

VCAP Summary Business Case

Benefit to Government of a £4m investment

The academic evidence on piracy has researched in detail the impact of piracy on sales. The vast majority of academic studies show that there is harm from piracy through lost sales. Rights holders do not use a 1:1 ratio of replacement of pirated copy with a legal sale. The academic research gives estimate of what the proportionate replacement ratio is likely to be of any interventions to cause reductions in piracy.

Zentner (2006) uses a sample of 15,000 people in 2001 and 2002 and finds that, after controlling for Internet sophistication and broadband speed, peer-to-peer usage reduces by about 30% the probability that an individual will purchase music.

Waldfoegel (2006) surveys the piracy and music purchasing behavior of 412 college students at 4 colleges in 2003 and finds that each pirated download displaces about 0.2 album sales and that overall piracy reduced per capita expenditures on music by about 20%.

Waldfoegel (2010) uses a survey of University of Pennsylvania undergraduates in January 2009 analysing piracy and purchase behaviour for music, and finds that each pirated download displaces between 0.15 and 0.3 album sales.

Hui and Png (2003) use country-level data for 28 countries from 1994-1998 and find that physical piracy reduces sales by about 42%.

Pietz and Waelbroeck (2004) use CD sales for 16 countries from 2000-2001 and find that piracy explains about 25% of the decline in music sales observed over that time frame.

Zentner (2009) uses country-level music sales and broadband penetration for 49 countries from 1997-2008 and finds that file-sharing may explain up to 50% of the decline in music sales observed during that period.

Danaher et al (2012) finds that HADOPI law in France caused a 20-25% increase in French music sales relative to the control group countries.

Research on illegal downloads

Ofcom recently published four quarters of a tracker survey, in which it researched the number of illegal downloads in different content markets¹. This is as an independent source of research on downloading, found at http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/online-copyright/w4/OCI_MAIN_REPORT_W4_FINAL.pdf. The table below basis its assumptions on the evidence of downloading from that report.

¹ http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/online-copyright/w4/OCI_MAIN_REPORT_W4_FINAL.pdf

Rights holders do not assume a 1:1 replacement, so there is an overall figure for the value of illegal downloads, but this is then translated to a figure for actual losses that would be realised if piracy was reduced. Using Waldofoegel's 2010 study as the most up to date research on broad losses, we can look at the low point of his estimate, 15%, and apply the average price across various industries.

This is a simple model that has been constructed to look at ROI – it does not look at the dynamic effects on piracy over time, but attempts to use third party verifiable figures to look at the reasonable quantum of return to Government from a successful education campaign that reduces piracy. However, the underlying assumptions are based on very good data that has been produced by Ofcom and by a number of academic studies looking at the replacement ratios. It shows that only very small changes in piracy lead to significant returns to Government.

Government Return on Investment from a campaign reducing piracy

	MUSIC	FILMS	TV	BOOKS	VIDEO GAMES	TOTAL
Illegal tracks (m) (Ofcom tracker)						
Wave1	301	29	47	8	6	
Wave2	297	44	56	8	35	
Wave3	280	29	52	18	7	
Wave4	199	30	54	7	5	
Total	1,077	132	209	41	53	
Average retail price						
2013	£0.92	£8.87	£2.49	£7.70	£29.43	
Total piracy (retail value) UK						
	£990.8	£1,170.8	£520.4	£315.7	£1,559.8	£4,557.6
Total piracy (retail value) over three years						
SCENARIO 1: Assume 15% of illegal downloads represent lost sales (m)						
	161.6	19.8	31.4	6.2	8.0	
Value of lost sales in one year (m)						
	£148.6	£175.6	£78.1	£47.4	£234.0	£683.6
Value of lost sales over 3 years (m)						
						£2,050.91
Government (VAT) share of lost sales per year (m)						
	£29.7	£35.1	£15.6	£9.5	£46.8	£136.7
Government (VAT) share of lost sales over three years (m)						
	£89.18	£105.38	£46.84	£28.41	£140.38	£410.18
Reduction in Piracy over three years required to return £4m of value to Government in VAT alone						
						1.0%
SCENARIO 2: Assume 30% of illegal downloads represent lost sales (m)						
	323	40	63	12	16	
Value of lost sales (m)						
	£297.3	£351.3	£156.1	£94.7	£467.9	£1,367.3
Value of lost sales over 3 years (m)						
						£4,101.82
Government (VAT) share of lost sales (m)						
	£59.5	£70.3	£31.2	£18.9	£93.6	£273.5
Government (VAT) share of lost sales over three years (m)						
	£178.35	£210.75	£93.67	£56.83	£280.76	£820.36
Reduction in Piracy required to return £4m of value to Government in VAT alone						
						0.49%

