Piracy is the greatest threat facing the music industry today. IFPI and the international recording industry are responding proactively and aggressively to this US$4.3 billion worldwide problem.

Piracy is sometimes and mistakenly called a ‘victimless crime’. It is not. The economic losses due to piracy are enormous and are felt throughout the music value chain. The victims include the artists whose creativity gets no reward; governments who lose hundreds of millions of tax revenues; economies that are deprived of new investment; consumers who get less diversity and less choice; and record producers who are forced to reduce their artist rosters because it is impossible to compete against theft.

IFPI and its affiliated bodies in nearly 50 countries devote a substantial amount of time and resources to fighting music piracy in all its forms. But crucially they depend on the support of governments and public authorities such as police, customs, prosecutors and the judiciary.

Why must governments join the fight?
Here are three reasons: First, the greatest victim of piracy is local culture. The international recording industry invests hundreds of millions of dollars – up to 15% of its turnover in some countries – in new talent. This investment has risen steadily over the last decade, and local repertoire accounts for nearly 70% of the global music market.

Second, piracy nurtures organised crime. Very often the money that is paid for pirate CDs will be channelled into the drugs trade, money laundering or other forms of serious organised criminal activity.

Third, piracy acts as a brake on investment, growth and jobs. In today’s global economy, intellectual property is a motor of economic growth.

Governments cannot permit this critical asset to be devalued by piracy. In the US alone, copyright industries in 2001 accounted for 5.2% of GDP, or US$535 billion dollars.

The pages of this report detail the continuing spread of music piracy worldwide, but there is positive news too. Governments are increasingly regulating their CD manufacturing plants; copyright laws worldwide are gradually improving, online and off-line; seizures of pirate product are sharply up, reflecting not only the problem but also the industry’s heightened response to it; and hundreds of millions of unauthorised music files have been removed from the internet.

We have made progress in the fight against piracy in 2001. There will be more progress in 2002. Ultimately, our industry’s efforts depend on governments recognising that it is overwhelmingly in their interests, as well as that of the music industry, to join this fight.

Governments and the creative community need to fight back, says Jay Berman, IFPI Chairman and CEO

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### Domestic music piracy levels around the world in 2001 (units)

<table>
<thead>
<tr>
<th>Region</th>
<th>Over 50%</th>
<th>25-50%</th>
<th>10-25%</th>
<th>Less than 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
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<td>USA</td>
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<td>CANADA</td>
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<td>EUROPE</td>
<td>Bulgaria</td>
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<td>ASIA</td>
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<td>India</td>
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<td>Indonesia</td>
<td>Philippines</td>
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<td>Malaysia</td>
<td>Taiwan</td>
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<td>LATIN AMERICA</td>
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<td>Venezuela</td>
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<td>Australia</td>
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<td>New Zealand</td>
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<td>MIDDLE EAST</td>
<td>Egypt</td>
<td>Israel</td>
<td>Bahrain</td>
<td>UAE</td>
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<td></td>
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<td>Kuwait</td>
<td>Oman</td>
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<td>Lebanon</td>
<td>Qatar</td>
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<td>AFRICA</td>
<td>Kenya</td>
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<td>Ghana</td>
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<td></td>
<td>Nigeria</td>
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<td>South Africa</td>
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<td></td>
<td>Zimbabwe</td>
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</tbody>
</table>
The global pirate music market totalled 1.9 billion units in 2001. This means that almost 40% of all CDs and cassettes sold around the globe are pirated copies – the highest proportion ever recorded by IFPI. Discs now make up the majority of pirate sales (51%), overtaking cassettes for the first time. This reflects the switch from cassette piracy to CD-recordable (CD-R) discs.

IFPI estimates that in 2001, 28% of all CDs sold were pirate – up from 20% the year before. The total is split roughly evenly between CD audio discs made on factory production lines and those made in smaller scale CD-R operations in garages and labs. CD-R piracy has continued to proliferate rapidly worldwide. In 2000, one in ten pirate products sold were on the CD-R format. In 2001 this had risen to almost one quarter.

