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Commentary: Consensus difficult to find on piracy's effects on music sales

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The news this week that EMI Group, the world's third-largest music company, struck a deal with Apple to offer its online music free of copying restrictions may look like a major gamble.

After all, anti-piracy technology was placed on legal digital downloads to prevent further erosion of the ailing U.S. music market, which has seen a nearly 30 percent decline in album shipments since 2000 as well as a loss of about \$3 billion in annual sales.

And, as we all know, that nightmare industry scenario was caused by illegal peer-to-peer file sharing. Right?

Maybe not.

The subject of how online file sharing — which continues unabated at a rate of about 1 billion songs illegally transferred per month — affects overall music sales has in recent months ignited a contentious academic debate.

Perhaps the most provocative study comes from Harvard Business School professor Felix Oberholzer-Gee and Koleman Strumpf at the University of Kansas. The pair's 2004 study, *The Effect of File Sharing on Record Sales*, concluded that illegal downloading has had no significant negative effects on sales and may actually foster additional music discovery.

Study available online

A very rough interpretation of the 56-page study, which is available for download at unc.edu/~cigar, is that it statistically debunks the commonly held notion that music consumers have swapped purchases for free downloads.

In a brief chat with Strumpf this week regarding the EMI-Apple agreement, he said the major record labels appear to be starting to embrace what file sharing says about consumer preferences.

Namely that customers in the digital age want music that is low-priced, free of use restrictions and available instantly. They're also relatively indifferent to sound quality when the cost is low enough.

Naturally, the music industry's trade group, The Recording Industry Association of America, which launched a series of aggressive lawsuits against individual downloaders starting in 2003, vehemently rejected the study's conclusions when it came out.

The group issued a six-page response at the time called "Downloading Hurts Sales," which asked how else one would account for a precipitous drop in album sales during the same period that online file swapping rose to prominence.

Since then a handful of other studies have been issued on the subject. One from Harvard concluded that if online offerings had been reduced across the board by 30 percent in 2003, music sales would

have been about 10 percent higher that year.

And a study released last year by a professor at the University of Texas at Dallas suggested that while consistent information about file-sharing is hard to come by, there are simply no other valid explanations to account for the decline in record sales.

Perhaps one conclusion everyone can agree on is that this latest move by EMI and Apple to offer music without piracy restrictions will be watched by the rest of the industry with intense interest.

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