CANNES, France (Reuters) - With global music sales down for a seventh straight year, the talk at an annual industry meeting in Cannes, France, has become heated over how to develop digital sales against competition from the dreaded F word -- free.

Global sales are expected to be down again for 2006 despite digital sales almost doubling to $2 billion and the popularity of music being as strong as ever.

Critics of the major players in the industry argue that they have been distracted by the fight against piracy and in doing so, hindered the growth of the legal business.

"Many people around the world tell me that we've handled our problems in an incorrect manner but no one tells me what we should have done," John Kennedy, the head of the industry's trade body IFPI, told Reuters in an interview.

"Free is just impossible to compete with."

Much of the debate at the gathering on the French coast has centered around the concept of digital rights management or DRM which can restrict the use of music bought online and was introduced in a bid to contain piracy.

Its supporters say DRM also offers alternative methods such as subscription or advertising-supported services as the music cannot then be offered onto peer-to-peer networks.

But one result of DRM is that tracks bought legally from Web sites such as Rhapsody cannot be used on the market-leading iPod as they are not compatible, potentially restricting the growth of legal sales.

"DRM is like polonium to some people," Kennedy said. "Digital rights management is exactly that, it's the management of digital rights and if we weren't managing it the
Music industry divided over digital future — Yahoo! News

headlines would be 'irresponsible music industry ... creates anarchy.'"

INDUSTRY CRITICS

But not everyone agrees.

David Pakman is chief executive of eMusic, the second biggest service after iTunes in the U.S. market, and an ardent critic of DRM.

His service is the only one on a large scale delivering tracks in the MP3 format, meaning they can be played on any portable music player, including the iPod.

That stance however has resulted in none of the four major labels, who are responsible for around two thirds of the world's music, supplying to the service.

"It's the same model that was used for the CD and DVD, universal compatibility, and we think it's the principal thing holding back the growth of digital today," he told Reuters.

Chris Anderson, the editor in chief of Wired magazine, argues that some form of piracy should simply be accepted.

"You cannot have zero piracy and if you try to get to zero piracy you will make the experience of consuming music so painful you'll have zero industry."

Among the many music executives discussing the alternatives at Cannes was Terry McBride, the chief executive of Canada's Nettwerk Music Group which manages such acts as Avril Lavigne.

Among McBride’s many ideas was the plan to tap into the peer to peer market where fans could recommend a track, and receive a small percentage of the sales if the track was purchased.

"We are now entering the era where the socialization of the internet is happening," he told Reuters. "Why not truly harness the power of peer to peer."

But despite the many issues created by digital, the industry is united and excited by its potential.

Barney Wragg, the head of digital for EMI Music (EMI.L), told Reuters that digital was revolutionizing the way they work.

"I was just talking to (British singer) Joss Stone who is very excited about the opportunities this offers," he said. "We're not constrained to the plastic CD box any more. It offers the possibility to do things that could never be done before."

Warner (NYSE: WMG - news) is also looking at new ways to develop.

"As an industry we really need to innovate, and bring new products and services to the market," head of digital strategy Alex Zubillaga told reporters in London last week.

"We at Warner have put out a series of premium products and ... we immediately doubled the amount of digital albums that we were selling by just attaching a video, attaching some special lyrics or a photo gallery.

"We weren't selling twice as many by selling them for less. We were selling twice as many by selling them for significantly more money.