

Geo-blocking and non audiovisual copyrighted content services

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Research prepared for Policy Department A at the request of IMCO Committee

Definitions

Traders operating in one MS block or limit the access of their online interfaces to costumers from other MS

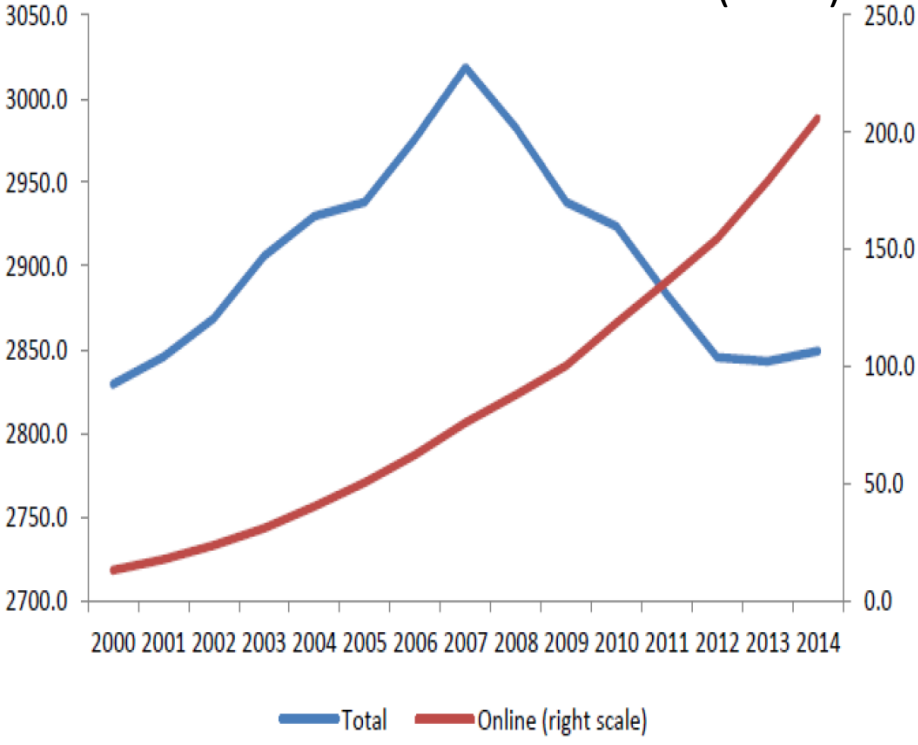
When is it justified?

- Language barriers
- Regulatory complications (different VAT systems)
- Technical specifications (rules for labeling)
- Legal uncertainty
- Fraud prevention system
- Vertical agreements (Chicago school doctrine)
- Ability to provide services after the sale
- Lack of affordable quality of delivery services

Domestic and cross-border e-commerce

Total and online sales in goods, 2000-2014 (EUR billion)

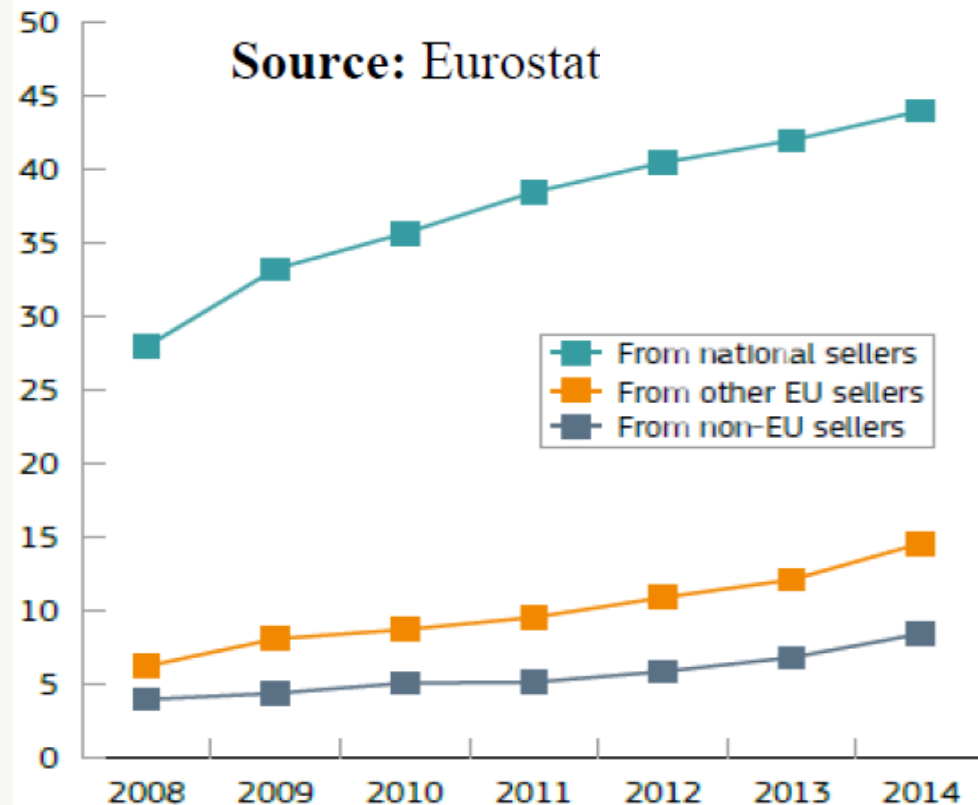
Source: Duch-Brown and Martens (2015)



