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Global watch on culture and digital trade

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STREAMING PLATFORMS IN CULTURAL GOVERNANCE: BETWEEN CENSORSHIP POLICIES AND NEGOTIATIONS WITH CULTURE PROFESSIONALS

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Analytical report, October 2022

The October report begins with the harsh negotiations between Danish audiovisual producers and major streamers toward the development and production of local series and films, as well as with the clash between Arab states of the Persian Gulf and large streaming services over national censorship policies of online audiovisual content. In addition, the report highlights the intention of the European Commission to launch a public consultation on whether technology giants, such as Google or Facebook, should bear some of the costs of Europe's telecoms network. Then, the report emphasizes the worldwide expansion of several video streamers, focusing on Australia and Finland. The report also turns to new business plans and strategic partnerships of streaming platforms. The first deals with the agreement between US music publishers and top streaming services, such as Spotify, YouTube, Amazon Music, on royalty rates for song owners, while the second relates to the cheaper, ad-supported plans launched by Netflix and Disney Plus. Finally, the report focuses on Spotify's plan to launch audiobooks for US listeners.

Regulation issues, digital trade and culture

Clash between Danish producers and major streamers

In January 2022, major streamers, such as Netflix, Disney Plus or the Scandinavian player Viaplay, stopped ordering new local Danish content - TV shows and films – following the collapse of negotiations with the Create Denmark union, which was supported by the Danish Producers Association. The situation results from the inability of both parties to reach an agreement on the terms and scope of payment for the transfer of rights from the creative talent, touching not only producers, but also script writers, directors, actors, directors of photography, production designers and editors.

End of September, a group of some of the largest Danish production companies, such as Fremantle-backed Miso Film, ITV Studios-backed Apple Tree Productions, SAM Productions, Nordisk Film Production, have released an open letter to the major streaming services to recommission local content or risk decimating half of the industry. According to the letter, “2022 has been a disastrous year for the Danish film- & tv-series business. The worst ever. And 2023 might be even worse. From being one of the most productive and leading countries within development and production of quality series and films to both streaming services and broadcasters, we have now come to a full stop”. In their letter, the production companies criticized Create Denmark for “demanding the introduction of principles that do not exist anywhere else in the world, and which the streaming services will not accept”. The letter mentioned that the industry’s loss would be between 130 million USD and 200 million USD.

According to Variety, the Scandinavian streamer Viaplay signed “a temporary agreement over the summer which is valid through December”. Regarding the future of negotiations, Viaplay explicitly mentioned that the key issue is to determine “how attractive it will be to invest in Danish content in the future”, taking into account “the Danish legislative proposal for a so-called cultural contribution or streaming levy representing 6% of annual revenues earned locally”.

Netflix vs. Gulf Arab States over censorship

According to Reuters, Gulf Arab states requested Netflix to remove from its catalogue "content deemed offensive to Islamic and societal values" and they pointed out that if the online streamer continued to broadcast the content "necessary legal measures will be taken". Even though the joint statement announced from Saudi Arabia's General Commission for Audiovisual Media did not specify the nature of the content, it mentioned that it included content for children. According to the statement, the content included on the catalogue of Netflix violates media regulations in force from the Gulf Cooperation Council, which brings together the following countries: Saudi Arabia, the United Arab Emirates, Bahrain, Oman, Qatar and Kuwait. According to Deutsche Welle, Saudi state television described Netflix as being an "official sponsor of homosexuality". It is worth reminding that in June several Middle Eastern and Asian countries, such as Saudi Arabia, the United Arab Emirates and Malaysia, banned Disney's animated feature film Lightyear from theatrical release because it included characters in a same-sex relationship, violating media content standards in these countries.

By joining the six Arab countries mentioned above, in early September, the Supreme Council of Media Regulation in Egypt announced a new set of rules on licences issued to streaming platforms in order to ensure that the content included on the online catalogues is in line with Egypt's "societal norms and values". The statement called for them to undertake "necessary measures if they air content contradicting values of the society".

Calls for Big Tech to share network costs

Early September, the European Commission, the European Union (EU)'s executive body, announced its intention to launch a consultation in the first quarter of 2023 on "whether tech giants bear some of the costs of Europe's telecoms network". The issue focuses on the "fair share" of US tech firms, such as Google, Facebook or Netflix, in the financing of the European telecoms and Internet infrastructure – notably the roll-out of 5G and fibre cables –, insofar as tech firms use a huge part of the online traffic. According to ETNO, Europe's lobby for telecoms operators, "more than half of the global network traffic is attributable to six firms: Google, Facebook, Netflix, Apple, Amazon and Microsoft".

End of September 2022, big European telecoms, such as Deutsche Telekom, Telefonica, Vodafone, Orange, released a statement, which focuses on the energy crisis and EU climate change goals and called for a “fair contribution” from the largest traffic generators to the “sizeable costs they currently impose on European networks”. However, end of August 2022, a group of small telecoms operators stressed that network fee aimed at Big Tech “would distort the telecoms market and harm competition”.

Worldwide activities of online platforms

Global struggle for subscribers and geographical expansion

In Australia, Netflix maintains a significant subscriber lead over other major streamers, such as Disney Plus and Amazon Prime Video. According to Hollywood Reporter, Australia, which is Asia-Pacific’s most mature online video market, had 22.1 million premium video subscribers end of August 2022, up from 19.4 million in the third quarter of 2021. According to the new report from regional consultancy Media Partners Asia, Netflix accounted for 30% of the total, with Disney Plus and Amazon Prime Video at 17% each. As such, the three global streamers accounted for 64% of the online video market, whereas local players Foxtel and Stan had 12% and 11%, respectively.

