

Is the New Zealand recording industry on a roll or is it still shrinking?

A [recent review](#) of its music schemes by the Broadcasting Commission (NZ On Air) was a lost opportunity for the Government agency to get to grips with the declining economic returns of the New Zealand recorded music industry.

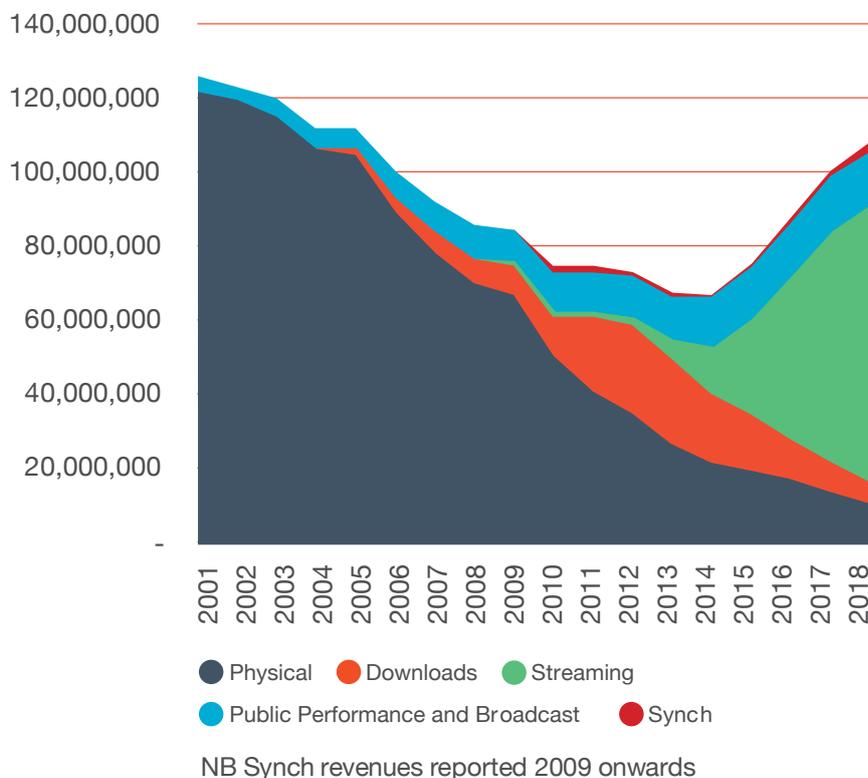
To develop sound policies and subsidy schemes, NZ On Air needs reliable economic data about the industry. The review relies on questionable data from Recorded Music NZ, a company whose controlling interest is held by the three major international record companies - Universal, Sony, and Warner.

ON A ROLL

The review's environmental scan accepts without question or analysis Recorded Music NZ's data showing New Zealand revenue from audio streaming for 2018 at a record high of \$74 million.

The graph below shows the significant impact this reported revenue (the green section) has had on reversing the years of shrinking revenues due to declining CD sales and the effects of on-line piracy.

RECORDED MUSIC REVENUES IN NZ: 2001-2018



[Graph 1 Source - The New Zealand Music Industry Te Ahumahi Puoro O Aotearoa](#)

TOO GOOD TO BE TRUE?

The musicians I know regularly joke about their royalty statements showing earnings of a fraction of a cent for each stream. For some, their quarterly revenue is barely enough to buy a new guitar pick. For the more successful ones, they can splash out on a new set of strings.

I accept the musicians I know would not make the NZ top 20. So it must be our top 20 recording artists like Six60, The Naked and Famous, and Mitch James who are the likely beneficiaries of this newfound wealth.

A quick “back of the envelope” calculation for 2018 using an estimate of [344 million streams from Spotify](#) for our top 20 recording artist multiplied by Spotify’s average unit payment per stream of \$0.0038 produced revenue of only \$1.3 million - of which Lorde accounted for 40%. There are revenues from other artists and rights holders to add to this, but it still appears well short of \$74 million.

THE GOVERNMENT IS HERE TO HELP

I recently asked the various Government support agencies associated with the music industry – Ministry of Culture and Heritage, Creative New Zealand, NZ On Air and the New Zealand Music Commission – if they knew how the \$74 million of revenue was arrived at. None of the agencies could help. They all referred requests for this information to Recorded Music NZ.

HOW THEN IS THE \$74 MILLION ARRIVED AT?

When Recorded Music NZ was asked, it said it was unable to provide detailed explanations or calculations to support the \$74 million as this was “outside its remit”. Their broad explanation was that this is the wholesale revenues received by New Zealand entities for consumption of any recorded music (local or overseas) in New Zealand.

This would make sense if we were talking about CD sales, where locally based record companies license recordings from both overseas and local recording artists for sale through New Zealand retail stores.

But streaming doesn’t work this way. It involves New Zealanders paying subscriptions to overseas streaming services like Spotify and AppleMusic. The streaming services then pay royalties to the rights holders’ bank accounts. If the rights holder resides overseas (e.g. Drake or Ed Sheeran) then the royalty would be paid to an overseas bank account.

