

RIAA Ex. C-102-DP

2001

IFPI Music Piracy Report

June 2001



representing the
recording industry
worldwide

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INTRODUCTION

Music piracy poses a greater threat to the international music industry than at any other time in its history. Traffic in pirate recordings is not only proliferating worldwide – it is rapidly diversifying into new technologies and formats.

Commercial pirate recordings today range from the traditional cassette to the manufactured CD, and from the CD-R disc replicated in a garage or laboratory to the audio file distributed on the internet. Adding to the threat of commercial piracy is the spread of CD burning, made possible by advances in digital copying technologies.

The impact of this diversification goes far wider than the music industry – piracy stunts the growth of the information-based economy; erodes innovation and cultural creativity and increasingly impacts on the international reputations of countries that fail to protect intellectual property rights.

Much of the pirate music business is linked to organised crime and to international criminal activities such as drugs and money laundering. Syndicates work between countries and continents – especially between South East Asia and Latin America, and between Eastern and Western Europe.

IFPI spearheads the music industry's fight against piracy worldwide on behalf of its membership of more than 1400 record producers and distributors. IFPI works with governments to enact strong anti-piracy laws and provides professional assistance with the effective enforcement of these laws. It also helps develop technologies to protect the rights of record companies and other copyright holders and it has a forensic laboratory that can assist in identifying the origin of pirate product. Governments have a key role to play in the fight against piracy, yet legislation and enforcement strategies in many territories remain woefully mismatched to the problem they face.

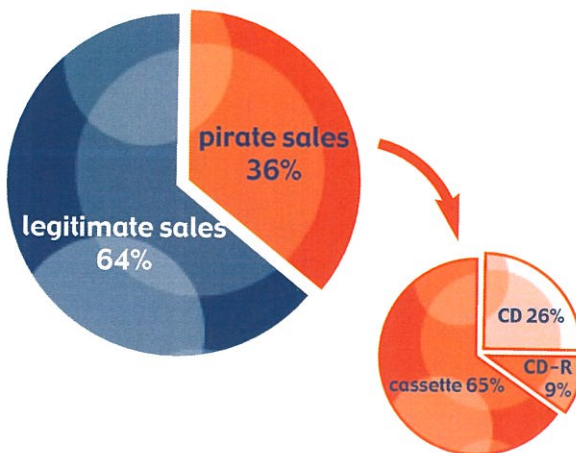
Confronted with this proliferation, the music industry has two key priorities in the fight against piracy. They are:

- **Adequate legislation** – in many jurisdictions intellectual property protection is inadequate. In particular governments need tighter controls over CD plants through **CD plant regulations**.
- **Effective enforcement** – in many territories, enforcement agencies have inadequate resources and are ineffectively managed. In many cases fighting piracy is given a very low priority by prosecutors and judiciaries, and penalties handed out by courts are often derisory.

MUSIC PIRACY – THE SCALE AND NATURE OF THE PROBLEM

The global pirate music market totalled 1.8 billion units in 2000. This means that more than a third of all CDs and cassettes around the globe are illegally produced and sold. This spread of music piracy is being driven by increasing disc capacity and the phenomenal growth of the CD-Recordable disc. Discs (as opposed to cassettes) now make up 35% of all pirate sales, compared to just over a quarter in 1999, and almost one in ten pirate products are sold on the CD-R format.

Worldwide sales of pressed pirate CDs were 475 million units, up from 450 million in 1999, with pirate CD-R discs estimated at around 165 million units (at least 60 million in 1999). Sales of pirate cassettes fell to 1.2 billion units (1.4 billion in 1999), reflecting the growing displacement



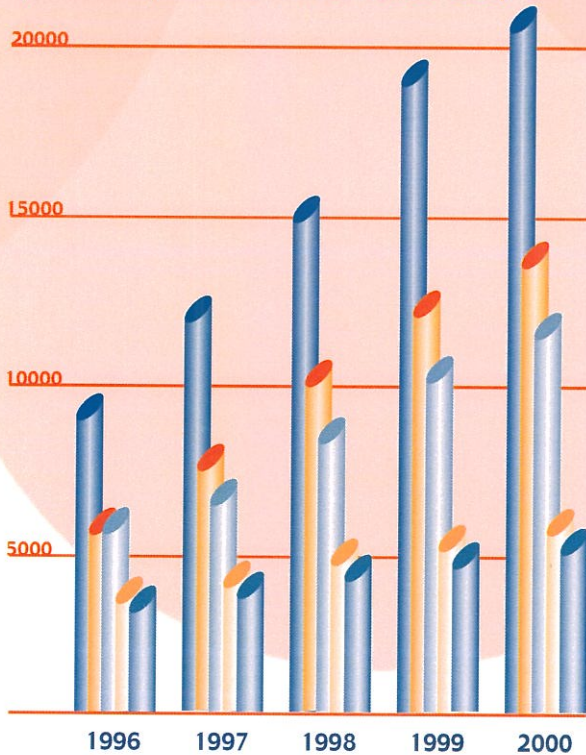
of the cassette by the CD as pirate operators upgrade their formats. This in turn led to a slight increase in the value of the overall global pirate market, from US\$4.1 billion in 1999 to \$4.2 billion in 2000.

