5th March 2013

UK MUSIC

Sir Nicholas Macpherson, KCB
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Nick,

The music industry is central to the UK economy. It makes an important contribution to consumer spending; corporate investment and UK exports – identified by the National Institute of Economic and Social Research as being critical to economic recovery.

The right policy environment is important for these contributions to be maximised.

Government support would allow the music sector to contribute to a considerable number of highly-skilled new jobs, rewarding in every sense and sourced domestically. Future productivity, competitiveness and wellbeing of the UK economy will rely on developing such jobs.

UK Digital sales of music, video and games exceeded £1bn for the first time in 2012, according to official year-end figures released today by the Entertainment Retailers Association (ERA). According to the latest Official Charts Company sales data released by The BPI, 2012 was the biggest year for sales of singles in the UK in British history. 2012 was the fifth successive year in which sales of singles rose in the UK. It is not just in the UK that the British music industry is successful. We have a key role to play in the export-led recovery the Government requires.

The Chancellor is right to link exports with investment at home and UK Music applauds his ambition to double our nation's exports to one trillion pounds this decade. Though 2012 did not see the export led recovery he hoped for, the British music sector remained buoyant.

The export performance of the UK music sector held up when much of the rest of the economy was faltering. Therefore, as export conditions improve, the music sector can disproportionately contribute toward positive economic recovery.

The appetite for UK-originated music around the world shows no sign of diminishing. Latest BPI figures show that British artists accounted for 12.6% of all artist albums sold around the world. British artists are responsible for the best selling album in the world in five of the past six years.

British music is globally popular. Revenue earned from its use has doubled since 2002 according to PRS for Music which represents 90,000 songwriters, composers and music publishers and collects royalties from 150 territories around the world. During 2011, British songwriters and composers earned £187.7 million.

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Growth to the tune of £100 million in international royalties since 2002 is attributed to widespread consumption of British music and improved licensing of its use around the world. These facts and figures indicate the economic importance of music though its weight is poorly captured by existing public data. Standard Industrial Classification (SIC) and Standard Occupation Codes (SOC) codes have not kept pace with the evolution of the music industry.

DCMS is launching a consultation on how the creative industries should be defined. This is a welcome and important opportunity for Government to update and improve its classification systems.

Music contributes directly to UK exports and indirectly to exports in other sectors. For example, research by UK Music found that large-scale live music across all regions of the UK attracts 7.7 million attendances from domestic and overseas tourists per annum. Their collective spend of £1.4bn contributes £864m (GVA) to the national economy and is equivalent to 19,700 full-time jobs.

In addition to supporting tourism in the UK, music drives other economic contributors. Britain has one of the highest rates of digital radio penetration in the world, driven in part by a desire to have high-quality access to British music. Such high penetration improves the UK's competitive position as a manufacturer and exporter of digital radios.

The direct export success of UK music and its capacity to indirectly support other exports – tourism and digital radios – depends on investment being secured at home. This investment requires support for successful institutions and norms in UK – in particular, systems of copyright and a favourable tax environment.

Proposed Government policy, as set out in the recent Modernising Copyright document issued by the Intellectual Property Office in December 2012, now threatens to damage this system. Such threats will repel investment from our sector and will not provide fair compensation to British creators.

Rather than shatter the currently successful system of music copyright that exists in the UK, Government should support the spread of comparable systems internationally. The UK's music collective licensing bodies are continuously striving to build the infrastructure needed to secure the value arising from use of British music abroad and return it the UK. For example, PPL concluded new international collection agreements with four new countries over the past year (Croatia, Estonia, Greece and Latvia) and secured revenue for the first time from two other countries (Bulgaria and Serbia).

British export success must be secured within new markets that have their own institutional structures and practices. Success is more likely to be secured when these structures and practices are harmonised with the UK. We – both the industry and the Government – should be unabashed about promoting the UK copyright system as world leading. Adoption of similar systems in emerging markets would serve them well in terms of developing local acts and music business as well as ensuring that export revenues flow back to the UK.

The UK Government should use its influence to promote copyright systems internationally and bring about consistent tax treatment. In common with other business sectors, particularly those defined predominantly by an SME base, firms in our sector continue to face unreasonable challenges in accessing finance. Government should seek to unlock this credit to SMEs as a priority.

