracy.

## **Developing the legitimate online music market**

Tackling digital piracy is a key part of developing the legal digital music sector, which now consists of more than 360 sites offering over three million tracks for download. Revenues from digital music sales totaled US\$1.1 billion in 2005 and saw continued strong growth in the first quarter of 2006, with the number of legal downloads in the US and UK - two of the largest digital markets – rising sharply.

## **Improving the legal landscape**

A series of legal victories against unauthorised p2p services, from Grokster to Kazaa, has been followed by actions against infringing operators in countries traditionally associated with physical piracy - notably Baidu in China and allofmp3.com in Russia. These cases have brought into focus the lack of effective government enforcement, especially in large markets such as China and Russia.

## **Providing more education**

The industry has increased its public education efforts in the last 18 months, with support from governments in countries including Austria, Italy, Ireland, and Hong Kong. Recent campaigns included the world’s first kitemark for legitimate services in Netherlands (“Truefan”) and lessons packs for the school curriculum in Finland.

## **Call to Governments**

IFPI is calling on governments to act on enforcement and education. Many countries need to update their intellectual property rights law and others need to ensure that the rules on their statute books are applied effectively. Training judges, prosecutors and law enforcement officers will help in this bid to combat copyright crime.

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## **About IFPI**

IFPI is the organisation that promotes the interests of the international recording industry worldwide. Its membership comprises some 1400 major and independent companies in more than 70 countries. IFPI has affiliated industry national groups in 48 countries. IFPI’s mission is to fight music piracy; promote fair market access and good copyright laws; help develop the legal conditions and the technologies for the recording industry to prosper in the digital era; and to promote the value of music.