Average annual growth rate of 22%!

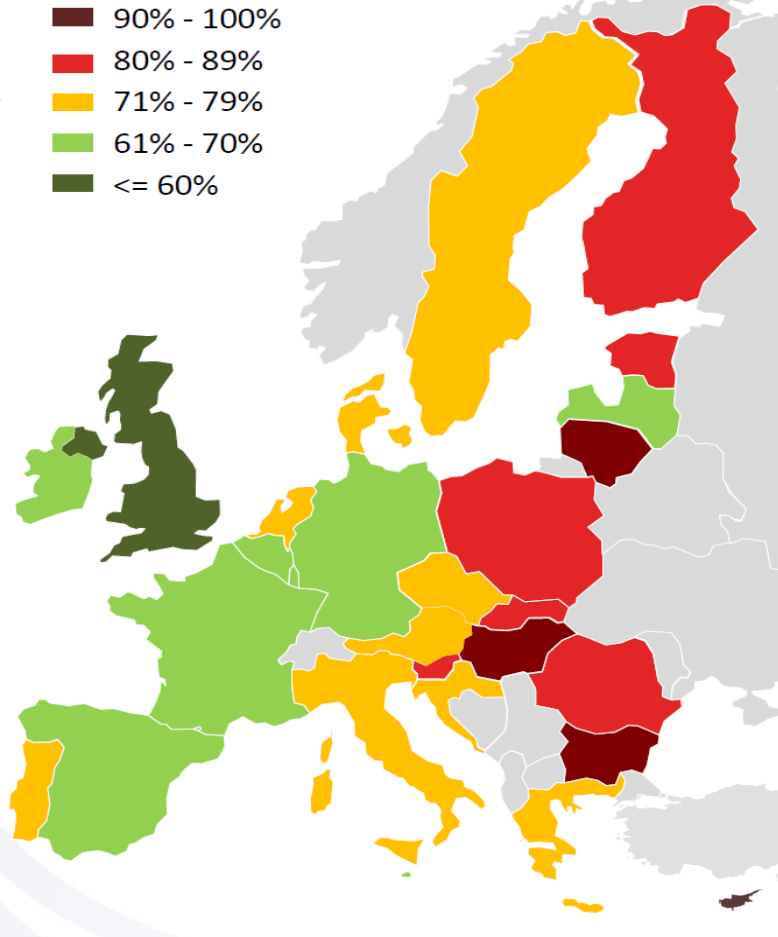
Domestic and cross-border online shopping, EU28, 2008-2014 (% points)