The value of the pirate market does not indicate losses in revenue to the legitimate recording industry, which are likely to be far greater. In territories where piracy proliferates – highlighted in this report – the entire development of legitimate markets is impeded. The value of the pirate market is calculated at local pirate prices, rather than the legitimate market price.

Optical Disc Supply

Music piracy is affected by a combination of demand and supply. The supply of optical disc media substantially outstrips legitimate demand, and the resulting over-capacity fuels the pirate market.

Optical Disc Manufacturing (CD audio, CD-ROM and Video CDs)



(Figures for all bar graphs supplied by Understanding & Solutions Limited)



There has been a steady increase in the number of known optical disc plants in recent years. More than 700 plants were in operation by the end of 2000, compared to 660 a year earlier. Territories where over-capacity contributes to very high levels of pirate production are shown below.

CURRENT ESTIMATED PRESSING CAPACITY 2000

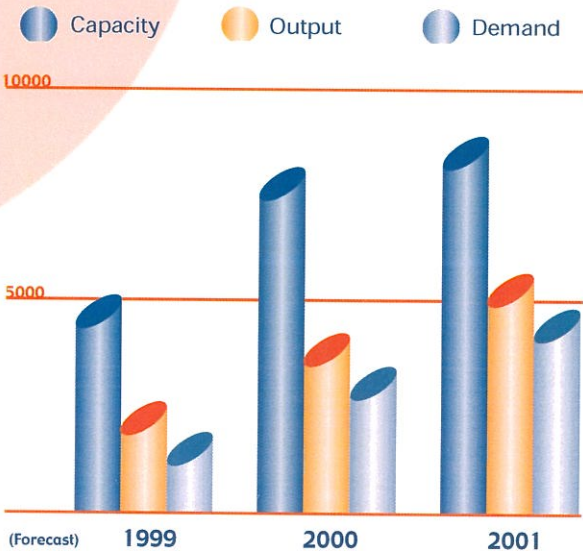
Country	Estimated Capacity – all formats (million units)	Total Legitimate Demand for all discs (million units)
Taiwan	7,000	255
Hong Kong	2,900	150
Singapore	590	70
Macau	345	2
Malaysia	300	60
Czech Republic	160	40
Russia	120	45
Israel*	100	40
Ukraine	70	5

*Not including Palestine Authority

The Growing Threat of CD-R Piracy

The CD-R is the fastest-expanding pirate format, and this has been reflected in the past year by an explosion in demand for blank CD-R discs. Shipments of pirate CD-Rs (from wholesale to retail) in both audio and non-audio formats grew by 80% in 2000. Blank CD-R prices have plummeted, with retail prices now as low as \$0.15 to \$0.20 in some regions.

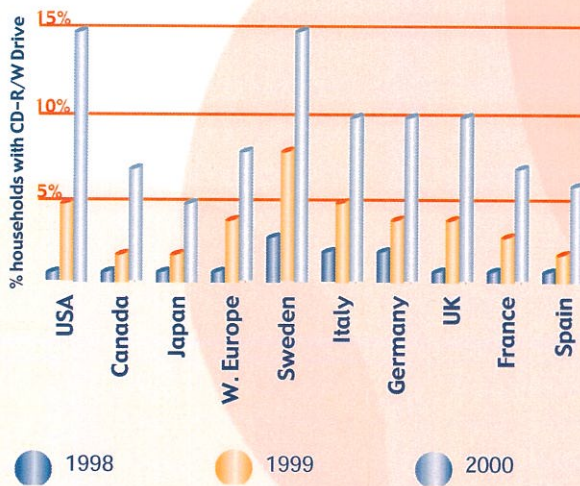
CD-R Supply and Demand



The growth of CD-R burning in the home by consumers is an increasing problem in major European markets. Research in Germany indicates that over 100 million copies were made through CD-R burning in 2000. At the same time CD sales in Germany fell by 3%. Similar problems have been reported in other countries including France, Spain, Italy, Holland and Sweden.

