



Highlights of [GAO-04-700](#), a report to congressional committees

# INTELLECTUAL PROPERTY

## Economic Arrangements among Small Webcasters and Third Parties and Their Effect on Royalties

### Why GAO Did This Study

The emergence of webcasting as a means of transmitting audio and video content over the Internet has led to concerns about copyright protection and the payment of royalties to those who own the recording copyrights. Arriving at an acceptable rate for calculating royalties has been particularly challenging. Under the Small Webcaster Settlement Act of 2002, small commercial webcasters reached an agreement with copyright owners that included the option of paying royalties for the period of October 28, 1998, to December 31, 2004, on the basis of a percentage of their revenues, expenses, a combination of both, or a minimum fee rather than paying the royalty rates set by the Librarian of Congress.

During debate on the act, copyright owners raised concerns that small webcasters might have arrangements with other parties, such as advertisers, that could produce revenues or expenses that might not be included in their royalty calculations. In this context, the Congress mandated that GAO, in consultation with the Register of Copyrights, prepare a report on the (1) economic arrangements between small webcasters and third parties and (2) effect of those arrangements on the royalties that small webcasters might owe copyright owners.

[www.gao.gov/cgi-bin/getrpt?GAO-04-700](http://www.gao.gov/cgi-bin/getrpt?GAO-04-700).

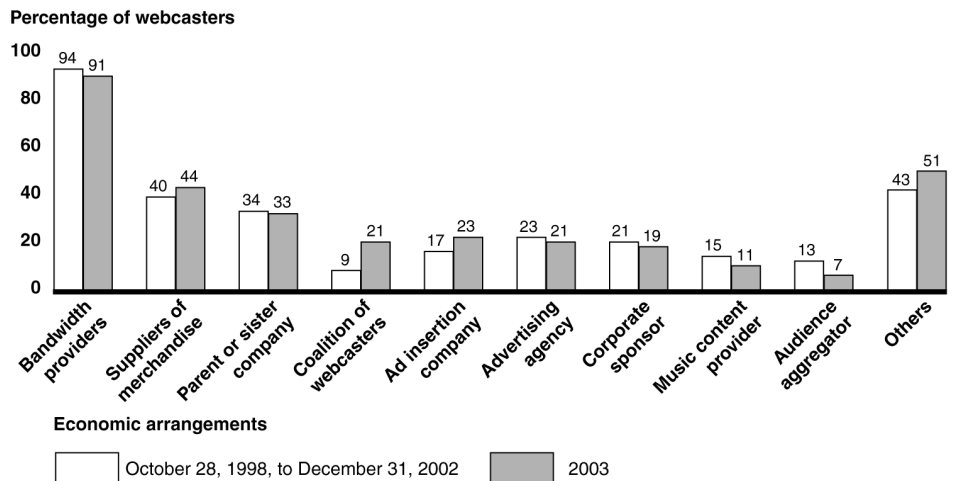
To view the full product, including the scope and methodology, click on the link above. For more information, contact Anu Mittal, (202) 512-3841, [mittala@gao.gov](mailto:mittala@gao.gov).

### What GAO Found

Small webcasters have a variety of economic arrangements with third parties, the most common being agreements with bandwidth providers and advertisers. Almost all of the webcasters that we interviewed reported arrangements with bandwidth providers, and many reported arrangements with advertisers. Less commonly reported arrangements included those with merchandise suppliers and companies that help small webcasters manage or obtain advertising for their Web sites, such as by inserting ads on the Web site or into the webcast itself or selling advertising based on the aggregate audiences of multiple webcasters.

Third-party economic arrangements have had a minimal effect to date on royalties owed by small webcasters to copyright owners. Of the 27 small webcasters we interviewed that had agreed to the terms of the small webcaster agreement and provided us with financial data, 19 reported revenue and expense estimates below the levels that would result in royalty payments greater than the minimum fee. We found limited evidence to suggest that small webcasters may not be reporting revenues and expenses as required by the small webcaster agreement. Specifically, 2 of the 13 small webcasters who reported receiving free or reduced-price items did not report the value of these items as revenue for calculating royalties. However, the data we obtained in our survey may not reflect conditions that could develop as the webcasting industry matures. According to industry analysts, revenues of small webcasters are likely to increase as they attract more listeners and advertisers rely more on the Internet to reach customers.

**Types of Economic Arrangements with Third Parties**



Source: GAO's survey of small webcasters.