Source: Eurostat

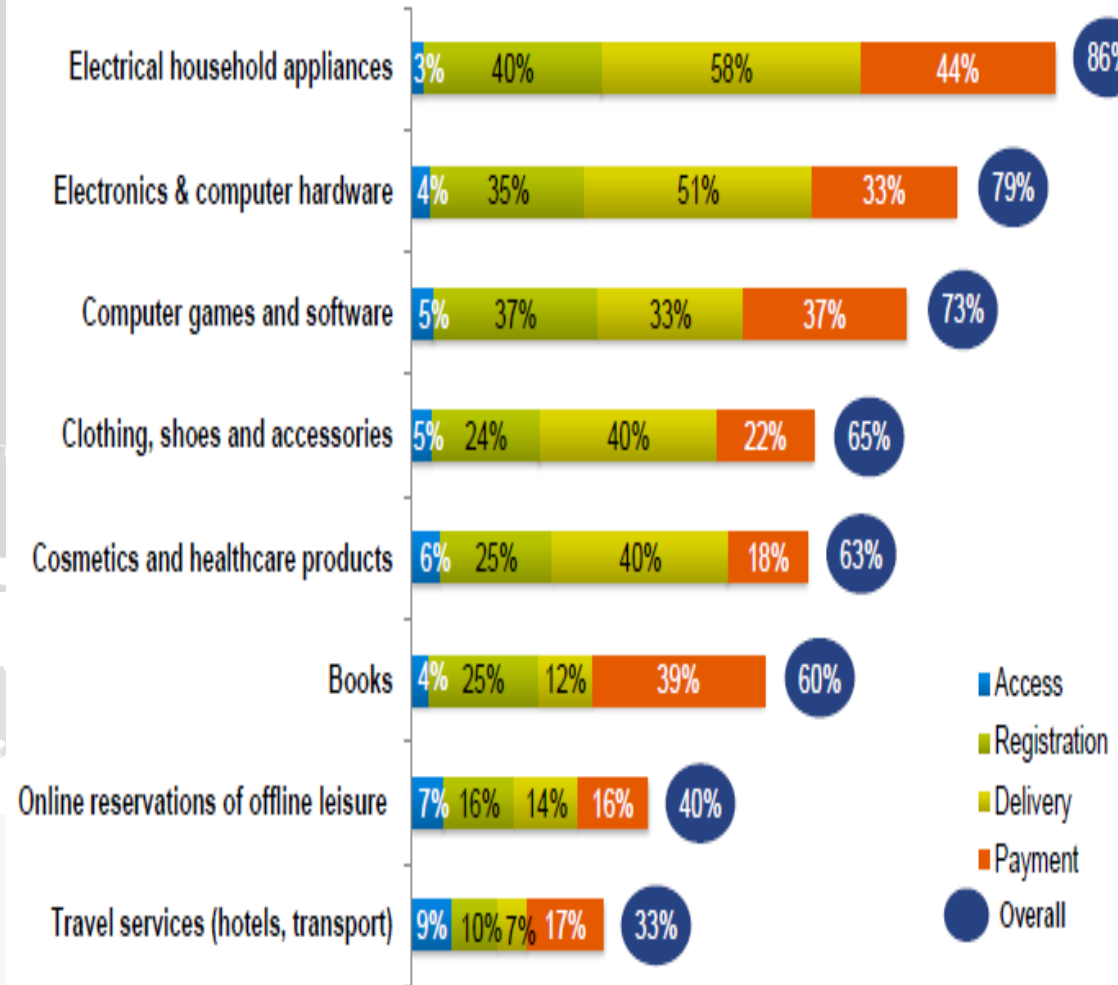


Is geo-blocking a problem?

- 90% - 100%
- 80% - 89%
- 71% - 79%
- 61% - 70%
- <= 60%



Geo-blocking prevalence by sector



Geo-blocking by the country of the online retailer

Source: Mystery shopping survey 2015

The European Commission's proposal

