

Higher Royalty Fees on Digital Media Threaten IT Vendors

Martin Reynolds

Most Western governments will likely follow Canada in seeking to increase "royalty taxes" on digital media to compensate music firms for copies made by individuals. Technology vendors should lobby against these increases.

NEWS ANALYSIS

Event

On 9 March 2002, the Copyright Board of Canada issued proposals for increasing royalty fees on the sale of blank audio recording media in 2003 and 2004. The fee schedule includes:

- Audio cassettes at least 40 minutes long: C\$0.60
- CD-R and CD-RW: \$0.59
- CD-R Audio and CD-RW Audio or MiniDisc: \$1.23
- One MB of removable memory: \$0.008
- One MB of nonremovable memory: \$0.0021
- One GB of nonremovable memory in MP3 or similar devices: \$21
- Any type of DVD: \$2.27

Analysis

These proposals reflect the ability of the recording companies to influence governments and further their own interests. The advent of digital media and Internet transport has dramatically increased the exposure of owners of intellectual property to loss of revenue, so such increases are justified to a limited extent. Viable digital rights management (DRM) technology has only just started to appear. Because it prevents quick and easy access to content, DRM has a way to go before consumers get used to the idea. Taxing the physical media on which the content is transferred and played offers a reasonable alternative. However, the music industry has launched a multipronged attack, including proposing draconian measures to the U.S. government.

Such proposals threaten technology vendors. The fees apply to all blank media, including those used for business purposes such as publication of documents, legitimate reproduction of software and backup. Such fees raise the ultimate cost of using and acquiring tech vendors' products and could therefore reduce sales and slow innovation. Moreover, the technology industry also faces the serious risk that the levy could extend to PCs. For example, Germany has such a fee on the CD drive.

Most Western countries already have similar laws imposing royalty fees, and Gartner believes that these governments, under pressure from music industry lobbyists, will attempt to update their laws. Few consumers know that they already pay such fees for audio tape, so they will likely accept new and increased fees for the digital recording media. Therefore, PC and related digital technology vendors should start lobbying governments now.

Analytical Source: Martin Reynolds, End-User Computing

Need to Know: Reference Material and Recommended Reading

- "Standards Issues Cloud New DVD's Potential for Data Storage" (FT-15-6153). Despite the glowing promise of the new blue laser DVD technology, actual products remain years away. **By Ken Weilerstein**

- “Smarter Media Enables Better Camcorders” (HARD-WW-DA-0035). The MICROMV cassette is the fifth video camcorder media format for consumers to mull over as they decide to upgrade their older analog camcorders. **By Andrew Johnson**

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