The growth in CD-R burning is linked to several factors, including the rapid increase in ownership of CD-R/W drives; the almost universal 'bundling' of burner software packages in with new personal computers; and increasing internet penetration. A recent MORI survey has reported that over 20 million adults in Europe have downloaded music and that some 45% of these have burned the download on to a CD-R.

Household Penetration of CD/Read/Write Drives



CD Piracy and Organised Crime

It is central to the recording industry's anti-piracy efforts that governments, enforcement authorities and the general public recognise the links between music piracy and serious forms of organised crime.

In the mid to late 1990s, the infiltration of organised criminal gangs into music piracy took hold as the CD format offered an ideal entry into what was perceived as a low risk, high profit illegal trade. The profits generated have often helped to fund other serious criminal activity.

Recent cases that illustrate the role of organised crime in music piracy include:

In January 2001, two Russians were sentenced in London to four years imprisonment for their part in a

counterfeit CD operation and credit card fraud. The UK's City of London Fraud Squad acted when an IFPI undercover agent investigating pirate CD traffic from Russia into London, discovered what has been described as the most sophisticated credit card fraud operation ever seen in the UK. Potential losses to the credit card industry exceeded UK£5 million.

In the Netherlands, five members of an organised CD pirate ring were given up to four and a half year prison sentences in October 2000, and the gang was also ordered to pay back illegal profits of \$500,000 under a new law dealing with organised crime.

Germany's Organised Crime Squad carried out a series of raids in June 2000, following investigation into the manufacture and distribution of 'Disco Mix' pirate compilations. In March 2001, the principle defendants were sentenced to nearly four years - the highest-ever sentences handed down for copyright infringement in Germany.

In early 2001, raids in the Naples area of Italy turned up the largest-ever pirate CD-R haul in Western Europe. The operation was coordinated by the Anti-Mafia Public Prosecutor's office in Naples and resulted in the arrest of five members of an organised crime group.

Music piracy has also been linked to terrorist activity, and this was dramatically illustrated by an incident in Ireland in 2000 when police officers who had discovered thousands of counterfeit recordings were ambushed by armed gunmen. Shots were fired and the gunmen escaped in a commandeered vehicle. Arrests were subsequently made, and links with the 'Real IRA' have since been established.

In Russia and Eastern Europe, traffic of pirate CDs is commonly coordinated by complex networks of fraudulent and shell companies. Successful enforcement actions were launched against notorious public market areas in Moscow and Talin (Estonia) where criminal gangs control pirate distribution.

In South East Asia, criminal syndicates are focused especially on pirate imports to Latin America. One such organisation was broken up in December in Hong Kong. It had been exporting stampers, capable of producing millions of CDs, to Brazil. Some 500 stampers were seized, with a production value of \$300 million.

Tepito Market in Mexico, home of about three quarters of the country's pirate activity, is a vast concentration of illegal trade run by criminal syndicates. Anti-piracy initiatives in this area included a raid involving 1200 armed police officers, resulting in the arrest of 30 persons and the seizure of 60 truck-loads of illegal music CDs and cassettes.

ENFORCEMENT

In the past year IFPI completed the creation of the global anti-piracy enforcement structure approved by its Main Board in November 1999. A network of more than 50 regional and local investigators, supported by training, analytical and forensics staff headquartered in London, is now spearheading the enforcement effort in every continent.

IFPI's enforcement teams are containing the proliferation of pirate traffic, but not yet reversing it. They are often hampered by under-resourced, ineffective national enforcement agencies that are unequal to the scale and sophistication of the pirate businesses they are fighting to suppress.

The majority of large-scale enforcement successes of 2000 came at the manufacturing source rather than during shipment. Following a string of large-scale seizures of pirate CDs en route from South East Asia to Latin America in 1998-99, the biggest actions of last year were at plant sites in South East Asia. In the Philippines, for example, seven CD manufacturing lines used to produce pirate product were closed down, halting potential production of 25 million pirate CDs. In total, IFPI assisted in cases that led to the closure of 20 CD lines in 2000, with a total capacity of more than 70 million CDs. In 2001, that closure rate has already increased dramatically: in the first four months alone, 27 CD lines were shut down, with annual production capacity of more than 100 million CDs - enough, for example, to supply the total annual legitimate market for CDs in France.