This return to Government is expressed in VAT revenues only, **and does not model the dynamic effect of increased legal economic activity** on wider jobs/growth/income tax etc. So even from a very simple, static assumption, a small reduction in piracy of between .49%

and 1% over the three years would return Government investment of £4m in an education scheme.

The same assumptions can be used to build up the value of a reduction in piracy for producers of content. However, the Ofcom survey is limited to the categories used in the model. There would be expected to be further gains from those copyright industries not in the Ofcom survey. So the return to Government from its investment might require slightly lower reductions in piracy.

This static model also does not include software. The value of software downloads is, potentially, of equal value to that from the Creative Industries Ofcom identifies. This would make the business case even more compelling, but we have not included it in our figures.

Likely impact of a copyright campaign on reductions in piracy

Given that a reduction of piracy somewhere in the region of .49% to 1% would be sufficient for Government itself to be involved from a return on investment point of view, we can look at the evidence from other countries of the impact of similar programmes. However, there have to be heavy caveats on the comparators. This is because the two major countries with anti-piracy initiatives highlighted below, France and the US, both have had campaigns that differ from the UK proposals under VCAP.

Hadopi was a Government programme, with a high profile media campaign in advance of a graduated response programme with potential consequences (fines) for repeat infringers.

Following the launch of Hadopi in France there has been a 27% decline in peer to peer piracy since September 2010. iTunes sales increased by 22.5% for singles and 25% for albums (Danaher: February 2012). The big drop in piracy (and increase in sales) came following the broad education campaign and before the sending of notifications.

In the US there was no advance publicity, with a notice sending scheme that did not lead to action against subscribers (i.e. fines like Hadopi) but did have “technical measures” of browser re-direct, etc, to ensure that consumers have acknowledged alerts. So, while the initial results of the programme there are encouraging (<http://www.copyrightinformation.org/press-release/ci-provides-first-copyright-alert-system-progress-report-highlighting-initial-accomplishments/>) the report notes that a campaign is being launched now to strengthen the impact of the Alert programme and to respond to data from consumer surveys which confirms that education is a critical component.

There are other countries that have had similar campaigns. **New Zealand has had an 18% decline in peer to peer piracy since August 2011**, this is in the context of a very small number of notices being sent due to the cost of the scheme. The reduction has probably been much more due to the publicity around the New Zealand Programme, rather than the effect of the sending of notices which have been very limited in number.

Chile has seen an 11% decline in piracy since July 2013 following an awareness campaign around their legislation to take action against repeat infringers.

So, with the caveat of the different kinds of programmes in each country, every country that has implemented campaigns about illegal file sharing has shown significant drops in that form of piracy. All of the drops are well above the kinds of levels necessary to create a return on investment for the UK Government under the narrow metric of VAT receipts.

Case study evidence of similar campaigns

The Industry Trust's copyright education campaigns have enjoyed significant success over the years. They've improved public understanding of copyright and the implications of copyright infringement. They've created positive attitude shifts, in particular around the acceptability of unofficial content, and independent research has shown they have created positive behaviour change which has resulted in significant savings for the audio-visual industry.

