

# The best report ever on media piracy

FELIX SALMON

I'm way late to the massive and wonderful report on Media Piracy in Emerging Economies by Joe Karaganis and a big team of international researchers. I blame the fact that Karaganis sent me the report a week before it was formally released, on the sensible grounds that it might take a bit of time for me to digest its 440 pages of detailed new information on one of the defining issues of the information age. Of course, like any good procrastinator, I did no such thing. But I've read a good chunk of the report at this point, and I highly advise you do likewise -- or else sit back with Karaganis's presentation of its main points.

For starters, Mike Masnick is absolutely right that the report debunks the entire foundation of US foreign IP policy. That policy has essentially been written by the owners of US intellectual property, who jealously protect it and think that the best thing they can possibly do is be as aggressive as possible towards any sign of international IP piracy. As the report shows, this makes a tiny amount of profit-maximising sense for the companies concerned. But it actually encourages, rather than reduces, piracy in the aggregate.

Think about the NYT paywall, for instance. It's easy to imagine how the higher the price for which the NYT charges a subscription fee, the more money it gets -- even as the total number of people finding ways around the paywall, rather than paying the full amount, would go up. (Here's a hint: if you run into the paywall, just delete everything past the question mark in the URL, and hit Enter. It'll think you're coming straight to the story from outside the wall, and will show you what you're looking for.)

Similarly, if companies charge only a very high price for their wares in the developing world, most people will become pirates and get that material for much less money. Meanwhile, the piracy notwithstanding, corporate revenues are still being maximised. As the report says, *we have seen little evidence -- and indeed few claims -- that enforcement efforts to date have had any impact whatsoever on the overall supply of pirated goods. Our work suggests, rather, that piracy has grown dramatically by most measures in the*



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*past decade, driven by the exogenous factors described above -- high media prices, low local incomes, technological diffusion, and fast-changing consumer and cultural practices.*

The big forces driving media piracy in developing countries are real and powerful and will not be changed, no matter how many western politicians get on their moral high horses and insist that countries like India and China build a "culture of intellectual property."

But the irony is that if governments and corporations really wanted to build such a culture, then they would encourage companies to set their prices low enough that the populations of those countries could actually afford to buy music, movies, and software at the full legal retail price. It turns out that domestic companies are quite good at distributing media at low prices, and can build profitable busi-

nesses by doing that. But foreign companies have different incentives in the short term, and don't do that.

One part of the report which is very dear to my own heart is the section on the quality of industry research:

*We see a serious and increasingly sophisticated industry research enterprise embedded in a lobbying effort with a historically very loose relationship to evidence. Criticising RIAA, MPAA (Motion Picture Association of America), and BSA (Business Software Alliance) claims about piracy has become a cottage industry in the past few years, driven by the relative ease with which headline piracy numbers have been shown to be wrong or impossible to source. The BSA's annual estimate of losses to software piracy -- \$51 billion in 2009 -- dwarfs other industry estimates and has been an example of the commitment to big numbers in the face of obvious methodological prob-*

*lems regarding how losses are estimated. Widely circulating estimates of 750,000 US jobs lost and \$200 billion in annual economic losses to piracy have proved similarly ungrounded...*

*The rationale offered for criminal-syndicate and terrorist involvement is that piracy is a highly profitable business. The RAND report, for example, states (without explanation) that "DVD piracy . . . has a higher profit margin than narcotics" -- an implausible claim that has circulated in industry literature since at least 2004.*

This study, in wonderful contrast, has enormous amounts of transparent quantitative data, collected over a period of about five years in an attempt to understand just how IP is consumed in emerging economies. (And no, there's no evidence that organised crime is particularly involved.) To take one of dozens of insights more or less at random:

*Our work highlights a more specific transformation in the organisation of consumption: the decline of the collector and of the intentional, managed acquisition that traditionally defined his or her relationship to media... it is clearly a shrinking cultural role, defined by income effects and legacy cultural practices.*

*The collector, our work suggests, is giving ground at both the high end and low end of the income spectrum. Among privileged, technically literate consumers, the issue is one of manageable scale: the growing size of personal media libraries is disconnecting recorded media from traditional notions of the collection -- and even from strong assumptions of intentionality in its acquisition. A 2009 survey of 1,800 young people in the United Kingdom found that the average digital library contained 8,000 songs, with 1,800 on the average iPod (Bahanovich and Collopy 2009). Most of these songs up to two-thirds in another recent study -- have never been listened to (Lamer 2006).*

*Such numbers describe music and, increasingly, video communities that share content by the tens or hundreds of gigabytes -- sizes that diminish consumers' abilities to organise or even grasp the full extent of their collections... On such scales, many of the classic functions of collecting become impersonal, no longer individually managed or manageable. A related effect is that personal ownership becomes harder to specify and measure:*