Music pirates, like their counterparts in other forms of organised illegal trade, are flexible and mobile in the pursuit of profit. This has led to significant displacement of manufacturers, particularly in South East Asia where progress by enforcement authorities in Hong Kong, Macau and Malaysia has seen pirate organisations expand into Myanmar, Cambodia and Vietnam. A similar trend appears to be present in Europe. Mounting international pressure on Ukraine (where pirate plants had relocated from Bulgaria in the late 1990s) has already led to the export of CD plant lines from that country to Russia and Belarus.

Another key feature of the past year has been the global diversification of pirate operators moving from 'traditional' CD audio piracy to the mass replication of CD-Rs. Falling prices partly explain this trend, but so too does the improved enforcement against major CD plants and trade routes, particularly in Latin America. This is illustrated in Brazil, where it is estimated that in 2001 the number of discs imported from South East Asia has fallen from 90% to only 50% of the pirate market. The

remaining tens of millions of illegal discs are pirate CD-Rs burned locally or in neighbouring Paraguay.

CD-R piracy, taking the form of towers of CD burners in small premises such as garages, laboratories or offices, has also swept major markets in North America and Europe. In Western Europe, Spain and Italy saw actions against massive organised CD-R pirate operations. In the United States the number of pirate CD-Rs seized rose by 80% to some 1.7 million CD-Rs during the past year. The problem has hit Eastern Europe hard too - piracy rates in the Czech Republic doubled in 2000 due mainly to a proliferation of CD-R copy shops.

IFPI's investigative and training resources are now fully in place. The newly installed forensic laboratory, helping enforcement agencies pinpoint the exact source of manufacture of pirate CDs, played a key role in providing the authorities in Ukraine with evidence of the mass exports of pirate CDs to more than 20 countries in Europe. Meanwhile IFPI has seen its first full year of regular training programmes for customs and enforcement agencies. IFPI trainers worked with authorities in more than 25 countries in 2000.

Litigation

IFPI's enforcement efforts are coupled with an aggressive litigation strategy. In summer 2000, a dedicated litigation department was established, responsible for civil and criminal litigation against manufacturers and distributors involved in music piracy.

In August 2000 IFPI, working jointly with the Business Software Alliance, agreed to a \$1.2 million settlement with a Swedish replication group in respect of the manufacture of CD-ROMs containing infringing MP3 files and business software. In September 2000, the litigation department secured a \$700,000 settlement with a Danish replication plant. These cases have created increased awareness among replicators in Europe that they must introduce effective procedures to ensure that they do not manufacture music discs that are not authorised by the copyright owners. Pan-European distribution of pirate product has also been targeted. Substantial settlements have been agreed with distributors of pirate compilations in Switzerland, Portugal and the UK. Criminal complaints have also been filed against a number of individuals directing the distribution of pirate product in Europe and Asia.

The year 2000 saw the expansion of IFPI's litigation efforts into Asia and Latin America. Civil proceedings are now ongoing or under preparation in Hong Kong,

the Philippines, Taiwan, Malaysia, Brazil, Paraguay and Mexico.

Initiatives to help optical disc manufacturers avoid pirate orders complement the deterrent litigation strategy. In January 2001, IFPI distributed to mastering and replication plants worldwide the 'Anti Piracy Good Business Practices' guide, giving practical advice on how to identify pirate orders and reduce exposure to copyright infringement actions. At the same time, IFPI distributed a new guidance leaflet entitled 'Copyright For Replicators - How To Protect Your Business'. IFPI also works with industry bodies such as

the International Recording Media Association (IRMA) and the Optical Media Manufacturers Association (OMMA) to develop procedures that will assist manufacturers and equipment suppliers in avoiding orders from music pirates.

These dual strands of aggressive litigation and proactive cooperation are helping to create a clearer division between legitimate replicators and distributors of music, who take all appropriate steps to respect and protect intellectual property, and those parties who deliberately or recklessly flout copyright law for their own profit.

GOVERNMENT ANTI-PIRACY STRATEGIES : some highlights in 2000-2001

Brazil

Piracy remains at chronic levels (50%), with a dramatic increase in CD-R piracy. However, pressure from the music and intellectual property sectors led to a Presidential Decree in March 2001, by which the Brazilian Government created an 'Interministerial' Anti-Piracy Committee aimed at coordinating the efforts of the country's different enforcement agencies.