Prohibits unjustified geo-blocking and increases transparency

But, it **does not apply** to electronic copyrighted services (article 4) such as

- Audiovisual (59%)
- Sports (35%)
- Ebooks (27%)
- Music (60%)
- Online games (37%)
- Software

33% of online trade by individuals in 2014

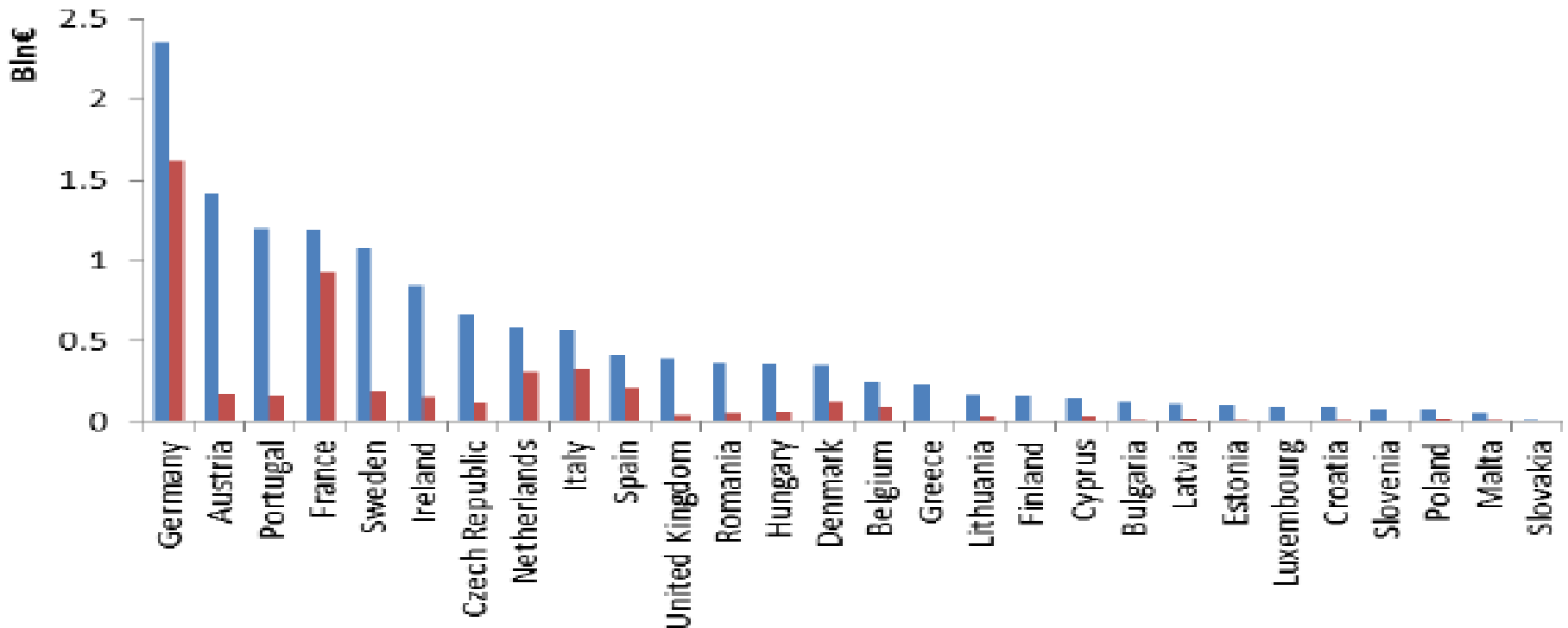
Source: Eurobarometer 411 (2015)

