

# **The effect of music downloading and P2P filesharing on the strength of the copyright**

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## **Abstract**

This paper builds upon a major study conducted for Industry Canada between 2005-08, and was aimed at supporting policy decisions in relation to the internal review of the copyright regime in Canada. However, the original report did deliberately not touch upon issues regarding the copyright, but emphasized solely on the empirical link between music downloading and music purchases in Canada.

In contrast to the original report, this paper explores issues of appropriability, and the challenge that technological innovation and emerging organisational forms pose to existing copyright regimes in the music industry.

In order to address this issue, this paper focuses on potential appropriability problems of music in consumer markets. In doing so, the study measures the extent to which free music downloads and peer-to-peer file sharing networks, for which the sound recording industry receives no remuneration in copyright royalties, affect music purchasing activity in Canada, including both electronic delivered music and CDs.

The econometrics rely on representative micro-data of the Canadian population age 15 and over, obtained by asking 2100 Canadians to what extent they are engaged in downloading and/or purchasing of music, and about their incentives behind such behaviours, focusing on the conventional mainstream factors of demand related to (i) price of the good, (ii) price of related goods (whether substitutes or complements), (iii) consumer income, and (iv) consumer taste.

On the whole the study finds that those engaging in free music downloads and file-sharing do not purchase more or less music compared with those who are not engaged in such activities. Also, very active downloaders and file-sharers purchase more music compared with downloaders and file-sharers who download relatively few songs. The behavioural incentives underpinning the results are presented. E.g. effect of 'hear before buying', 'not wanting to buy whole album' and 'not available in the CD format or on electronic pay-sites' was proven to be significant for downloading free music. The influence of music interest, income internet skills and gender are controlled for.

In terms of copyright policy, it should not be a defensive one, merely targeting individuals engaged in free downloading. This will only fail. Rather the problem is that

industry structures and royalty management do not match the emerging organizational forms on the web.

Overall, we therefore conclude that, when drawing upon the evidence regarding the effects of music downloads and P2P file-sharing on music pay-markets, it is evident that the copyright in music markets are not necessary undermined by downloading and P2P filesharing, especially due to the strong hear before buying effect. Rather, technological innovation (spurring the way in which music is now electronically delivered and consumed) pushes a need for the music industry to change their organization of such appropriation, in order to match the emerging new structures. Also, as the results also indicate that free downloads are motivated, among other things, by consumers looking for music that is not available elsewhere (in stores or on electronic pay sites), and that they are not necessarily interested in purchasing the album version but prefer a single digital file; this illustrates a possible opportunity for new music and new artists to enter music pay markets (where copyright appropriation occur) and thereby adopt to the evolving music preferences or taste and the way music users prefer music to be delivered and consumed.