China

Audio piracy is rampant in China, with illegal recordings comprising more than 90% of the market. The Chinese government is well aware of the problem, and this has been reflected in recent statements by officials. China is expected to pass amendments to its copyright laws later this year that will strengthen the powers of enforcement officers as well as deal with internet piracy. Anti-piracy measures already taken at central, provincial and city level include a specified period of intense raiding operations, public education campaigns and regulation of the retail and distribution sectors. However, anti-piracy action has yet to impact on market conditions, other than in Shanghai, where piracy at the retail end has been reduced to a manageable level.

Egypt

Egypt, where IFPI has for the first time recruited enforcement personnel, has seen a breakthrough in the longstanding problem of fraudulent licensing of international repertoire. This problem has contributed to a piracy level for international repertoire estimated at 99%. However, in the first half of 2001, the Egyptian authorities stopped providing censorship clearance for

recordings released under the terms of the four fraudulent licences, previously granted.

EU: COPYRIGHT DIRECTIVE

The EU Copyright Directive, aimed at implementing in Europe the 1996 WIPO Treaties on the protection of copyright, was adopted by the EU Council of Ministers in April 2001. The Directive clarifies that music is protected in the online environment by harmonising copyright rules throughout the EU and by introducing the legal protection of technological measures aimed at combating unauthorised, mass copying. The Directive provides a legal framework in which record companies can offer new services to consumers as well as giving the legal basis to pursue pirates on the internet. EU Member States will have 18 months to implement the Directive into their national laws, following the official publication of the legislation, which is expected by the beginning of June 2001.

EU: ENFORCEMENT DIRECTIVE

The European Commission has said it proposes to introduce a new Directive by early 2002 to strengthen the most important civil enforcement tools needed to combat piracy in the EU. The Directive is aimed at preventing pirates from taking advantage of inconsistencies and weaknesses in Member State laws to avoid detection, prosecution and sanctions. The proposed Directive is welcomed by IFPI, but it is a first step: IFPI is pressing for deterrent criminal penalties and rigorous enforcement also in the criminal field.

INTERPOL

Interpol, the international police organisation, has thrown its weight behind the fight against the international pirate music trade by passing a resolution recommending action on crimes against intellectual property. The resolution recognises the major problem that intellectual property crime poses to economies and legitimate business internationally. It was passed at Interpol's 69th General Assembly, which took place in Rhodes, Greece, in October 2000 and which was attended by delegates from 122 countries. Interpol is reviewing the current capabilities and weaknesses of law enforcement authorities in dealing with intellectual property crime.

Ireland

Ireland updated its copyright law in July 2000 to simplify legal procedure in copyright cases and make bootlegging of live concerts an offence. The law provides some of the stiffest penalties for copyright violation in Europe, allowing the courts to demand that music pirates or other infringers pay punitive damages as well as compensatory damages to rights owners. It also confirms penalties of maximum five-year prison sentences and fines of up to IEP100,000 for copyright crime.

Italy

Italy adopted a long-awaited anti-piracy law that increased criminal penalties, with maximum fines rising to ITL30 million (\$16,500) and up to four years in prison. It also introduced tougher administrative sanctions in the form of new powers to revoke business licences from retailers involved in piracy, and created a government committee to coordinate anti-piracy initiatives.

Macau

Macau has made progress in the fight against piracy. The SAR Government signed the SID Code agreement with IFPI and Philips in December 2000. All CD plants in Macau must use the SID codes assigned to them by the Government on all optical discs they manufacture. There have also been moves to strengthen the role of customs. Macau customs will be established as a new and separate department to take over all enforcement duties carried out by the current Economic Services and Marine and Customs Police. Macau also controls the importation of polycarbonate used in the manufacturing of optical discs.

Malaysia

Controlling pirate CD manufacturing through optical disc regulations is a central part of the industry's anti-piracy strategy. Following the example of Hong Kong and Bulgaria, Malaysia adopted CD plant regulations in 2000. These have played an important role in stepping-up anti-piracy enforcement by the authorities, including action against two illegal underground plants in December. The Malaysian Optical Disc Act 2000 was passed in September, and requires that all optical disc plants be licensed, and may be searched without a warrant. They must use the SID codes in both the mastering and replication processes. Violation of these regulations results in significant fines and imprisonment.

Mexico

Mexico has been hit by a dramatic increase in CD-R piracy, taking the country's total piracy rate to more than 60%. The top priority for the music industry is effective anti-piracy enforcement. The country has made good progress on the legislative front, but there is poor coordination between the key enforcement agencies, a lack of commitment to intellectual property offences by the Judiciary and a lack of deterrent sentencing in the courts.