The impact assessment

What is the economic impact of lifting geo-blocking restrictions?

CS: 1.2%

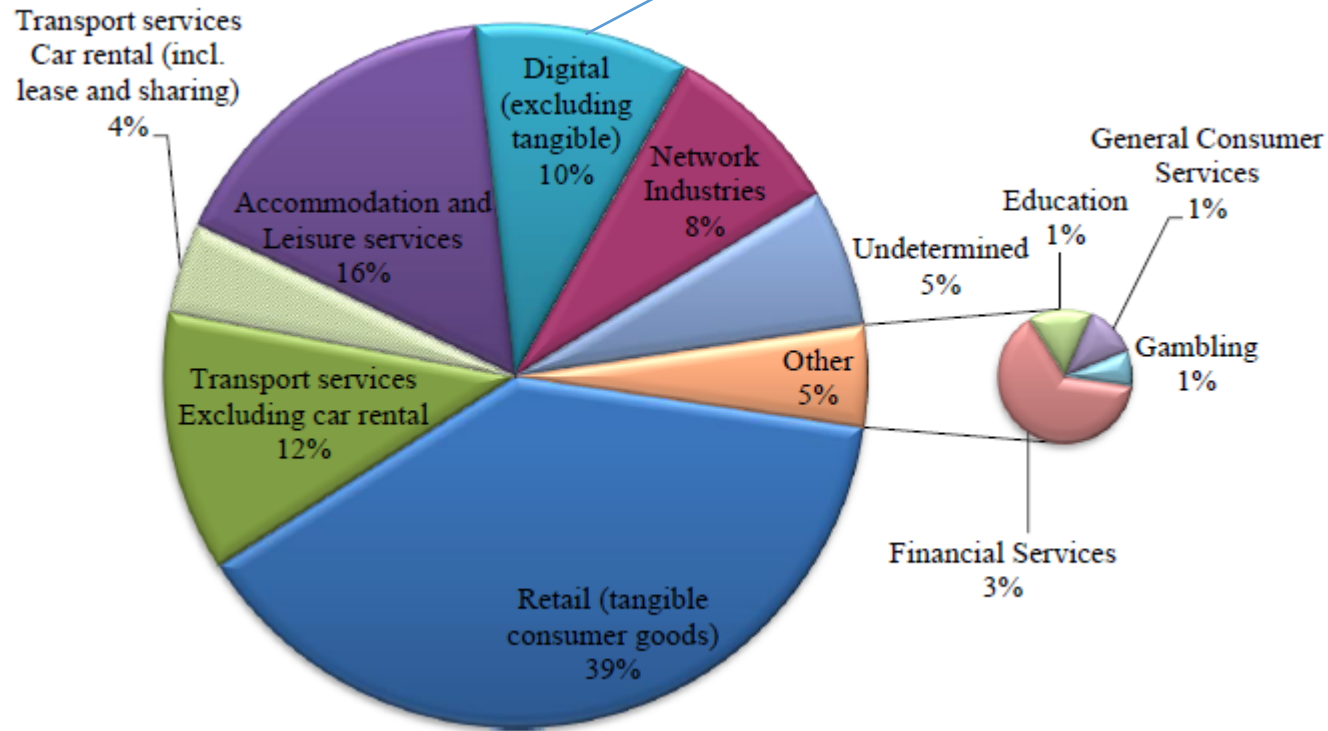
PS: 1.4%



Source: Duch-Brown and Martens (2016) CS PS