Changing pirate product

Worldwide sales of pressed pirate CDs were 500 million units, up from 475 million in 2000, with pirate CD-R discs estimated at around 450 million units, up from 165 million in 2000. It is estimated that sales of pirate cassettes fell to around 900 million units (1.2 billion in 2000).

Global value of music piracy

The value of the global pirate market is estimated to have risen slightly, from US$4.2 billion in 2000 to US$4.3 billion in 2001. This increase was contained by falling pirate disc prices. This value figure does not equate to the actual losses suffered by record companies, which are far greater. For example, in territories with high piracy levels, such as China or Russia, it is exceptionally difficult to develop a legitimate market for recorded music.

IFPI’s estimates are conservative, valuing the market at pirate rather than legitimate prices and dealing with commercial music piracy only. They exclude the damage being done by the mass-scale availability of free-music to consumers via unauthorised internet sites and CD burning by consumers.

What drives the growth of CD-R piracy?

Organised CD-R piracy spread across the globe in 2001, and particularly in Latin America, North America and Western Europe. The chief reason for this is the widespread availability of cheap CD-R replication equipment and high-speed burners. This has sharply lowered the barriers to entry for commercial pirates. A typical commercial pirate operation now comprises rows of high-speed CD burner towers stored in a garage or ‘CD-R laboratory’.

This ‘switch’ to CD-R has created several new problems for the music industry:

- CD-R operations are more numerous, more concealed and portable than CD plant operations
- Increased pirating of local music. Where larger CD plants concentrate on pirating music by major international artists that they can export, smaller scale CD-R based operations have captured the market for domestic artists, sometimes up-and-coming or newly established acts
A reduction in the average prices of pirated discs, since pirate music sold on CD-R tends to be slightly cheaper than the pressed disc variety.

Growth in CD-R piracy has been further fuelled by rapidly falling prices of CD-R blank media caused by over-capacity and a glut in supply – largely from Taiwanese manufacturers who produce two-thirds of the world's blank CD-Rs.

Plant replicated (pressed) CD piracy continues to grow

Production of pressed pirate discs also increased in 2001, for several reasons:

- Overcapacity and increasing competition within the replication industry, fuelled by falling legitimate disc demand and over-investment in capacity.
- Advances in technology have lowered the barriers of entry for pirates, as less skilled staff are needed.
- Growing availability of cheap second-hand production equipment.
- Inadequate legislation and enforcement in many of the countries that manufacture discs.

There has been a steady increase in the number of known optical disc plants in recent years. More than 730 plants were in operation by the end of 2001, compared to 700 a year earlier. Territories where overcapacity contributes to very high levels of pirate production are shown below.

**Diversity of repertoire threatened**

Seizures of pirate product show an increasing diversity of repertoire being pirated. Repertoire is also being more rapidly marketed by pirates in the first few weeks after release or, increasingly, before the official release date. Music files illegally ripped and uploaded onto the internet have aided pirates significantly in this area.

**Pirate product on DVD**

DVD has ten times the data storage capacity of CD-R and is set to overtake the CD-R as the world’s primary recording media by 2006, according to independent consultants. Already in 2001, some pirate DVDs have been seized containing the entire catalogue of a single artist or hundreds of digital music tracks.

**Whose music is the most pirated?**

The top target for pirates tends to be the top-selling, best-known international titles. Pirates don’t engage in marketing and promotion. They want to make quick and easy profits, so they counterfeit those titles that are already heavily promoted by the record companies and are likely to sell in large quantities across the world.

With the advent of CD-R, more and more domestic artists are being pirated as the copying technology is more mobile and the time from pirate order to completion is much faster.