Taiwan

Taiwan is also moving towards implementing CD plant regulations. The Optical Disk Law is expected to be passed by the Legislative Yuan in the second half of 2001. The proposal specifies criminal responsibility for unauthorised CD production. All CD plants will be required to obtain licences before they commence operation. Compulsory use of SID codes and the keeping of proper factory records are required.

Ukraine

Ukraine failed to respond to mounting pressure for effective anti-piracy action, both from the international community and from its own fledgling legitimate music industry. In March 2001 Ukraine was designated Priority Foreign Country - one step away from trade sanctions - under US Special 301 legislation. Ukraine has an estimated CD production capacity of more than 70 million units, compared to a legitimate market of around one million units. IFPI's forensic tests helped show that pirate CDs manufactured in Ukraine have been found in more than 20 countries. The priorities in Ukraine are CD plant regulations and effective copyright legislation.

INTERNET PIRACY

Like traditional forms of music piracy, widespread unauthorised copying and transmission of recorded music over the internet damages the legitimate market. Sales of physical CDs, particularly singles, suffer as a result of mass distribution of pirate internet copies. Internet piracy also severely hinders the development of legitimate online services.

In both cases, the problem is the same: illegitimate commerce bears none of the development costs and rewards none of the many creative people involved in producing music. This is why IFPI, its members and all of its national groups, have led the way in combating internet piracy.

Types of Internet Piracy

Internet piracy takes many forms. At its most basic, it can involve making available databases of music files on website or File Transfer Protocol (FTP) sites for instant download. It may take the form of serial uploads and downloads of files via internet newsgroups or Internet Relay Chat (IRC) channels.

Compilations of links to infringing material, for direct or indirect download, and offers of 'hacking' programs and unauthorised access codes are commonplace. One of the most disturbing trends has been the advent of commercial peer-to-peer services attempting to build their business on the back of bulk unauthorised copying and use of copyrighted material.

The Scale of Internet Piracy

Internet piracy has grown exponentially over the past two years. At its peak in February 2001, some 2.8 billion songs were traded on Napster, according to internet research firm Webnoize. Following the injunction (see below) in March 2001, this has fallen steadily, with some market research firms reporting many users actually uninstalling the Napster software. At the time of publication, mass take-up of Napster alternatives such as Gnutella and Freenet have not yet occurred due to the relative complexities involved in accessing files through these technologies.

Major Court Actions

The year 2000 saw two major court cases by RIAA members make a significant impact on commercial enterprises engaged in or contributing to internet piracy. The case against MyMp3.com for uploading 45,000 CDs to an internet database resulted in an order finding 'wilful' infringement and statutory damages due in the amount of

\$25,000 per CD infringed. Including settlements reached with some of the pirates, MP3.com has accrued at least \$170 million to pay damages for this infringement.

In the case against Napster, the US Court of Appeals upheld the trial court's initial finding that Napster knowingly encouraged and assisted internet users in widespread illegal copying of music. 'To turn a blind eye to detectable acts of infringement for the sake of profit gives rise to liability,' the court found. A preliminary injunction was issued against Napster requiring it to block infringing files of which it has actual or constructive knowledge, and requiring Napster to police its system.

Other landmark cases are developing around the world. The highest courts of Sweden and Belgium, and courts in Denmark and France, have found that links to infringing material constitute an unauthorised communication to the public of a copyrighted work. Such links must be removed upon notice. A settlement with the MyWeb service in China achieved the same result.

IFPI's Internet Anti-Piracy Strategy

- **High-volume takedowns** - given the volume of infringing material involved, IFPI's programme to reduce internet piracy relies heavily on prompt detection of unauthorised files and cooperation with service providers to remove this material on notice. Such cooperation has worked well, with more than 95% of infringing material removed or blocked within 48 hours after notice to a service provider. During 2000 alone, IFPI had 15,000 sites taken down and up to 300,000 illegal music files removed.
- **Technological solutions** - the search and notice process needs to be as quick and automated as possible. IFPI has been working on a variety of technical tools to speed up and streamline the fight against internet piracy. These include the software search tool Songbird.
- **Strategic litigation** - IFPI, its national groups and members, continue to bring civil and criminal litigation in cases where piracy is particularly intractable, where an important legal principle must be established, or where deterrence to a broader set of potential pirates is needed.

 songbird

The internet anti-piracy software tool Songbird was launched in May 2001. Songbird, created by 20-year old internet entrepreneur Travis Hill and his company Media Enforcer LLC, is endorsed by IFPI and several

international and industry organisations representing artists, composers and other music copyright holders.