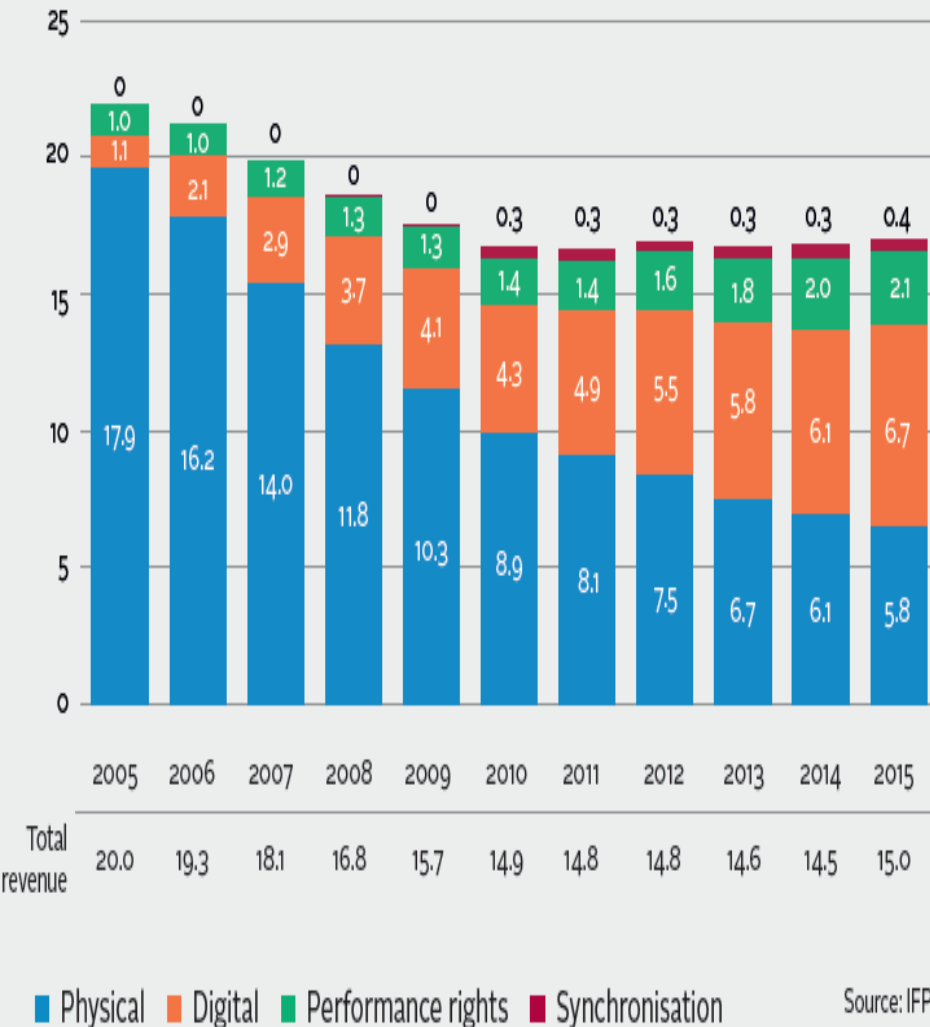
Geo-blocking complaints collected by EC

71%: Ebooks and MP3 downloads



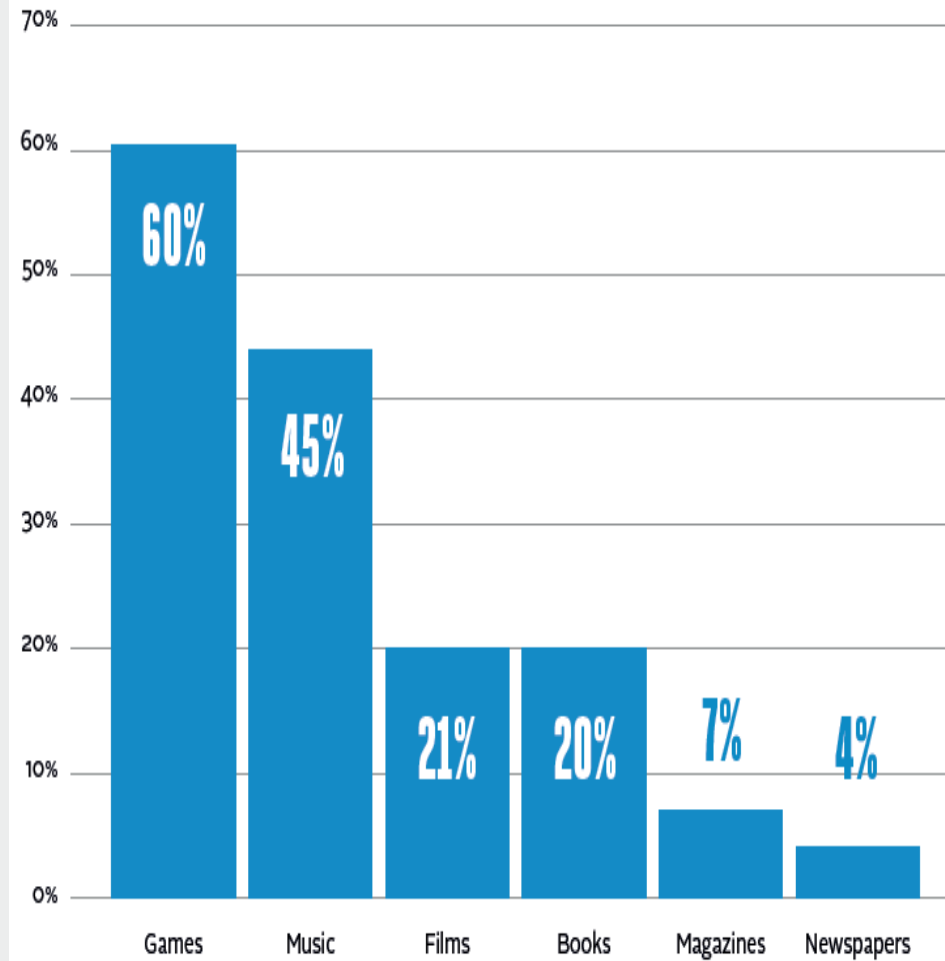
Music

GLOBAL RECORDED MUSIC INDUSTRY REVENUES 2005-2015 (US\$ BILLIONS)



