

GEMA GENERAL ASSEMBLY

11 MAY 2023

REPORT OF THE CEO AND CHAIRMAN OF THE MANAGING COMMITTEE DR. HARALD HEKER

Dear members,

I just presented the GEMA Ehrennadel [honorary badge] to Axel Voss MEP, on the occasion of his engagement in the European Parliament for the copyright reform. The new regulations based on this Directive strengthen the negotiation position of creatives, something I had already reported to you last year. Said provisions do, however, only apply to upload platforms such as YouTube. They do not cover streaming services like Spotify, Amazon Music or Apple Music. This is why the GEMA General Assembly sent out a strong message in May 2022: All relevant streaming providers must meet their responsibilities!

And I am very pleased that I can tell you today: Something is happening! The debate regarding the need for reform in the music streaming field has gathered momentum.

Fairness, transparency and diversity in the music streaming market

Let us take a look back: In the early summer of 2022, the consulting and research group Goldmedia conducted an online survey on behalf of GEMA among its members on this topic. It resulted in the very first comprehensive study on the German music streaming market ever. Your input and assessments were invaluable in this context. The high level of participation in the survey alone shows that this topic has indeed been a burning issue to you many among you.

In September, we presented a study in Berlin and it has since stirred up many a discussion. At the Reeperbahn Festival in Hamburg, at the Creators' Conference in Brussels and at the South by Southwest conference in Austin, Texas. There has also been a high level of response to the publication within the national and international media. I am going to pick out three central aspects from the study: Fairness, transparency and Variety.

First: Fairness

Music creators' participation in the success of music streaming is far too low; that was one of the central findings of the Goldmedia survey. This is why it is high time that the "streaming pie" for the music business increases overall. And that the creators and publishers who are at the outset of the value chain get a bigger piece of the pie.

Second: Transparency

Streaming services create curated playlists and algorithm-based music recommendations. They can significantly influence the reach and the economic success of a song. The Goldmedia study established that the bases for the selection processes are not transparent enough. If streaming platforms are the “marketplaces of the future”, the market rules must be clear for everyone.

And third: Variety

We can only ensure variety and equality of opportunity in the long run if we support music niches and local repertoire in a targeted manner and increase their visibility on the streaming platforms. At this time, we are thinking hard about how we can reach this goal.

Another issue identified by the study: The potential for growth of the music streaming market in Germany is far from exhausted. All the more important that certain maldevelopments must be tackled now and to set the points right to be on track for the future – within the business sector but also with political support.

There, the topic has reached the highest levels: Federal Government Commissioner for Culture and the Media, Claudia Roth as the patron of our German Music Authors' Award, most recently took a stand in public and expressly demanded improvements for creators. Federal Minister of Justice, Marco Buschmann who actually composes music himself from time to time, is aware of the challenges surrounding the topic of streaming. He was a guest in the capital headquarters of GEMA.

At that meeting, ABBA band member and CISAC President Björn Ulvaeus was also present. He supports GEMA matters and reinforced them to the Minister of Justice in a forceful statement. Parliamentarians of the Deutsche Bundestag also announced that they were going to continue their focus on the music streaming issue.

At European level, the topic also comes to the fore. European Parliament decided to issue its own statement regarding music streaming in the coming months. It is intended to particularly focus on the situation of creators.

The movement in the market itself is at least as positive: After Deezer and Apple, Amazon announced in January this year that it would increase the subscription rates for music streaming. Spotify boss Daniel Ek has also thought about price adaptations.

You see: Something is really happening. Creators and policy makers are now asked to continue their involvement in changing the streaming economy. GEMA expects policy makers to ensure that the studies lead to substantial improvements for creators and that policy makers adopt a formative role in this process. I promise you – GEMA will keep at it.

The second topic where policy makers need to deliver is artificial intelligence. I will get to that later. Let us take a look at the balance sheet first.

Overall results

In 2022, GEMA managed to generate a total income of 1 billion and 178 million euros. And this despite the COVID-19 restrictions still in place back then. An outstanding result! It makes 2022 the highest yielding year of GEMA. This is reflected accordingly in the distributable amount.

Distributable amount

For the first time, this is more than one billion euros: 1 billion and 9.4 million euros. That's 122.9 million euros more than in 2021. An important and welcome milestone for you, dear members!

Cost

Our costs: Overall costs amount to 168.6 million Euros. Compared to the previous year, they have increased by 16.2 million euros - analogous to the very good income development. The strategic investments of 9.7 million euros have mainly gone into digitisation and IT.