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**Current estimated pressing capacity 2001**

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated Capacity - all formats (million units)</th>
<th>Total Legitimate Demand for all discs (million units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>8,000</td>
<td>200</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3,000</td>
<td>140</td>
</tr>
<tr>
<td>China</td>
<td>1,800</td>
<td>700</td>
</tr>
<tr>
<td>India</td>
<td>750</td>
<td>120</td>
</tr>
<tr>
<td>Singapore</td>
<td>700</td>
<td>70</td>
</tr>
<tr>
<td>Malaysia</td>
<td>500</td>
<td>60</td>
</tr>
<tr>
<td>Indonesia</td>
<td>200</td>
<td>15</td>
</tr>
<tr>
<td>Russia</td>
<td>185</td>
<td>60</td>
</tr>
<tr>
<td>Poland</td>
<td>180</td>
<td>100</td>
</tr>
<tr>
<td>Macau</td>
<td>150</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Understanding & Solutions Ltd
IFPI's anti-piracy activities focus on countries that are heavy producers and trade centres for pirate product, and on territories where the levels of domestic piracy are excessively high or growing rapidly, as shown in the table below.

**Regional Overview**

Asia

Asia includes many of the most serious pirate markets in the world, including China, which remains the biggest pirate market in the world, Taiwan and Thailand. Exports of pirate products from those territories affect many other markets in Europe, Latin America and even Africa. In the majority of the Asian territories, cassette piracy is still a significant problem, accounting for around half of pirate units sold in the region, but it is pirate discs that form the majority of exports. Vast numbers of blank CD-R discs exported from Taiwan to Paraguay and Mexico are fuelling the massive CD-R piracy in Latin America.

Europe

Piracy levels increased in many Western European countries in 2001, but Spain, Italy and Greece stand out as the worst hit by CD-R piracy. Countries with historically low piracy levels, such as Belgium, Denmark, Germany, Sweden and the UK, also reported significant increases.

In the Czech Republic, piracy rose to almost 50%, driven by the growth in CD-R piracy. In Poland, pirate sales continue to thrive, much of it through the notorious Warsaw stadium. Latvia, Lithuania and Estonia are key transit territories for pirate goods into Eastern and Western Europe, and also have piracy levels of over 60%.

Russia and CIS, and Ukraine are huge pirate markets. In both territories, disc capacity hugely outweighs legitimate demand. Both countries are key exporters of pirate goods. Russia is the second largest pirate market in the world and worth more than US$240 million. Piracy levels in Ukraine decreased slightly in 2001, but domestic piracy is still around 80%.

Latin America

Piracy worsened across Latin America in 2001, and, in combination with economic difficulties, had a devastating impact on the legitimate market. Brazil is the biggest pirate market in Latin America in value terms, worth US$215 million, while Mexico is one of the main pirate CD-R hotspots in the world. The music market in Paraguay, though small, has the highest piracy level in the world at 99%, and the country continues to be a major transit centre and access point for pirates in Latin America.

Middle East

Piracy is an ongoing problem in the Middle East and has increased in the major markets, namely Israel, Egypt and Saudi Arabia. Cassette piracy is still the main format in most markets, although CD-R now accounts for most of the pirate product in Israel.

North America

Piracy levels in Canada and the USA increased in 2001, driven mainly by growing CD-R piracy. Raids and seizures went up in both countries, with the USA reporting 2.8 million CD-R seizures, compared to 1.6 million in 2000.

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**No-one has been able to do anything about piracy - up until now. I believe the authorities are trying to take action but evidently it is going unnoticed.**

*Luis Miguel, on Latin America’s piracy problems, 2001*

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**World’s largest pirate markets (domestic piracy levels 2001)**

<table>
<thead>
<tr>
<th>Territory</th>
<th>Piracy Value ($US)</th>
<th>Piracy Level (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>400</td>
<td>90%</td>
</tr>
<tr>
<td>Russia</td>
<td>240</td>
<td>65%</td>
</tr>
<tr>
<td>Brazil</td>
<td>215</td>
<td>55%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>205</td>
<td>85%</td>
</tr>
<tr>
<td>Mexico</td>
<td>175</td>
<td>60%</td>
</tr>
<tr>
<td>Italy</td>
<td>110</td>
<td>25%</td>
</tr>
<tr>
<td>Spain</td>
<td>70</td>
<td>30%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>50</td>
<td>50%</td>
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<tr>
<td>Poland</td>
<td>40</td>
<td>30%</td>
</tr>
<tr>
<td>Greece</td>
<td>35</td>
<td>50%</td>
</tr>
</tbody>
</table>
PIRACY AND ORGANISED CRIME

IFPI is intensifying its cooperation with enforcement bodies such as police and customs. These private-public partnerships are crucial to the success of the fight against piracy. There is now increasing awareness of the links between music piracy and serious forms of organised crime.