In 2009 the Industry Trust commissioned independent research specialist, aeolve, to evaluate the impact of its behaviour change communications on consumer attitudes and behaviour between May 2007 and February 2009. Qualitative and quantitative research was conducted among 16-34 year olds engaged in the cinema/DVD category and engaging in copyright infringement. The research estimated that the Industry Trust's communications activity, which had an associated budget of £4m during the period, had stemmed the growth of copyright theft by 5%.

More recent campaign tracking by the Industry Trust continues to highlight the positive potential of copyright education campaigns: A quantitative survey carried out in December 2013 indicated that those exposed to the Industry Trust's consumer education messaging across 2013 were as nearly twice as likely to agree that official film and TV is worth paying for as those not exposed to it (46% compared to 25%). The research also revealed a 5% uplift in legal content events and a 2% decrease in infringement events among those aged 16+ who engaged in any copyright infringement.

The Industry Trust's track-record, proves the potential for positive education campaigns that engage audiences in the desired behaviour. The Government's investment and the impetus that VCAP creates for *all* of the creative sectors to collaborate on copyright education for the first time, will enable consumer behaviour change – and its positive impact on the industry and wider economy- to be delivered at scale.

Leveraging in-kind communications and associated activity

Both the creative industries and ISPs supporting VCAP are well-placed to speak credibly to the two priority audiences for the education programme – young people and parents – and have access to a wealth of relevant owned media assets to leverage for this purpose. While the Government's investment in communications will be used to buy very targeted media formats, including digital and TV advertising, VCAP programme stakeholders are committed to up-weighting that spend significantly through free and in-kind media that creates wider awareness and a real sense of national scale.

The creative industries are particularly well-positioned to boost awareness among the young target demographic. The film and TV industry, through the Industry Trust for IP Awareness, has a proven track-record of leveraging cinema advertising and outdoor media to deliver an overall media value that is around five times greater than the sum its members invest in its pro-copyright campaigns. While the Industry Trust's growing Facebook community,

ScreenThing, already promotes a pro-copyright message to 49,000 young film fans by shining a spotlight on the talent and time it takes to make film and TV happen.

The music industry, through the BPI, offers its own valuable social and digital assets through its *Music Matters* campaign: a Facebook community of more than 230,000 music fans and a 30-000-strong mailing list. Its *Transmitter* YouTube channel, which is dedicated to unearthing new UK music, already boasts more than 16,000 subscribers while the popular, BRIT Awards, are of course owned and managed by the BPI and offer an established platform for showcasing UK music talent.

The film and music industries have been instrumental in planning the VCAP education programme and have therefore given more time to explore the owned media estate they can offer. They also have a successful history of leverage media assets to promote the value of copyright and are confident that their contributions can up-weight the media value by an additional £4million. However, there is significant appetite among the wider creative industries involved in the programme to amplify communications as much as possible so we would envisage additional owned media support from the gaming, publishing and sports industries; all of whom are extremely well-positioned to reach young people.

A number of the ISPs involved in VCAP have already signalled their readiness to assist in crafting messaging and delivering the consumer education media estate with their owned assets – recognising that this would significantly raise the profile of the campaign. ISPs are also particularly well placed to target the parent demographic through their digital media estate, from homepages and dedicated internet safety pages to the recent launch of *Internet Matters*, a collaborative, nationwide initiative by Virgin Media, Sky, TalkTalk and BT to help people to stay safe online. It is anticipated that this owned digital media will play a central and valuable role in communications.

In addition to owned media estate, VCAP stakeholders will be able to leverage a wealth of existing strategic partnerships and programmes to amplify awareness of education messages. In addition to the activity by *Internet Matters* stakeholders, the Industry Trust and BPI have worked with partnership with internet safety charity, Childnet International, for more than five years, launching content and campaigns that educate parents and teachers about how to stay safe while enjoying entertainment on the internet.

Through its retained PR agency, which has led the communications for Safer Internet Day for the past three years, the Industry Trust has built relationships with stakeholders within the UK Safer Internet Centre (UKSIC), including co-creating educational, pro-copyright content for Safer Internet Day and, through the process of securing earned and owned amplification for this content, has built relationships with relevant individuals at a host of social networks and traditional media outlets.