Tax is another dimension of the international marketplace where the Government could do more to help the UK music industry. There are inequitable territorial inconsistencies in the approach to relief and exemption. For example, Spain imposes an unjustified withholding tax on royalties. Such actions impede the development of multi-territorial online licensing of music. More focus on transparency and harmonisation across EU states would help repatriation of income to the UK more quickly and with lower compliance costs. These details should form one dimension of the reformed EU that the UK Government is committed to bringing about.

The UK music industry has concerns about tax closer to home. The Musicians' Union has been advised by HMRC that, based on an Upper Tier Tribunal appeal hearing in the case of ITV Services Ltd v HMRC, they now consider self-employed musicians to fall within the regulations for Class 1 National Insurance (NI) contributions. Full compliance with this ruling is entirely unworkable and would, for example, require a pub landlord who books a musician to perform in the pub, to deduct National Insurance and to know whether to pay an employer's contribution.

This is a huge own goal for the Government. Live music performances are an increasingly important source of revenue to the UK economy. The Live Music Act is a genuinely deregulatory measure that will support the growth of new music talent. Negative changes in the National Insurance framework for musicians and employers will neutralise or reverse the positive outcomes from the Act.

The music industry is a complex and diverse ecology. If pub landlords do not give an audience access to new talent, this talent will not exist for record labels and publishers to nurture and promote. Live venues and recording studios are relatively small enterprises. Not only do they face problems in accessing finance but they now have an additional burden from this change to the NI framework. If smaller players in the music industry are adversely affected, there will be a knock on effect on the larger players, as the industry is composed of a complex web of mutual dependences and synergies of interest.

The flawed perception that music and the creative industries are more risky industries in which to invest than others is increasingly challenged. In common with other sectors, music requires a stable and supportive institutional tax environment, as well as backing from the financial/investment sector.

It is harder to squeeze costs by reducing employment in service sectors than it is in manufacturing sectors. The UK remains the sixth largest manufacturer in the world by output, but employment in manufacturing continues on a long-term decline. Technology often substitutes labour in manufacturing as British companies work to stay ahead in a global race that pits them against the rapidly emerging economies of Asia.

In contrast, the output of a brass band remains as labour intensive as it was during the industrial revolution. The music industry drives innovation in technological software and hardware, but none of these substitutes for the musicians that make up an orchestra. Similarly, neither the Glastonbury festival nor the operation of boutique record stores in Camden Town can be outsourced to China.

The economic success story of British music depends on our country sustaining the best musicians, producers and technicians anywhere in the world. These jobs, as well as many of the jobs they support in tourism and elsewhere, cannot be outsourced. So long as the UK remains ahead in the race for skills (which UK Music has a programme of work to deliver on in 2013) then our industry will provide highly skilled jobs, which pay well and improve quality of life.

The simplification of the Apprenticeship Grant for Employers is a welcome step. Government should work with employers to remove barriers to taking on apprentices. Our industry is dominated by SMEs and sole traders. UK Music aims to take the back office pressure off the administration of an apprentice freeing our members' businesses to take on an apprentice without prohibitive cost. We are developing an industry-wide apprenticeship scheme.

Education and skills training are vital to the future success of the music industry. We are concerned that the number of pupils studying music at GCSE has fallen since the English Baccalaureate was introduced in 2010 and that music teachers and music departments are being sidelined. We want the education system to promote the creative curriculum alongside the more traditional academic subjects, to help develop more adaptive and creative young people and address skills shortages that threaten the growth of our sector.

Music is like any other sector but has better growth prospects than most. Our sector, as others, benefits from a favourable tax environment, from institutions, at home and abroad, that encourage investment, from banks doing more to extend finance to SMEs and creating an ecology in which bigger players depend upon smaller.

Music is better than other sectors in growing its export markets while other sectors have failed. We helped bring Britain together at the Olympics and we consistently remind the world of Britain's creative genius. We are proud to provide high quality employment on a significant scale and to have supported other sectors in growing jobs and businesses.

Simply put, the UK music industry is one of the few sectors which can deliver improved rates of growth, exports and quality employment the Government desperately needs. Now is the time to invest in and support us, not to undermine our ability to do all those things by attacking the underpinning institution of our business, copyright.

UK Music is very keen to engage with policy making at HMT. Please feel free to contact me at jo.dipple@ukmusic.org should you wish to develop any thinking in this area.

Best wishes,

Jo Dipple

Jo Dipple
Chief Executive