Interpol, the international police organisation, set up its first ever conference on intellectual property crime in November 2001. National police forces from over 30 countries met with IFPI and other rights holders to discuss a coordinated anti-piracy strategy.

IFPI also works actively with the World Customs Organisation, along with other global commercial brand owners, through the WCO's business partnership initiative. IFPI helps train customs officials in identifying suspect product (above) and enabling them to act quickly and effectively.

Examples of the link between music piracy and organised crime include:

- Greek police arrested two men in August 2000 over a string of bomb attacks. They were members of a protection racket using CD-R piracy to fund serious crime. In searches ammunition and explosives were found alongside CD-Rs and equipment.
- In Mexico in October 2001, police discovered a massive CD-R operation in raids on eleven houses, three linked internally. Over one million blank CD-Rs, half a million pirated CD-Rs and 235 CD burners were found. It is believed profits were invested in narcotics and prostitution.
- In Spain, a sophisticated music piracy network was dismantled with the arrest of 68 people in May 2001. The syndicate used illegal Bengali immigrants as cheap labour, burning CD-Rs for distribution in Spain.
- Connections between organised South American pirates and Middle Eastern terrorists groups: discs carrying extremist propaganda have been found in Argentina, Mauritius, Pakistan and Paraguay that come from the same source as much of the illegally-produced music in these regions. Other extremist or terrorist groups, for example in Northern Ireland, are partly funded by music piracy.
- A raid in Taiwan in May 2001, which turned up several illegal firearms along with 70,000 suspect discs containing music and pornography, led to the discovery of an illegal arms factory alongside a sophisticated CD-R facility.

THE INDUSTRY RESPONSE

A global network

IFPI spearheads the recording industry’s anti-piracy efforts through a team of some 50 investigators and analysts, mostly ex-law enforcement personnel, who assist governments, police forces and customs departments worldwide, and through a dedicated litigation department. In 2001 IFPI completed the mission set it by the organisation’s Main Board three years earlier: the formation of a worldwide anti-piracy network with regional offices covering every continent.

IFPI’s resources include a forensic laboratory to pinpoint the manufacturing source of pirate CDs, a Pirate Product Database to help trace pirated repertoire worldwide and a training unit that in 2001 worked actively with enforcement authorities and customs in more than 20 countries.

The year 2001 saw an unprecedented number of enforcement actions against pirate manufacturers and traders, with record numbers of CD-R discs seized and CD plant lines taken out of action. However, the efforts of the industry will only be truly effective when they are integrally allied to traditional law enforcement authorities.

Enforcement actions sharply up

Total seizures of CD-R discs in 2001 were three times higher than in 2000, at 9.6 million. Seizures of blank discs destined for illegal

CD-R labs totalled 19 million, compared to less than one million a year earlier. A total of 46 million artwork inlays were also seized, nearly four times the amount of 2000 – indicating massive levels of anticipated production.

There were also major actions against the mass-producing CD plants. Around 42 CD manufacturing lines, up from 20 the previous year, were put out of action by IFPI-assisted police initiatives, mainly in Indonesia, Malaysia and Philippines. These lines have a potential annual production capacity of some 200 million CDs, roughly equivalent to the legitimate market in the UK. A further 22 lines were taken out of action in the first four months of 2002. Covert CD plants are not limited to Asia: in 2001 police in Germany discovered the largest underground plant ever found in Europe.
**Tackling CD-R piracy**

Much of the industry’s enforcement strategy targets the continued spread of CD-R piracy. Two years ago, Latin America’s music piracy problem was an import business supplied by plants in South East Asia; today 90% of the continent’s pirate discs are CD-Rs copied in mass quantities in small industrial pirate laboratories.