*consumer surveys are poorly adapted to mapping terrain where respondent knowledge is unreliable... Increasingly, we live in an ocean of media that has no clear provenance or boundaries.*

Or check out this wonderful one-paragraph overview of the history of the Bolivian music industry:

*The limit case, in our studies, is Bolivia, where the impasse of high prices, low incomes, and ubiquitous piracy shuttered all but one local label in the early 2000s and drove the majors out altogether. The tiny Bolivian legal market, worth only \$20 million at its peak, was destroyed. But Bolivian music culture was not. Below the depleted high-end commercial landscape, our work documents the emergence of a generation of new producers, artists, and commercial practices -- much of it rooted in indigenous communities and distributed through informal markets. The resulting mix of pirated goods, promotional CDs, and low-priced recordings has created, for the first time in that country, a popular market for recorded music. For the vast majority of Bolivians, recorded music has never been so prolific or affordable.*

I'm particularly partial to analysis which shows a strong correlation between the profitability of a movie and the degree to which it's pirated. I've long had this theory with regard to counterfeit handbags: the existence of the fakes only serves to increase demand for the real thing. The connection is less intuitive with movies: if you've seen a high-quality pirated copy, you're not going to want to pay full price for the licit version. But Hollywood revenues are very healthy indeed, and there's no evidence at all that they're being harmed by increased piracy.

The most depressing aspect of this report is the fact that it doesn't seem to have caused anything like the splash that it deserves. It's an astonishing work of cooperative international scholarship, and really ought to fundamentally change the debate about intellectual-property enforcement in arenas with names like WIPO and USTR. But I fear that it's too sensible and empirical for that. If the Obama Administration isn't welcoming this report with open arms, then I fear no one will.

The writer is a US-based financial journalist and a Reuters blogger.

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# Bali profits from business of soul-searching

AFP, Ubud, Indonesia

Being a Hindu yogi once meant renouncing worldly pleasures for a life of solitary meditation, wandering the jungle in search of union with god.

Today, new-age yogis wander the globe from one retreat to another, stay in luxury hotels and preach to the converted masses through a headset microphone.

At the Bali Spirit Festival last week, yogis sold their take on life -- along with complementary DVDs -- as visitors from as far afield as the United States, Australia and Europe lapped up expensive yoga apparel, mats and mala beads. Just stepping through the festival gates cost \$100 a day.

"I bought a gold pass for \$500 and I find it hard to get \$100 worth of yoga a day. At the same time, all the classes have been amazing, so in the end, I'm happy to have paid that," said Australian Jean Cameron, 39.

A 2008 study published by the Yoga Journal valued the yoga industry in the United States alone at almost \$6 billion a year, with some more recent estimates for the global industry rising to \$18 billion.

Bali is an obvious hub for yoga fanatics. The Balinese are Hindu, the Indonesian island is rich with natural beauty and the government supports spiritual tourism including temple tours and visits to traditional healers.

Demand for such experiences spiked recently with the publication of Elizabeth Gilbert's best-selling memoir "Eat, Pray, Love" -- a romantic journey of self-discovery featuring a mystical encounter with a Balinese soothsayer.

Uma Inder, a Hatha yoga teacher, has

witnessed the radical transformation of yoga in Bali. She moved from England to the island 22 years ago, spending her first seven years practising yoga alone in the jungle.

"In those days you didn't talk about yoga and no one really knew about it. Nowadays, it's a social buzz. It's now talked about, it's paraded and it's very much about entertainment," Inder said.

Festival organiser Meghan Pappenheim makes no apologies for the commerciality of the event, and sees it as a positive way to draw more people to yoga.

"I'm the first to admit I'm an entrepreneur, I'm a capitalist. This event has a target market, and those are the people with the money who can go home and make a difference," she said.

"My philosophy is that you make money and then you give it away. You make enough to buy a phone and a nice car, and you give the rest away."

Only four years old, the festival itself is yet to turn a profit. But Pappenheim and her Balinese husband, Kadek Gunarta, say they have used the yoga boom to raise \$36,000 for charity through various events.

The festival has a sponsor, Fiesta condoms, which donated \$25,000 for an HIV/AIDS outreach programme for Balinese high school students.

So far, Pappenheim and her husband have funded the festival from money they make from a small empire of businesses, which include a yoga centre, an art gallery, an eco-friendly furniture studio and a cafe.

Pappenheim is optimistic that the festival too will become profitable as attendance numbers double annually. This year, she estimates 4,000 people participated.



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AFP

A group of yoga practitioners partake in the Bali Spirit Festival in Ubud. Being a Hindu yogi once meant renouncing worldly pleasures for a life of solitary meditation, wandering the jungle in search of union with god.