Revenue segments

Field service

I begin with our field service: This sector yielded collections of 357.5 million euros. An increase of 108.7 million euros compared to the previous year. And that despite significant pandemic-induced restrictions in the first quarter. This great intra-year development can be attributed to the strong growth of the event business in the summer months of 2022. Parallel to this, we also managed to strengthen our business in the permanent licence sector. These positive developments continue to have an effect on the relevant distributions and pay-outs in this sector.

Sound carriers, audiovisual carriers and data storage media

When it comes to sound carriers, audiovisual carriers and data storage media, the revenues compared to the previous year still has a downward trend and amounts to 54.8 million euros. The decrease is, however, not as significant as we initially expected. This is due to a gratifyingly stable market of physical media storage products – especially in the vinyl sector, for example –and positive distribution items.

Broadcasting

At 325.1 million, the broadcasting sector lies under the level of the previous year. And that is a positive result. While it is 13 million less than the result in 2021, a one-off financial item of more than 30 million euros had bolstered the results back then. If we disregard this effect, the 2022 results were actually significantly above expectations and previous years' levels. The positive developments also mainly result from the agreement reached with the private and public service broadcasters and the contract conclusions in the cable retransmission sector.

Online

A milestone in the online sector! For the first time, we reached a result of more than 300 million euros here: 301.3 million! An increase of 63.2 million euros compared to the previous year. Thanks to newly concluded contracts and one-off financial items, the video on demand sector features a strong earnings development. A main driver of the positive trend is, however, music on demand. The revenues here are significantly higher than the ones of the previous year and have absolutely exceeded our expectations. Once more it becomes apparent that GEMA's strategy with ICE has paid off. Together with our English and Swedish sister organisations and other reputable partners, we managed to build a strong international licensing network.

This culminated in clearly improved contract conclusions with YouTube, META and TikTok.

The biggest success of the last months, however, was the signed contract with Spotify. For a long time, Spotify had been resisting the necessary –and significant –increase in conditions. Together with our partners we sued via ICE and Spotify had to concede. I am pleased that I can say: We were able to almost completely enforce our demands vis-à-vis Spotify. A success for GEMA and its members!

So far the most important numbers of the 2022 financial year. For the 2023 financial year, we are expecting a similarly strong result which should surpass the current record year once more.

Saying thanks

GEMA could not have achieved the wonderful results in 2022 without its employees. Dear colleagues, we are well aware and appreciate your amazing work and your dedication and deserve a warm THANK YOU in this meeting, too!

Dear colleagues of the Managing Committee, Georg Oeller, Lorenzo Colombini, I thank you very much for our cooperation. Tried and tested. Efficient. Constructive.

Dear Ralf Weigand, as our Chairman of the Supervisory Board I thank you very much for your cooperation in in the past year. The topics became more complex each time, and the critical and constructive cooperation made important decisions for GEMA and its members possible. Of course, my thanks also extend to your two deputies, dear Stefan Waggerhausen, dear Götz von Einem: And, of course, all your colleagues in the Supervisory Board: Many thanks!

Plus, a thank you to all of those who have supported GEMA in the honorary bodies and committees. Our association needs your involvement. Thank you very much!

German Music Authors' Award

There was also a lot of applause on 30 March at the Potsdamer Platz in Berlin: The award ceremony for the German Music Authors' Award. Composer and music producer, Christian Bruhn, received the lifetime award at the quickly sold-out event held at the Ritz Carlton. The jury honoured his extensive oeuvre. Another very beautiful aspect was that his huge engagement for GEMA came into play. Here is a small excerpt of the video which had been created for the occasion.

I remember how I had first announced the introduction of the award back in the General Assembly in 2008. Meanwhile, the German Music Authors' Award has a fixed place in the music scene and GEMA can be very proud indeed. Having said that, we have been pondering for some time now to refine the award. To do this, we are going to compare the German Music Authors' Award with various national and international music awards. And then we will discuss in which direction we are going to position the German Music Authors' Award.

Fred Jay Award

Two days ago, the Fred Jay Award was presented to Judith Holofernes in the presence of the award donor, Michael J. Jacobsen, son of the late Fred Jay. Francesco Wilking held the laudatory speech. Since Judith Holofernes no longer performs in public, he also featured in the live concert. A lovely evening!

Business planning

A recurring theme is our strategic business planning. We were also able to push it forward in the past financial year. An important field of action is the increase in revenues. This increase succeeded excellently in 2022; we have just seen that in the balance sheet figures. Business in our holdings, Zebralution and deecoob, also developed well. With Zebralution, GEMA founded the digital music platform MusicHub; I have already reported on this many times. MusicHub is our Do-it-Yourself platform, via which you can organise, manage and distribute your music in an independent and straightforward manner. To this end, MusicHub provides a broad range of digital tools.