Source: IFPI

MUSIC'S DIGITAL SHARE COMPARED TO OTHER SECTORS 2015

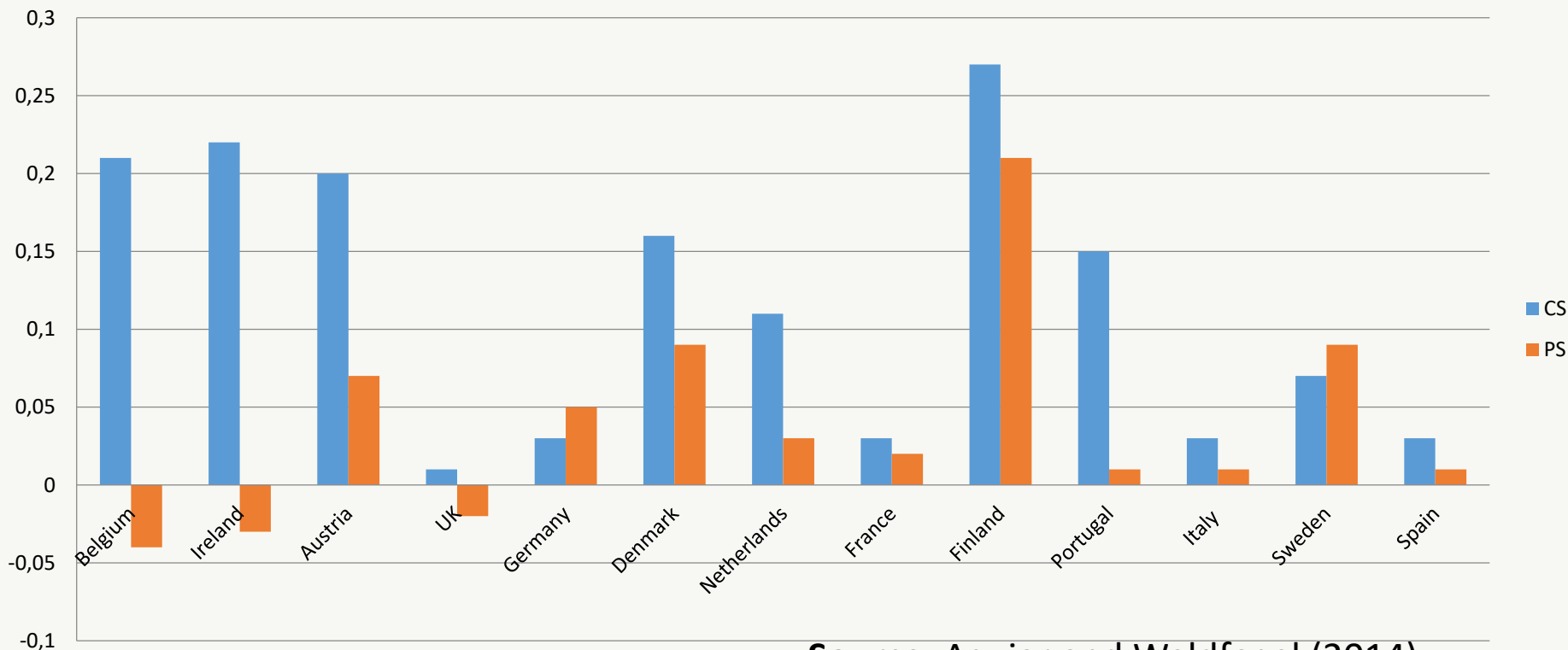


Source: PWC & IFPI

Lifting geo-blocking restrictions in music

Annual gains of €19 Mln for consumers and €10Mln for producers (EU 13+Norway+Switzerland)

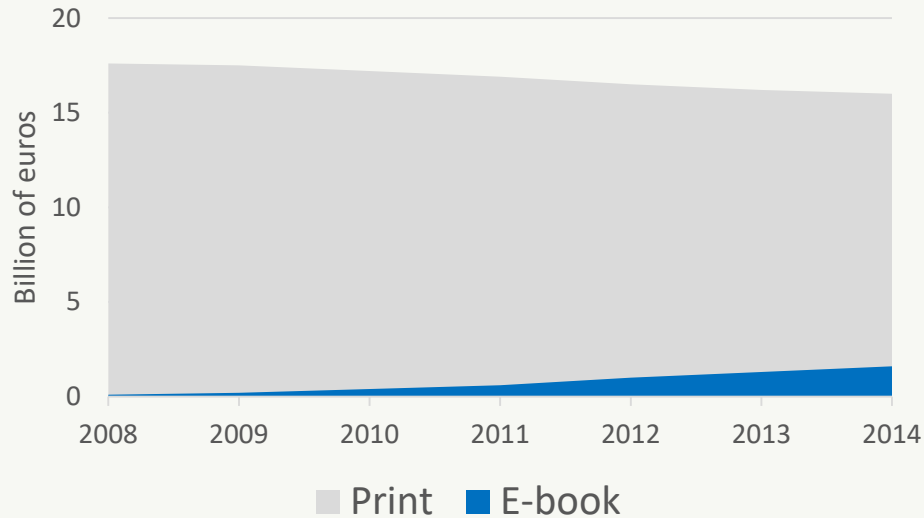
Annual revenue per capita, in euros



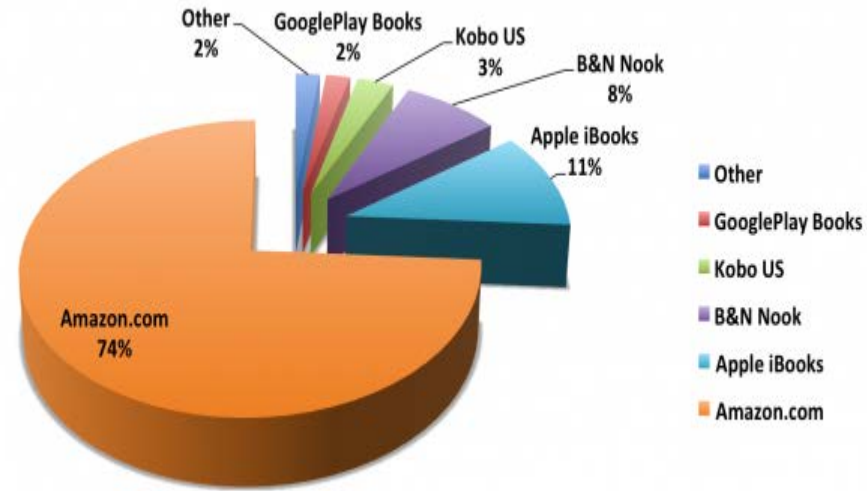
Source: Aguiar and Waldfogel (2014)

The market of E-books

Book and E-book markets in 5 EU largest countries, 2008-2014



Market share of overall US eBook unit sales held by each retailer (including non-traditionally published ebooks without ISBNs)



Source: goodreader.com

Countries: Germany, France, UK, Italy and Spain. **Source:** EPRS (2016)

