Music Labels Reach Royalty Deal With Online Stations

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Internet radio, once on its death bed, may survive after all.

On Tuesday, after a two-year battle, record labels and online radio stations agreed on new royalty rates for streaming music online. Many of the music sites had argued that the old rates were so high they were being forced out of business.

“This is definitely the agreement that we’ve been waiting for,” said Tim Westergren, the founder of Pandora, one of the most popular Internet radio sites.

The conflict began in March 2007, when the federal Copyright Royalty Board ruled that all so-called webcasters needed to pay a fee, set to increase to 0.19 cent a song next year, each time they streamed a song. Webcasters said the fees would eat up most of their revenue, which mostly comes from online advertising.

The new agreement treats sites differently depending on their size and business model. It applies to the period from 2006 through 2015 for big sites and through 2014 for small sites. The sites in question often provide customized streams of music, but listeners do not get to directly choose which songs they hear, and they are not permitted to store the music on their computers.

Webcasters with significant advertising revenue, like Pandora or AOL Radio, will pay the greater of 25 percent of revenue or a fee per song, starting at .08 cent for songs streamed in 2006 and increasing to .14 cent in 2015.

Webcasters also agreed to give more detailed information about the songs they play and how many people listen to them to SoundExchange, the nonprofit organization that collects and distributes digital royalties on behalf of artists and labels. They must also retain records of activity on their Web servers for four years.

Small sites with less than $1.25 million in revenue will pay 12 percent to 14 percent of it for the right to stream music.

In a statement, John Simson, the executive director of SoundExchange, said that the original, disputed rates had been “appropriate and fair,” but he called the agreement “an
experimental approach” that will give “webcasters the opportunity to flesh out various business models and the creators of music the opportunity to share in the success their recordings generate.”

Under an agreement reached in January, the Corporation for Public Broadcasting made a single royalty payment of $1.85 million that covers the online streams of the nation’s public radio stations through 2010. Simulcasters — FM and AM radio stations that also stream music over the Web — agreed Feb. 16 to pay 0.15 cent per song this year, increasing each year to reach 0.25 cent in 2015.

Many of the streaming music sites had argued that all sites should pay a percentage of revenue rather than a per-song fee. They noted that satellite radio stations pay a cut of their revenue, while broadcast stations pay nothing to artists and labels.

Under the new agreement, though, almost all Internet radio stations will pay the new, lower per-song fee, because that will be more than 25 percent of revenue. Webcasters make money from selling ads on their Web sites and in their music streams, as well as from subscriptions and affiliate fees they earn when a listener clicks to buy a song they hear from a digital music store.

“I don’t think anyone’s going to look at this and say, ‘I’m really happy, I got everything I want,’” Mr. Westergren said, but he added that he was relieved that the new per-song fee was low enough that Pandora and similar sites will be able to survive.

“Under the circumstances, my clients are satisfied with this deal,” said David D. Oxenford, a lawyer at Davis Wright Tremaine in Washington, who represents a group of small Internet radio stations. “It’s better than the alternative that was on the table.”