The tool was designed especially for artists and independent record companies who are not part of the Napster litigation in the United States, enabling them to identify the existence of unauthorised files on a larger scale than they can now. Songbird was launched on a public website (www.iapu.org), with endorsements from organisations including: AURA, BIEM, CISAC, FIM, ICMP-CIEM, MMF, MU, PAMRA and PPL (full titles of organisations, along with supporting quotes, are listed on the Songbird website). The website has attracted some 50,000 users in the first few weeks since its launch and over 15,000 visitors have downloaded Songbird.

The software allows the user to see, in a matter of minutes, details of thousands of music files available on the Napster.com network. Songbird searches all of the available Napster servers and, unlike Napster's own software, it is not limited in the number of tracks it can find. Songbird can also find spelling variations (eg Pig Latin) of artists.

The WIPO Treaties

The fight against internet piracy requires national and international copyright rules to keep pace with technological developments. The World Intellectual Property Organisation (WIPO) 'internet treaties' of 1996 are an important tool for bringing copyright into the digital age. These treaties make clear that copyright protects the making available and copying of material over the internet, as well as technologies used to manage copying and transmission.

Widespread ratification and faithful implementation of the WIPO Performances and Phonograms Treaty (WPPT) and the WIPO Copyright Treaty (WCT) are one of the most important policy objectives of IFPI worldwide. The year 2000 saw a broad range of countries in all parts of the world adopt the WIPO Treaties, and the implementation of the EU Copyright Directive will bring Europe into the treaty fold. At the time of this report's publication, 24 countries have ratified the WCT and 22 the WPPT. These treaties are expected to come into effect in 2001.

The Legitimate Online World Takes Shape

Sales forecasts for the development of legitimate online music vary widely, with many research firms predicting major opportunities in online music services. The latest estimate for the US market by research company Jupiter MMXI shows that the value

of the total digital online music market (including downloads and subscriptions) could be worth US\$467 million in 2003, while the European online music market would be substantially smaller at €124 million (\$108 million) by the same year.

Distribution on the internet is in a period of change and development. In the last two years, the internet has been dominated by pirate sites with no means of reimbursing rights holders, but this situation is changing. In the US alone, there are now over 200 consumer websites and a further 210 sites from music labels that currently offer legitimately licensed music online. In 2000 and 2001, music companies big and small struck licensing deals and launched new services. Record companies and independent labels are working on business models for the online market place, with a focus on the following points:

- **Service delivery** - how consumers will receive the product. Broadband internet access is being rolled out in key markets. A variety of delivery mechanisms such as streaming, internet-radio, file download and file-sharing applications are being developed to utilise broadband distribution.
- **Service payment** - how consumers will pay for content. Services include samplers, pay-per-play, subscription payment and paid downloads.
- **Access to content** - how consumers will find the content on the internet. Consumer access is boosted as music sites and portals have been created throughout the distribution chain, for example by artists, labels and established distributors.
- **Security & format** - what technologies the consumer will use and how content can be managed by consumers, providers and creators. Numerous technology companies have been creating new markets for enabling technologies including those used to compress, secure, package and deliver the content.

Most prominent at the time of publication are the two joint ventures announced in early 2001, MusicNet and Duet. Both ventures are built on partnerships between established online players and major music companies. MusicNet brings together AOL, RealNetworks, EMI, BMG and Warner, Duet features Yahoo!, Universal and Sony. The two most recognised online music providers so far, Napster and MP3.com, have also linked up with record companies. Napster, in alliance with Bertelsmann, edel and TVT Records, will attempt to re-launch as a subscription service while MP3.com has been acquired by Vivendi-Universal.

REGION/COUNTRY PROFILES

IFPI's anti-piracy activities focus both on countries that are heavy producers of pirate product and on territories where the levels of domestic piracy are excessively high or growing rapidly. The following table provides information on the current priorities for IFPI in terms of domestic piracy.

IFPI PRIORITIES IN TERMS OF DOMESTIC PIRACY LEVELS IN 2000

Country	Piracy - US\$ Value	Piracy level (units)
China	600	90%
Russia	240	65%
Mexico	220	65%
Brazil	200	50%
Italy	180	25%
Paraguay	110	95+%
Taiwan	100	45%
Indonesia	65	55%
Malaysia	40	65%
Greece	40	50%

North America

In the US, removing online pirate sites remains a priority following the precedent set by the decision against Napster. The number of commercial sites in the US generating Digital Millennium Copyright Act (DMCA) notices rose by over 400% (to over 10,000). There was also an increase in the number of notices sent to link sites facilitating the downloading of unauthorised music files.