Part of Recorded Music NZ’s explanation for including overseas streaming revenue generated by overseas recording artists is that this money is reinvested back into the New Zealand recording industry. For this to happen, the overseas record companies (Universal, Sony, Warner and others) would have to assign the revenue from overseas artists back to their New Zealand subsidiaries for investment in the New Zealand recording industry. There is no evidence available to show this is happening.

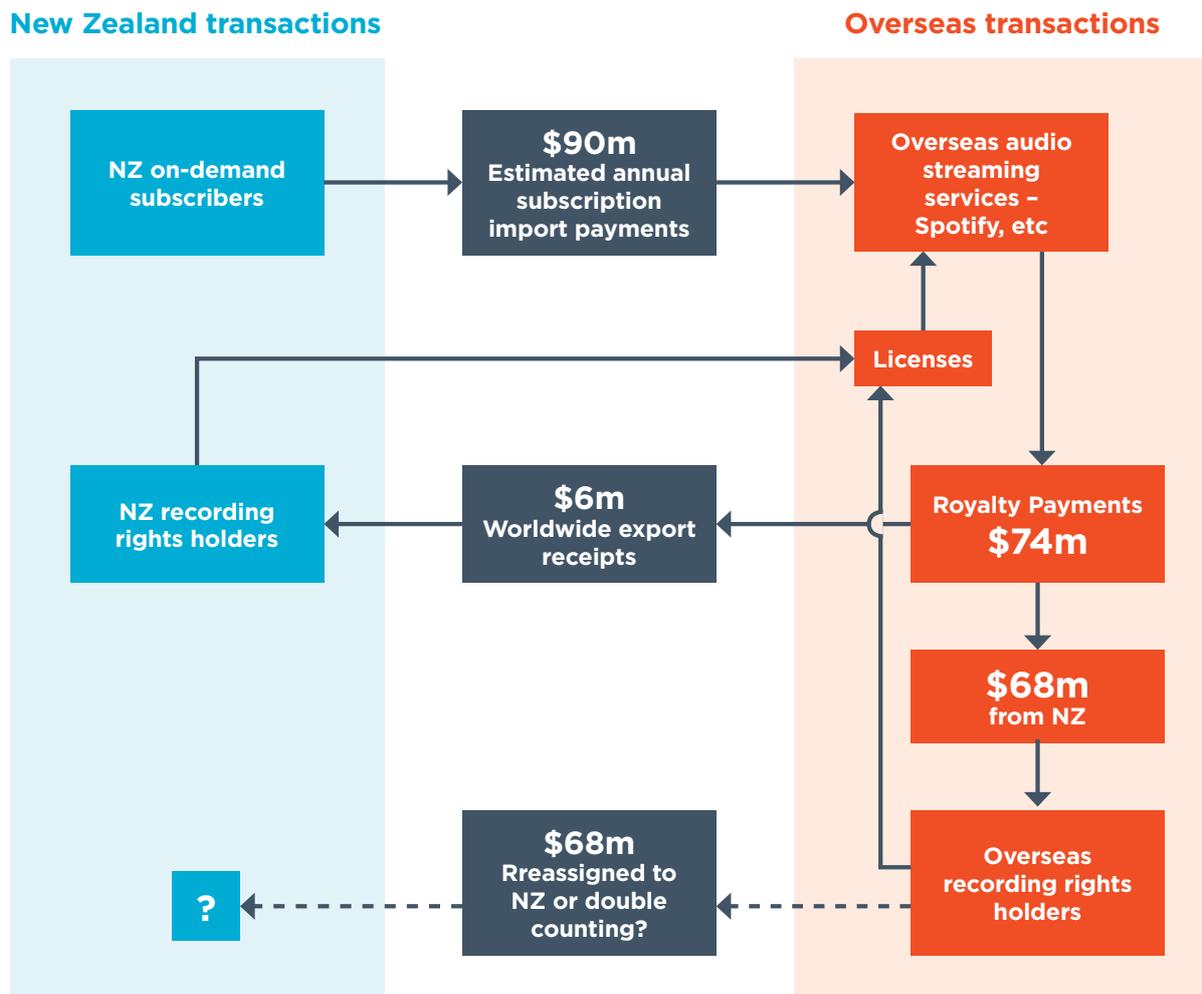
WHAT PORTION OF THE REVENUE IS FOR NZ RECORDINGS?

A bit of background reading suggests that PwC’s report – [Economic contribution of the music industry in New Zealand 2017](#) may have an answer. This report was sponsored by Recorded Music NZ, APRA, and the New Zealand Music Commission to estimate the music industry’s contribution to New Zealand’s national gross domestic product (GDP).

PwC uses an industry sourced revenue figure of \$6 million for New Zealand rights holders' revenue. It appears that the difference between \$74 million and the New Zealand revenues of \$6 million (being \$68 million) is the value that Recorded Music NZ has put on overseas recordings streamed by New Zealanders. This is like the film industry deciding to include subscriptions paid to Netflix as part of the New Zealand film industry revenue.

The chart below summarises the money flows and licensing arrangements between New Zealand and overseas for music streaming transactions.