Although CD-R piracy is now rapidly spreading worldwide, Latin America remains by far the worst hit region, as the collapse of its two largest legitimate markets, Brazil and Mexico (down 25% and 16%) attest.

The CD-R piracy trend is also seen in Italy, Greece and Spain, where large-scale CD pressing plants have been replaced by a multiplicity of smaller CD-R operations. Many are run by organised crime groups using towers of CD burners with a capacity of tens of millions of CDs per year. IFPI has worked closely with the authorities in Spain to strengthen anti-piracy laws and enforcement, following a dramatic increase in the country’s piracy levels to more than 30%.

There are two main enforcement strategies for tackling CD-R piracy, and IFPI assists police and customs worldwide in pursuing them. One is aggressive action against the centres of the illegal CD-R trade, exemplified by major police operations in Mexico against criminal gangs in the notorious Tepito market.

The other target is the trade in blank CD-R discs smuggled from South East Asia to supply illegal copying labs in Mexico, Brazil and Paraguay. In February this year a raid by Paraguayan police assisted by IFPI Latin America staff netted no fewer than 12 million smuggled blank CD-R discs.

**Targeting the CD plants**

In South East Asia, Russia and parts of Europe the pirate trade remains driven by large manufacturing plants. A mainstay of IFPI’s enforcement strategy in this region is implementing optical disc plant regulations so that governments can control and monitor disc manufacturing. In 2001 Taiwan became the latest country to introduce CD plant regulations, following the example of Hong Kong, Macau and Malaysia.

Other trends are visible in South East Asia: a notable improvement in enforcement action by police at the retail level across the region, together with heightened public awareness following high-profile campaigns by the artist community. However, Hong Kong, which set an example to the region in the illegal CD trade, is now starting to see a sharp increase in CD-R piracy.

In pursuit of profit, music pirates seek out jurisdictions with weak laws and even weaker enforcement. In some South East Asian countries, CD manufacturing plants under pressure from increased enforcement activity and plant regulations have moved to new locations. Thailand has seen a dramatic increase in disc manufacturing capacity to over 80 plants – more than double the level of a year earlier. Poorly-regulated Vietnam, Cambodia and Myanmar are also potentially significant new centres of pirate manufacturing.

Russia and Ukraine are the recording industry’s highest priorities in Eastern Europe. Wholesale changes to legislation and enforcement are needed in both countries. Russian plants, several of which relocated from Ukraine, export substantial quantities of pirate music, particularly to Eastern Europe.

**Civil actions and settlements pursued**

IFPI continued its aggressive litigation programme during 2001, targeting both CD plants and distributors involved in piracy. IFPI was involved in litigation and settlement negotiations in numerous countries in Western Europe, in Russia, the Czech Republic, Israel, Egypt, Brazil, Hong Kong, the Philippines and Indonesia. Settlements concluded with plants and distributors generated significant income to fund IFPI’s anti-piracy efforts. Agreements containing stringent anti-piracy procedures were also signed with CD plants in Western Europe, Russia and South East Asia.

**Plant education and liaison**

IFPI also educates CD plants about the hazards of piracy and how it can be avoided. In 2001 IFPI re-launched the ‘Good Business Practices for CD Mastering and Manufacturing Plants’ and published a new guide ‘Copyright For Replicators – How To Protect Your Business’, explaining the fundamentals of music copyright.

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“I have seen pirate copies of my album sold in the street and it hurts to see the fruits of your hard work stolen on every corner. Since Ukrainian artists cannot make money selling their albums, they are forced to give endless concerts to survive.”

Ukrainian artist Katya Cilly at the International IP Conference, Kiev, February 2002
Governments have a responsibility to recognise the threat that organised intellectual property crime poses to their economies, culture and international reputation. The key weapons of government in the fight against piracy are:

- Copyright laws in line with international standards
- Optical disc regulations to control pirate CD manufacturing, including compulsory use of identifiers such as the SID code
- Proactive and efficient enforcement by police and customs
- Aggressive prosecution of crimes within judicial systems, including deterrent sentencing

Below is an overview of government positions in problem countries.