CD-R piracy also showed a marked increase. Counterfeit and pirate CD-R seizures in 2000 increased by nearly 80% over those of 1999, resulting in the seizure of some 1.7 million units.

Piracy in Canada remains low. However, there has been a significant increase in the number of free files available on the internet.

Europe

Mass CD-R copying is a major problem throughout Western Europe, contributing in particular to a decline in the legitimate markets in Germany and France, which are the second and third largest markets for blank CD-Rs in the world after the US. Spain, Italy and Holland have seen sharp increases in the numbers of illegal CD-Rs being sold and all report CD-R burning as a growing problem.

Massive imports of pirate CDs from Ukraine into the entire Eastern European region continued throughout

the year, particularly affecting markets in the CIS, Poland, the Baltics and Bulgaria, where piracy levels remain excessively high. In Russia, CD production capacity has increased sharply during the first half of 2001 due to imported CD lines. Moscow remains a hive of activity in the retailing of pirate product, with cassettes still the bulk of trade. The Czech Republic, Hungary, Estonia and other more developed markets in this region saw a substantial rise in CD-R piracy, exacerbated by the appearance of numerous copy shops and public CD copying machines. Piracy in the Czech Republic more than doubled.

Asia

Asia remains the hub of pirate CD production and many territories suffer from chronic domestic piracy rates. China remains the biggest pirate territory in the world, with piracy at a rate of 90% and a value of \$600 million. Piracy in Hong Kong has continued to fall (down from 50% to 25% in 2000) due to sustained government action against pirate retail outlets. In the Philippines, piracy remains high, though 2000 saw the start of a more systematic anti-piracy campaign. India, Pakistan, Malaysia and South Korea all show high piracy levels, while Indonesia saw the fastest growth in piracy in the region.

Latin America

Pirates from South East Asia have found their export routes into the markets of Latin America increasingly disrupted by anti-piracy activity. However, local syndicates have started their own pirate CD manufacturing enterprises utilising underground plants in Paraguay, although some mastering is still carried out in South East Asia.

In Brazil, Paraguay and Mexico, seizures indicate that CD-Rs are displacing cassettes as the main pirate format. Mexico has seen its piracy level rise to over 60%, higher than that of Brazil. In Paraguay the pirate market has reached record levels of 99%.

Africa

The piracy level in South Africa has risen due to the proliferation of pirate CD-Rs. Zimbabwe has seen an increase in music cassette piracy that, together with increasing levels of CD-R piracy, has driven piracy to around 20%.

Middle East

Cassette piracy dominates in this region, with the sole exception of Israel. In the Gulf States, Kuwait and Saudi Arabia continued to show the highest levels of piracy with both countries having an estimated overall rate of some 50%. UAE continued its effective enforcement measures and is the only country in the region with a

piracy rate below 10%. However, through increased enforcement activities the authorities in Bahrain, Oman and Qatar made further substantial reductions in their piracy levels. In Egypt, international repertoire continued to suffer from a piracy rate of 99%.

Australasia

The Piracy level in Australia climbed slightly but is being contained to under 10%. Piracy in New Zealand is also low.

Level of domestic piracy 2000 (units)

	Over 50%	25-50%	10-25%	Less than 10%
North America				Canada USA
Europe	Bulgaria CIS (Other) Estonia Greece Latvia Lithuania Romania Russia Ukraine	Cyprus Poland Slovenia	Croatia Czech Republic Finland Hungary Italy Netherlands Spain	Austria Belgium Denmark France Germany Iceland Ireland Norway Portugal Slovakia Sweden Switzerland UK
Asia	China Indonesia Malaysia Pakistan	Hong Kong India Philippines Taiwan	Singapore South Korea Thailand	Japan
Latin America	Bolivia Ecuador Mexico Paraguay Peru	Argentina Brazil Colombia Central America Venezuela Uruguay	Chile	
Australasia				Australia New Zealand
Middle East/Turkey	Palestine Authority	Egypt Israel Kuwait Lebanon Saudi Arabia Turkey	Bahrain Oman Qatar	UAE
Africa	Kenya Nigeria		Ghana South Africa Zimbabwe	

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