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Piracy and Jobs in Europe – A Note on the BASCAP/TERA Study

The Social Science Research Council is currently completing a 3-year, 7-country study of software, film, and music piracy. A portion of this work examines methods for estimating losses to stakeholders and larger national economies. In advance of the publication of this report, and in response to a request from several European digital rights groups, this note offers some brief observations on the recent BASCAP/TERA study, "Building a Digital Economy: the Importance of Saving Jobs in the EU's Creative Industries."

The TERA study adapts a methodology developed by Stephen Siwek in a series of papers commissioned by the MPA, RIAA, and ESA in the United States in 2006-2007. The goal of these studies is to expand the debate about piracy beyond claims of losses to specific industries to losses to national economies, including especially lost jobs.

The TERA approach is relatively simple: it calculates industry losses based on the total number of 'infringements' reported by industry groups (taking into account substitution rates drawn from other studies and retail prices); it then divides that loss number by the average salaries in the creative sector to obtain direct job losses; it then doubles *that* number to account for 'indirect' job losses in the various support industries.

Many of the specific assumptions and data sources of the study deserve closer scrutiny. Several industry groups, notably including IFPI and ESA, have refrained from publishing estimates of industry losses due to obvious difficulties of measurement. But, in our view, the larger problem with the TERA study is that it makes two basic mistakes regarding national economies and international trade.

1. Domestic piracy can impose losses on specific industrial sectors, but these are not thereby losses to the larger national economy. Within any given country, piracy is a reallocation of income, not a loss of it. Money saved on CDs or DVDs will be spent on other things—housing, food, other entertainment, etc. There is then a legitimate (and analytically very complex) question about whether these alternative uses represent more or less productive uses of money in comparison to additional revenues for the affected industries (Sanchez 2008). There has been, to the best of our knowledge, no serious analysis of this issue. And it is quite possible that these alternative uses are more productive, socially valuable, or job creating than additional investment in entertainment goods.

2. TERA's job loss numbers assume that piracy losses fall solely on European companies. For movies, music, and software, however, this is manifestly not the case. Hollywood studios control 68 percent of the film market in the EU. MS Windows, Office, and many other basic software tools are produced primarily in the US and have significantly higher market share in the EU. The global footprint of many of these companies makes the breakdown of revenue streams difficult, but the overarching dynamic is simple: for IP imports, *legal sales represent an outflow of revenue from the national economy*. *Piracy, in contrast, represents an at least*

nominal national welfare gain, in the form of increased access to a valuable good. For film and software, the European countries are primarily IP importers. A very credible Dutch government-sponsored study of these factors estimated the social welfare impact of music piracy in the Netherlands to be a net positive €100 million (Huygen et al. 2009).

The TERA study buries these points in the last paragraph of its last appendix: "To be fully consistent, we should have considered the proportion of local/foreign pirated products (for all the covered creative products), but such data were not available." In our view, this is an elephant in the room. On balance, it is very likely that European countries realize a strong net welfare benefit from audiovisual and software piracy.

SSRC piracy research has been vitally concerned with the task of fostering rich, diverse cultural production in the digital era. We do not minimize the challenges that piracy—and the digital transition more generally—pose to many existing business models. But we do not think that those goals are served by misrepresenting the impact of piracy. Nor do we think that pointing this out is pro-piracy or anti-industry. Rather, our findings align us with what we see an emerging industry consensus, well-illustrated by Robert Bauer, former Director of Special Projects for Global Government Affairs at the MPA:

> Our job is to isolate the forms of piracy that compete with legitimate sales, treat those as a proxy for unmet consumer demand, and then find a way to meet that demand.

The creative industries that prosper in the digital era, our larger study suggests, will be the ones that answer that challenge.

Sincerely,

Joe Karaganis
Program Director, SSRC

Huygen, Annelies et al. 2009. *Ups and downs - Economic and cultural effects of file sharing on music, film*

and games. TNO Information and Communication Technology.

Sanchez, Julian. 2008. "750,000 Lost Jobs? The Dodgy Digits Behind the War on Piracy." *Ars Technica*. http://arstechnica.com/tech-policy/news/2008/10/dodgy-digits-behind-the-war-on-piracy.ars.