In addition, Netflix claimed a 50% of premium streaming viewing (38% in 2021), with Disney Plus at 16% of consumption and Amazon Prime Video at 9% of viewing time. According to Variety, Disney and Paramount, both operating their own platforms, “have ceased or limited licensing their content, placing pressure on local entertainment platforms”. Finally, the report pointed out that several platforms focus on profitability rather than simple subscriber growth as Netflix and Stan have already raised prices and lower-cost, ad-supported tiers are expected from Netflix, Disney Plus and, potentially, Amazon.

Finally, end of September Netflix announced that it will be opening its first in-house video game studio. As the Japan Times mentioned, the goal of the company is to be less reliable on third-party creators and to expand its gaming offerings and to establish itself into the mobile gaming market. The new studio will be based in Helsinki, Finland and will be the first studio Netflix will be building from scratch.

As Tech stressed, the company has chosen Finland because "it's already home to some of the best game talent in the world". The new games studio will be Netflix's fourth overall, after earlier this year, the company bought Finland-based Next Games for about 72 million USD and also acquired Texas-based studio Boss Fight Entertainment and California-based Night School Studio, each designed to develop games for different tastes. Netflix's games have no ads and no in-app purchases and the company plans to have 50 games available by the end of the year, even though, as CNBC pointed out, fewer than 1% of Netflix subscribers were engaging with its games daily.

New business plans and strategic partnerships

End of September 2022, music publishers and top streaming services have reached an agreement on royalty rates for song owners, avoiding another expensive legal battle between the parties, which already took place for the years 2018 to 2022. The new five-year agreement for the period 2023-2027 was announced by the National (US) Music Publishers' Association (NMPA), the Nashville Songwriters Association International and the Digital Media Association, the latter which represents Amazon Music, Apple Music, Google's YouTube, Pandora and Spotify. According to Hollywood Reporter, whereas the NMPA signaled it would advocate for a 20% royalty rate, song owners in the US will receive a headline royalty of 15.35%, phased in over the next five years and representing a 0.25% increase from the previous rate, 15.1%.

Indeed, the music publishers and streamers decided to avoid a costly and hard-fought legal battle; the legal fight over the previous 2018-22 rate period went on for more than three years and cost many millions of dollars. It is worth noting that in July the US Copyright Royalty Board reaffirmed its 2018 decision to raise the rate to 15.1% from the previous 11.4%. In 2018, major streaming services had argued that the increase would make their business models untenable in light of the high amounts that they already pay in royalties. According to Variety, NMPA President & CEO, David Israelite, stressed that the digital services have treated "creators as business partners. Critically, since this is a percentage rate, we know that as streaming continues to grow exponentially, we will see unprecedented value of songs".

In addition, Netflix decided to move up the timeline for the launch of its cheaper, ad-supported plan to November, contrary to Netflix's previous estimates that it would launch the ad-backed plan in early 2023. The key reason is that the launch of the Disney Plus tier with advertising is already expected on 8 December. Whereas for years both companies insisted that they had no plans to accept advertising in their business model, they seek now to diversify their monetization strategies and to reverse subscriber losses with cheaper plans. More specifically, for Netflix all changed in April 2022, when the company announced a surprising decline in subscribers. As Deadline mentioned, Netflix will collaborate with Microsoft for its ad-backed plan; "still to be determined are consumer pricing and key details towards the ad experience, such as whether programming will be interrupted, versus "pre-roll" ads that would play only before programming begins".

Finally, mid-September 2022, Spotify announced the launch of audiobooks for US listeners. More than 300 000 different audiobook titles from major publishers – like Penguin Random House, Hachette Book Group – and recommended by Spotify editors, will be available to Spotify users in the US, marking an additional attempt of the streamer to diversify its offering and to make the platform a major audio service. It is worth reminding that Spotify introduced podcasts in 2015 and now 4.4 million of them are available on the streamer's catalogue. According to Spotify, "audiobooks represent just a 6-7% of the wider book market, and that category is growing by 20% year-over-year". The new Spotify support for audiobooks should compete top audiobook providers, like Apple, Amazon-owned Audible and Google Nook.

Additional readings for the October report:

- As pandemic measures are lifted, social media use has declined with the exception of TikTok, The Conversation, 25 September 2022, Link.
- Ads are coming to Netflix soon – here's what we can expect and what that means for the streaming industry, The Conversation, 12 September 2022, Link.

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- Gulf states demand Netflix pull content deemed offensive, Reuters, 7 September 2022, Link.
- EU to consult on making Big Tech contribute to telco network costs, Reuters, 9 September 2022, Link.
- EU telcos call for Big Tech to share 5G network costs, EURACTIV, 26 September 2022, Link.
- Study: Netflix retains strong subscriber lead in Australia, but emphasis shifting toward profitability, The Hollywood Reporter, 20 September 2022, Link.
- Netflix sets up first internal games studio in push to retain subscribers, The Japan Times, 27 September 2022, Link.
- Netflix establishes an internal games studio in Helsinki, led by former Zynga GM, Tech, 26 September 2022, Link.
- Netflix Ad tier launch moved up to November to get ahead on Disney+, streamer tells ad buyers, Variety, 1 September 2022, Link.
- Music publishers streaming services avoid another battle royale by setting royalty rates for next four years, Variety, 31 August 2022, Link.
- Spotify brings audiobooks to US users with a catalog of 300 000 titles to start, Tech, 2 September 2022, Link.

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