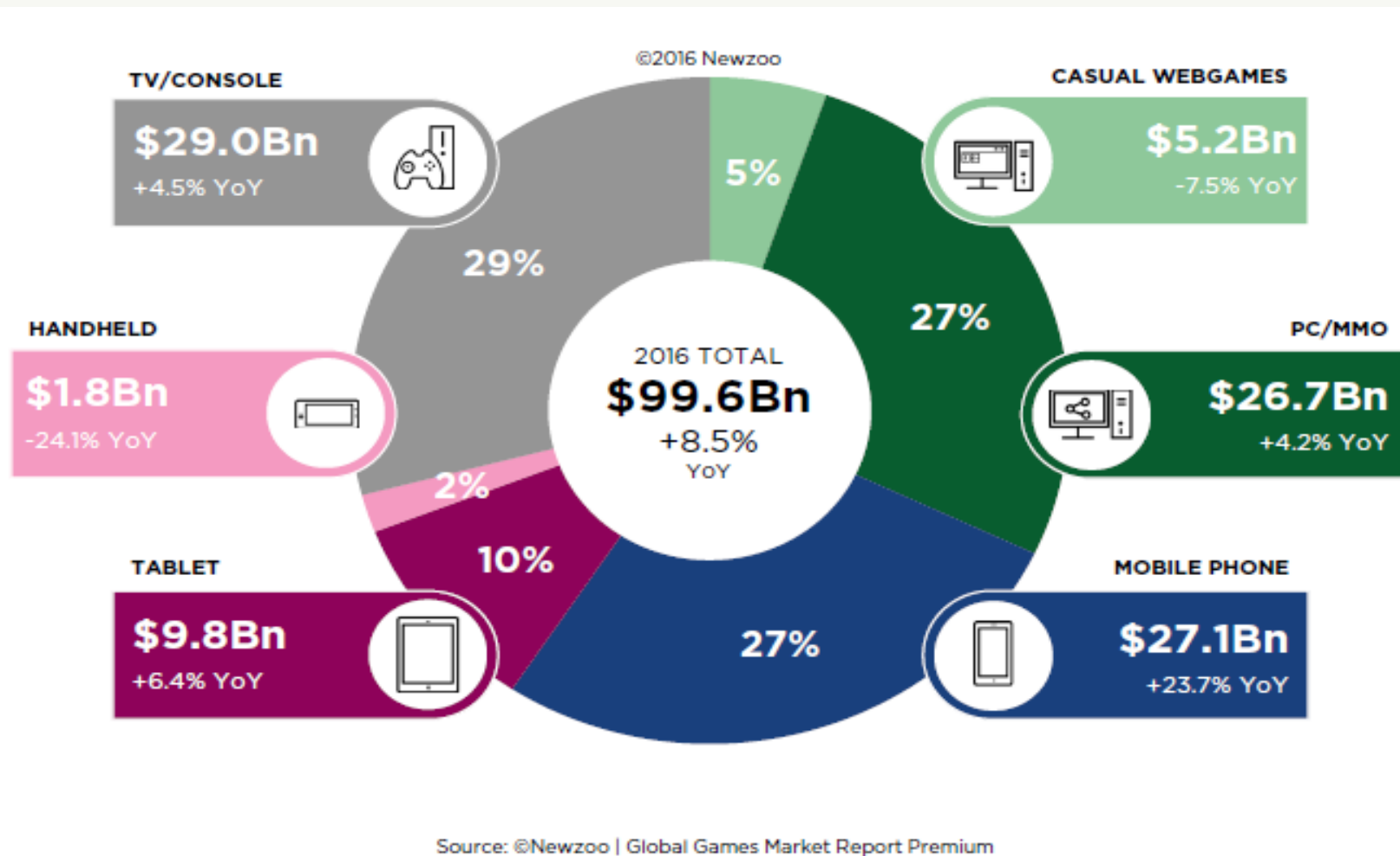
- High price elasticity of demand (-1.7)
- Brynjolfsson (2003): Increase in product variety boosts consumer welfare
- Chevalier and Goolsbee (2003): Pricing below profit maximizing level
- Impact of lifting geo-blocking restrictions?

The Batikas et. al. (2015) study on Amazon

	Access to stores in	EU6+US book titles	% Availability	EU6 book titles only	% Availability
BE	FR, NL, US	693	99.6%	595	99.8%
NL*	NL, US	690	99.1%	592	99.3%
LU	DE, FR, US	682	98.0%	584	98.0%
GB*	GB, US	679	97.6%	581	97.5%
IE	GB, US	679	97.6%	581	97.5%
IT*	IT, US	679	97.6%	581	97.5%
AT	DE, US	678	97.4%	580	97.3%
DE*	DE, US	678	97.4%	580	97.3%
ES*	ES, US	678	97.4%	580	97.3%
FR*	FR, CN	657	94.4%	574	96.3%
Other EU	US	663	95.3%	565	94.8%
US	US	663	95.3%	565	94.8%
Distinct titles		696		596	

Source: Amazon stores and authors' calculations

Computer games



Discussion

Copyright and legal issues

*Other initiatives and justified geo-blocking:
Parcel delivery, online payments, MOSS (VAT)*

*Digital content consumption is growing and
geo-blocking restrictions should be addressed*