**ASIA AND S.E. ASIA**

**China**

China joined the World Trade Organisation in December 2001, and agreed that it would fully implement its TRIPs obligations from that date. China still has a massive piracy problem – estimated at over 90% of the market. Amendments to the Chinese Copyright Law, passed in 2001, provide for better administrative penalties and make civil litigation easier but stop short of criminal penalties. China has no optical disc act although regulations require registration of all plants and compulsory use of SID codes. Increased enforcement activity in early 2001 encouraged hopes that the piracy problem would gradually diminish.

**Indonesia**

Indonesia is a centre for large-scale production of pirate optical discs. The political and economic turmoil in Indonesia prevented a proper enforcement campaign being carried out last year. There were some successful raids carried out on illegal optical disc plants, but prosecution of offenders proved difficult. The government is considering introducing an optical disc law and providing more effective enforcement provisions.

**Malaysia**

Piracy in Malaysia remains at over 50% of the market. The long-awaited CD plant regulation was fully implemented by October 2001. All registered optical disc plants have been assigned SID codes. The impact of the law has been diluted because of poor monitoring, and pirate products continue to appear. The local industry and artists have lobbied government officials and politicians for better enforcement. Enforcement officers were stationed at all registered factories in March 2002 but have yet to prove their effectiveness.

**Pakistan**

In Pakistan there is no effective copyright legislation or optical disc law, and there has been a huge growth in unregulated CD plants. The product manufactured is mainly Indian, but also international repertoire; all of it infringing. With virtually no domestic market, the vast majority is exported to India, Europe, Asia and North America.

**Taiwan**

Taiwan, one of the major sources of optical disc production globally, passed an Optical Disc Act in 2001, albeit a watered-down version because of intensive lobbying by the disc manufacturers. Registered plants are being issued with SID codes. The Act is less effective in dealing with large-scale non-compliance, due to lack of deterrents, and thus has had a minimal impact on piracy. In April 2002, there were huge anti-piracy demonstrations led by Taiwanese and SE Asian artists. As a result, an enforcement task force will be set up to deal with copyright piracy. Amendments to existing regulations aim to strengthen the position of officials in dealing with pirates.

**Thailand**

Thailand is among the biggest producers of pirate CDs in Asia, rapidly catching up with China and Taiwan. This is attributable to plants migrating from Malaysia, Taiwan and Macau following the introduction in those countries of optical disc plant laws. Thailand needs to implement similar legislation if it is not to become a pirate haven. With an estimated 200 CD production lines with a total annual capacity of 1.2 billion CDs, and legitimate demand of 60 million, the remaining capacity is fuelling piracy. The European Commission and IFPI have renewed a Trade Barrier Regulation complaint against Thailand, and it remains on the USTR 301 Special Priority Watch List.

**EUROPE**

**EU Enforcement Directive**

The proposed EU Enforcement Directive is aimed at harmonising civil penalties and procedures against piracy across Europe and designed to prevent pirates from taking advantage of...
inconsistencies and weaknesses in national laws. Although the proposed legislation is welcome, the industry continues to press for criminal sanctions against pirates. The industry is concerned that optical disc plant regulation, crucial to tackling industrial piracy, looks unlikely to be included in the Directive.

Czech Republic
CD-R piracy has surged in the Czech music market over the past two years, taking the piracy level substantially higher than in the late 1990s. Copy shops where albums are copied onto blank discs are widespread. Recently a district court ruled that these shops’ copying activities constitute an act of copyright infringement, and do not fall under any legal exceptions. This precedent may lead to their eventual disappearance, but there are many open-air markets, especially along the borders with Germany and Austria, where the pirate trade is rife.

Italy
Italy’s new anti-piracy bill, finally adopted in August 2000, will be of significant aid in fighting piracy and brings the country into line with its TRIPs obligations. The new law includes: increased criminal penalties, tougher administrative sanctions and consumer fines for buyers of pirate product. The government has to ensure the law is widely applied, and that local authorities take action against street vendors. Anti-piracy raids resulted in increased seizures and arrests during 2001.

