Higher Music Royalties Create Static on the Net
Web Radio Stations Sing the Blues to Congress

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This weekend, Live 365's chief executive Mark Lam is gearing up for his second trip to Washington in a month. For 2 1/2 days, Lam will be talking nonstop to congressional staffs in an attempt to drum up support for a bill that he's hoping will help keep his company afloat -- and keep thousands of independent Internet music stations online in the process.

At Live365's site, anybody can create their own Web-based "radio station" of sorts. Starting at $9.95 a month, music fans can upload their own music and broadcast their playlists to promote their favorite bands. By the latest count, there are about 10,000 Live365 stations. Most play music that is rarely heard on traditional, or "terrestrial," radio stations; though estimates vary, the research firm comScore puts the U.S. audience for Internet radio at 34.5 million listeners.

A chunk of the revenue generated by Internet radio companies like Live365 and rivals like Pandora, is paid out in royalties to an organization called SoundExchange, which was created by the recording industry. It, in turn, pays the artists whose music is being played. Listeners generally don't pay anything for tuning into online radio.

Those royalty payments are about to go up as the result of a decision this year by the Copyright Royalty Board, a three-judge oversight panel that is part of the Library of Congress. At the urging of SoundExchange, the board decided in March to raise fees, which will eventually triple from their current rates. The

Higher royalty fees could provide new revenue to the music industry as compact disc sales decline, says SoundExchange's John Simson. (Courtesy Of SoundExchange - Courtesy Of SoundExchange)

Who's Listening?
11 percent of Americans 12 and over listen to online radio in an average week.
14 percent of Americans 18-49.
16 percent of Americans 18-34.
55 percent of online radio listeners are male.

SOURCE: Arbitron

http://www.washingtonpost.com/wp-dyn/content/article/2007/05/18/AR2007051801720.html
Previous rates had expired. What's more, the new rules will require an annual $500 minimum fee from every Web-based radio station. The first bill is due July 15.

The rate increases mean that Live365 would owe $7 million to $8 million this year in fees, compared with $1.4 million last year, Lam said. "We don't have the money to pay up," he said.

SoundExchange's executive director, John Simson, said the increased royalty fees are important to a music industry looking for new revenue in a world where compact disc sales are quickly evaporating.

Simson disputes the assertion that the new fees will have a destructive impact on the diversity of music available from Web-based broadcasters. Over the past three years, the online audience listening to Internet radio stations has doubled, he said.

"It's clear that some of them can easily afford [the fees]," he said of the stations. "They want to pay as little as they can. That's business."

But Web-based broadcasters say that the increased expenses will put them out of business. And so Lam, like other Web broadcasting company executives, has been racking up some air miles and getting to know Washington very quickly this spring.

"We're a young industry," said Tim Westergren, co-founder of the online radio service Pandora. "We don't have any legacy on Capitol Hill. We don't have any deep lobbying contacts the way the recording industry does . . . this is the first time I'd ever called my own congressperson."

Initially, he said he was "despondent" about the future of his company. Now, after a few weeks of lobbying, he says he is feeling optimistic that the new fees might be overturned. It doesn't hurt that many of the young Hill staffers who work in congressional offices tend to be tech-savvy music fans who are familiar with his company's service.

The Digital Media Association, a tech industry trade group, is trying to get the new royalty fees overturned under a bill called the Internet Radio Equality Act of 2007, sponsored by Reps. Jay Inslee (D-Wash.) and Donald Manzullo (R-Ill.). A similar bill was introduced in the Senate a little over a week ago, sponsored by Sam Brownback (R-Kan.) and Ron Wyden (D-Ore.).

"It's always hard to pass legislation," said Jonathan Potter, the group's executive director. But, he said, "we've gone from one sponsor to 82 sponsors [in the House] in two weeks. The energy around this issue is everywhere."

Potter says most of that energy is coming from music fans protesting the fees at a grass-roots level. SoundExchange, on the
other hand, has characterized the bill as nothing more than a "cash grab" led by big online companies that would take money away from artists who have earned it.

As the issue plays out, Westergren jokes that Pandora has come up with a contingency plan: "We're building a large boat so we can take our company to the Cayman Islands."

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