MusicHub is growing and offers new technical possibilities:

- You can now import GEMA work data if you are a member;
- additional DSPs and social media platforms were affiliated;
- some platforms can now also be provided with lyrics;
- Coming soon: a MusicHub tool that enables you to provide evidence of your ownership.

With all of the above, MusicHub is now offering a solid and super exciting service that can stand up to the competition. In the next few years, the platform will be developed further in line with the interest of GEMA members.

Another GEMA subsidiary since 2020 has been deecoob, based in Dresden. Deecoob has developed a software which systematically crawls the internet for events that have not been reported. GEMA can then issue invoices on this basis. The technology is that good that more and more collective management organisations are now taking it up from

decoob in order to ensure comprehensive licensing of their rights. As such, collective management organisations from England, Ireland, the Netherlands and Sweden and the Swiss CMO are now among their international customers.

Artificial intelligence

In April, the song Heart on my Sleeve appeared on TikTok with the voices of Drake the rapper and producer/singer The Weeknd. The song went viral immediately. Just a few days later, it had eight million views. The voices were fake. Created with artificial intelligence. Only if you know the voices of the two performers really well, you manage to hear that it isn't them. The label Universal Music Group, having both artists under contract, spoke of copyright infringement and caused the song to be removed from streaming platforms such as Spotify, Apple and Deezer. The usual comments on the internet ensued. Many supported the song and how it had been created. But one person hit the spot when they posted: "You are applauding while you are witnessing how art is dying. Be ashamed."

AI, artificial intelligence: Algorithms and mathematical models which make it possible to process huge data volumes and to detect patterns or correlations. It is hard to imagine life without artificial intelligence now.

Of course, GEMA also uses artificial intelligence: Each year, a huge amount of setlists is cross-checked to detect duplicates that are submitted. This used to be a manual task in the past, 150,000 comparisons per year! In the meantime, this is mostly automated and with the support from AI. This allows GEMA to pay out more quickly and accurately. Another new development has been gaining momentum over the last few months: The so-called generative artificial intelligence. In contrast to the AI systems whose aim it is to imitate or replicate human behaviour, generative AI completely aims at creating completely new content, generate complex results which look or sound similar to human creations.

I am sure you have heard of "ChatGPT", a language and text-based Chatbot which is able to communicate with humans and answer questions based on AI. There are also programmes that create images or, well, music.

AI confronts us with fundamental questions. Questions of a legal, economic, socio-political but also ethical nature. At the end of March, worried experts from tech and development, among them even Elon Musk, had published an open letter in which they asked to pause the development of AI. Safety standards needed to be implemented first according to them. It would have to be ensured that KI does not get out of control. And last week, Geoffrey Hinton, godfather of KI, supported this warning. He is now afraid of the potential dangers of his life's work. There are also fears within the creative sector: some are worried that artificial intelligence could push works by creators aside.

In order for artificial intelligence to actually "create", it must first be "trained" with pre-existing works. So-called web scraping and data mining are required in the first step: using software to find and analyse relevant data for digital works. To gather information, particularly on patterns, trends and correlations. So-called microworkers feed AI systems with such smithereens of information on works of art. Vast data volumes are thus consolidated: Without the consent of the author, without any reference and without any remuneration or compensation, of course.

GEMA is working with other rightsholders to make it harder to make this royalty-free use of data more difficult. The legal instrument to achieve this is to declare a usage reservation against data mining in the course of training AI. It is our intention to bundle such usage reservations for the most comprehensive repertoire possible.

For GEMA repertoire, which is part of the ICE core licence, a usage reservation is going to be adopted in the licence terms and conditions. ICE has also directly asked its most important licensees to protect ICE repertoire against scraping and mining. A respective note is also featured in the GEMA repertoire search.

At the outset of my speech, I mentioned that we also hold policy makers responsible for supporting the rights of creators when it comes to artificial intelligence. Today, the EU Parliament is voting on a position on the European "Artificial Intelligence Act". A first step which needs to see many more to follow. After all, we need a reliable regulatory framework! GEMA is not going to let go of this.

But: AI technologies also provide opportunities. Individual steps in the creative workflow can be facilitated or sped up by it. Musicians could explore new possibilities and their works could become more effective. Many questions still remain unanswered, many possibilities are yet to be discovered.

The artificial intelligence topic is in fact at the top of GEMA's agenda. Managing Committee and Supervisory Board are keeping a close eye on the technological developments and effects on you, the music creators.

At the same time, we continue to work hard to increase our income further. The great result of the 2022 financial year is proof that we are on the right track. It gives us moral support for the big tasks ahead.

Our concern in this context is always: human creativity must not be exploited, displaced or precarised! Human creativity is a precious asset. It is and will remain GEMA's mission to protect it!