Spain
Spain’s piracy rates have risen dramatically from around 5% in 1997 to 30% today. The bulk of it is on the CD-R format. Organised crime networks are involved in the copying and distribution of pirate discs, which are then sold by ‘manteros’ (blanket men). Following a number of pan-industry anti-piracy campaigns, the Spanish Ministry of Justice is considering new measures including higher penalties, faster judicial proceedings and giving police more power to seize illegal product.

Russia and CIS
With at least 18 known CD plants in Russia and a huge disparity between legitimate domestic demand and the total optical disc manufacturing capacity, efficient and comprehensive legislation on plants is urgently needed. A licensing system for CD plant regulation, to be run by the Ministry for Press, TV and Radio (MPTR) has yet to gain government approval but is likely to prove insufficient. There is also weak IPR legislation, and poor enforcement, aggravated by deficiencies in the Criminal Code and Criminal Procedure Code.

Ukraine
The USA imposed trade sanctions on Ukraine in August 2001 for its continued failure to introduce an effective optical disc plant licensing system. A CD plant law, considered flawed by the international recording industry, was adopted in January 2002. Despite the law’s shortcomings, sanctions might be lifted if and when the new licensing system yields sustained results. Weary of political and media attention, several Ukrainian plants moved production lines to Russia, Belarus and Bulgaria. Shipments of illegal CDs from Ukraine are still found in neighbouring countries.

LATIN AMERICA
Brazil
Brazil, which has been upgraded to the USTR 301 Priority Watch List, is struggling against a massive tide of CD-R piracy. A number of successful raids against CD-R labs were completed, and a new record was set in the country – a pirate was jailed for more than six years. Despite last year’s announcement of an Interministerial Committee, the industry has seen no cooperation from them or from government. The Brazilian industry is lobbying government and law enforcement officials to highlight the seriousness of the problem.

Mexico
Mexico leads the region in terms of losses due to piracy, with piracy levels of 60%. Tepito market in Mexico City remains one of the world’s biggest single concentrations of pirate trading. A new anti-piracy committee has been authorised by President Fox, comprised of the Attorney General’s Office, Ministry of Interior, Customs, Tax Ministry, IMPI and IFPI’s affiliated group Amprofon. Agreements with Mexican customs have also been developed, to curb the flow of raw materials. Enforcement has improved slightly, with a number of significant jail sentences handed down for piracy.

Paraguay
Paraguay continues to be a centre for both replication and distribution of pirate product, mainly aimed at the Brazilian market. Paraguay has also become the transhipment point for blank CD-Rs, also destined largely for Brazil. In 2001, over 100 million blank CD-Rs were imported into and then exported from the country. Local authorities have cooperated with IFPI in addressing this problem, as seen in the number of major blank CD-R seizures. Unfortunately, political will in Paraguay is limited to isolated actions and as a result the country continues to produce more music pirates.

Music piracy is theft. It robs young and promising artists of the fruits of their creative endeavour. This is a real loss to the music world.

Shaggy, commenting on piracy in South Africa, 2001
The internet provides tremendous opportunities for new music businesses to develop, and to make more music available in a variety of different ways. It also presents some major challenges.

Well-funded online services have sprung up whose business models promote widespread unauthorised copying of music without payment to those who created the music. The internet is being used to sell counterfeit, unauthorised compilations and other physical pirated product. Widespread downloading likewise hurts legitimate CD sales and the development of legitimate online music services.

In 2001 IFPI and its affiliated national groups were responsible for the removal of approximately 1,060 unauthorised peer-to-peer music servers, 28,000 pirate web and FTP music sites, 2.8 million simultaneous users of unauthorised peer-to-peer services, and 700 million unauthorised music files from the internet in 51 countries.

**Types of internet piracy**

At its simplest, internet piracy involves the copying of files containing recorded music onto web or FTP (file transfer protocol) servers, or making available such files from Internet Relay Chat (IRC) channels or newsgroups for immediate access and download by any of the half-billion users.