AUDIO STREAMING - MONEY FLOWS (\$NZ) AND LICENSING



It looks like \$68 million is arrived at by double counting. The overseas rights holders account for the \$68 million in their bank accounts as their revenue - then the New Zealand music industry says it is also their revenue as New Zealanders listened to the music.

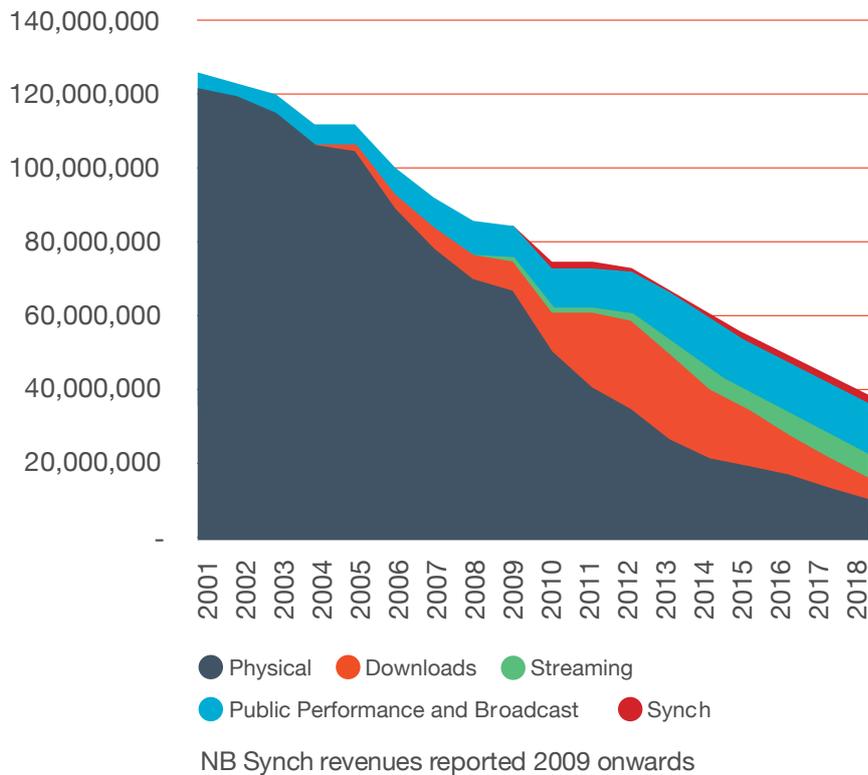
The New Zealand music industry should not do this as the \$68 million has no impact on the New Zealand economy. It is not revenue earned by the New Zealand recording industry.

IS THE REVENUE STILL SHRINKING?

If the total New Zealand revenue from streaming is only about \$6 million as suggested by PwC, then this would reduce the total revenues earned from all sources from recorded music down from \$107 million to \$39 million. This is well below the peak total revenue earned in 2001 of \$120 million. It would mean the industry's revenue is still shrinking. Consequently, the earlier graph needs to be rejigged.

Graph 2 - This is the revised graph 1 after removing streaming revenue of \$68 million accounted for by overseas rights holders

RECORDED MUSIC REVENUES IN NZ: 2001-2018



A NEED FOR INDEPENDENT ECONOMIC DATA

Small industries often like to puff up their economic impact to win favours from Government. An economist friend of mine dryly observed that New Zealand's GDP would sky rocket if all the independent industries' economic impact studies were added together.

But joking aside, the accuracy of this sort of data is important for business analysis, career decisions and government policy. There needs to be independent collection and verification of this data preferably led by the Government music agencies. The data should be less revenue based and more related to GDP which measures the value of New Zealand produced goods and services, and excludes imports such as the payments to overseas rights holders.

Without reliable data NZ On Air cannot possibly know to what degree subsidies are needed, or how it should design its subsidy schemes. Currently it has no data on how big or small the New Zealand recording industry is; what its contribution is to the New Zealand economy; what the overall output is from all New Zealand recording artists; how diverse that output is; and what the impact is overall on New Zealand culture and identity. It is time to address these issues.

CODA - CAN STREAMING BE THE SAVIOUR OF THE NEW ZEALAND RECORDING INDUSTRY?

Perhaps we need to acknowledge that we are working with a business model that appears to be unsustainable, unless it can provide a win/win outcome for all parts of the supply chain.

Currently it is a win/lose situation. The winners are the major international record companies who are using their dominant positions and massive holdings of content rights to score good returns from the streaming services. The listeners are also smiling as they are paying less (often nothing) for streaming music compared to the cost of buying CDs and vinyl.

The losers are the streaming services and the recording artists. Spotify, which is the largest audio streaming service has a 50% share of the audio subscription market with over 100 million paying subscribers and 50 million tracks, yet it is still reporting losses – last year €78 million. Most New Zealand recording artists (other than a few who receive subsidies) are recording their music at a financial loss. This situation is not sustainable.

The recording artists' lot is best summed up by Guy Clark in his song ***Cold Dog Soup*** – *'There ain't no money in poetry, that's what sets the poet free, I've had all the freedom I can stand...'*

Chris Prowse
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