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Highlights

Highlights of GAO-10-826, a report to congressional requesters

Why GAO Did This Study

The recording and broadcast radio industries touch the lives of most Americans through the development and distribution of music. Congress is considering legislation, the proposed Performance Rights Act (H.R. 848), that would expand copyright protection for the public performance of sound recordings. The proposed act would require AM/FM radio stations that broadcast music to pay a royalty, and this royalty would be distributed to the copyright holder, performers, and musicians.

This report addresses (1) the benefits received by the recording and broadcast radio industries from their current relationship, (2) the possible effects of the proposed act on the broadcast radio industry, and (3) the possible effects of the proposed act on the recording industry. To address these objectives, GAO analyzed data on music sales, broadcast radio airplay, and broadcast radio stations' revenues; calculated potential royalty payments; and interviewed stakeholders from both industries as well as experts and government officials.

The Federal Communications Commission (FCC) and the U.S. Copyright Office of the Library of Congress reviewed a draft of this report. FCC noted that it has an interest in legislation that might have an adverse impact on radio stations. The Copyright Office addressed certain methodological approaches and findings in our draft report.

View GAO-10-826 or key components.
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August 2010

TELECOMMUNICATIONS

The Proposed Performance Rights Act Would Result in Additional Costs for Broadcast Radio Stations and Additional Revenue for Record Companies, Musicians, and Performers

What GAO Found

Broadcast radio benefits from the use of sound recordings to generate advertising revenue and the recording industry may benefit from radio airplay that can promote sales. Radio stations use sound recordings to attract listeners and generate revenue from advertisers. GAO found that, on average, radio stations with a music format generate $225,000 more in annual revenues than nonmusic stations, such as talk or sports stations. Stations serving large populations receive more revenue from music content compared to stations serving a small population. Most industry stakeholders believe that radio airplay promotes sales for the recording industry, and past and current business practices support this conclusion. However, GAO found the relationship between airplay and music sales to be unclear. The presence of other promotional outlets, such as the Internet and special events, and growth of music piracy create a more nuanced environment wherein the relationship between airplay and music sales is less clear than in the past.

The proposed act would result in additional costs for the broadcast radio industry. Under the proposed act, the royalty paid by a radio station would vary according to the station's gross annual revenues and status as commercial or noncommercial. Because the royalty paid by some radio stations would be negotiated or determined subsequent to passage of the proposed act, the total cost to the broadcast radio industry, including the costs to minority and female radio station owners, cannot be determined at this time. If broadcast radio stations with revenues of $1.25 million or more pay a royalty based on a percentage of station revenues, every 1 percentage point would cost the broadcast radio industry $101 million per year. For example, a 2.35 percent rate paid by these stations would entail total annual costs to the radio industry of over $258 million. GAO also estimated that with a 2.35 percent rate, the 25 percent of stations with revenues of $1.25 million or more would pay over 90 percent of the total royalties. According to broadcast industry stakeholders, these costs could lead some stations to reduce staff, switch to a nonmusic format, or discontinue operations.

The proposed act would result in additional revenue for recording industry stakeholders. Several factors would influence the revenues a stakeholder receives, including the total royalty payments, the stakeholder's role (copyright holder, performer, or musician), and the amount of airplay the stakeholder's music receives. Since the total royalty payments cannot be determined at this time, the additional revenue for recording industry stakeholders is also unknown. However, assuming a 2.35 percent royalty rate, GAO estimated that 56 percent of performers would receive $100 or less per year, and fewer than 6 percent of performers would receive $10,000 or more per year in royalties from airplay in the top 10 markets; music radio stations in these markets generate about 21 percent of industry revenues. Some experts and the Copyright Office believe that the additional revenue would promote investment in music and greater employment, although this opinion is not universally held.