Links and hacking sites also facilitate unauthorised copying. Links sites contain long lists of hyperlinked file names that, when clicked, commence direct or indirect downloads of infringing files from other servers. Hacking sites provide access codes, serial numbers, software or other means to break copy-control technology applied to copyrighted material.

Various peer-to-peer services have appeared that encourage and assist this widespread unauthorised copying. Napster was the first and best known, but similar services such as Aimster, the FastTrack network including Kazaa and Grokster, and Gnutella-based services like Morpheus have sprung up. In 2000 and 2001 small OpenNap ‘Napster clone’ servers, based on the original Napster protocols, also appeared.

**Scale of the problem**

Any estimate of the number of files available or reproduced on the internet is bound to be speculative, but, in 2001, approximately 99% of music files available online were unauthorised.

This report does not include any estimate of losses to the recording industry from internet copying.

**IFPI estimates:**

- In May 2002 there were approximately three million users and 500 million files available for copying at any one time on all of the peer-to-peer services worldwide
- There are approximately 200,000 Web and FTP sites hosting or linking to some 100 million unauthorised recorded music files
IFPI's internet strategy

IFPI has a dedicated Internet Anti-Piracy Unit active in protecting the rights of its member record companies and artists against unauthorised internet copying and transmission. Of IFPI’s 46 national groups, 28 have dedicated internet anti-piracy staff.

IFPI’s legal strategy for dealing with all forms of unauthorised internet activity is two-fold:

- **High-volume takedowns**
  Internet service providers typically do not like the risks or service degradations that accompany high-volume infringing sites or services. IFPI therefore works co-operatively with service providers, notifying them of infringing materials or services on their systems, and ensuring these are removed or blocked.

  Through this programme, IFPI and its national groups in 2001 removed, from web and FTP servers, 28,000 illicit sites containing 5.6 million infringing music files. IFPI also secured the takedown of 997 OpenNap ‘Napster clone’ services in more than 12 different countries last year, which had approximately 350 million files and 1.2 million simultaneous users.

- **Strategic litigation**
  Where commercial enterprises try to build businesses on the back of widespread unauthorised copying of music, or where an illicit internet activity is particularly intransigent, there may be no choice but to take legal action. The year 2001 saw some significant developments in this regard:

  In the Napster litigation, the US Court of Appeals upheld an injunction requiring Napster to filter out copies of infringing files. The trial judge subsequently ordered the service to remain shut down until it could filter files at a ‘zero tolerance’ standard. With regard to the FastTrack and Morpheus networks, several record companies, music publishers, and film companies sued Music City, Kazaa and Grokster in 2001, making similar claims of contributory and vicarious copyright infringement as were raised against Napster.

Developments in the law

The WIPO Copyright Treaties, set to come into force in 2002 make clear that copyright applies in the digital world as it did in the world of physical distribution, that record producers have the right to decide whether and how their recordings should be put on the internet, and that technologies which help copyright owners control unauthorised copying should themselves be protected. More than 30 developed and developing countries have ratified these treaties so far and many more are set to ratify these treaties in the next few years.

Even in countries that have not ratified the WIPO Treaties so far, legislators are adapting their copyright laws to the internet, and courts generally have had no trouble in applying traditional copyright principles to internet-based activities. Court cases in countries like Sweden, Denmark, and Belgium have found that traditional copyright rules already cover such new activities as ‘linking’.

Internet piracy is not just a bit of harmless copying. It’s taking the music created by others and distributing it around the world without the artists having any choice in the matter.

The Corrs

Market developments

Important developments in the move away from a largely pirate internet market towards a true digital music market include the appearance or development of several legitimate online music services such as the launch of MusicNet, pressplay and Rhapsody in the US. Innovative models such as OD2 launched in Europe, while Europe-based consumer services such as Vitaminic and Musiwave continued to expand. These businesses are still experimenting to see what combinations of listening, downloading, burning and other activities consumers find most appealing.
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