

## Online pirates may be willing to pay - if the price is right

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Data released by Ofcom yesterday show that internet users who illegally download films, music or games actually spend more money on legal downloads than those who always play by the rules.

Online piracy is a major issue for business so information about the habits of those who pirate is always useful. When intellectual property can be rendered digitally and reproduced perfectly without cost, commercial viability is jeopardised. Reduced revenues would typically be expected to take their toll on levels of output, meaning that society ultimately suffers from a reduction in the amount of new music, film or video games available.

There is at least some evidence of this so-called “displacement” theory taking effect, with claims that a significant proportion of the 60% reduction in real revenues generated by the recorded music industry between 2000-2009 were a result of piracy. However, despite falling revenues, piracy may actually lead to a number of benefits to society – not least in terms of the consumption of “free” music, but also as a result of reduced uncertainty about product quality and the opportunity for users of peer-to-peer networks to interact with each other.

Ofcom’s research shows that prolific pirates spent around £26 on legal downloading over a three month period, while those who never accessed illegal content spent around £16. On the surface, this evidence would suggest that piracy acts more as a complement to paid legal consumption, but this would perhaps be an over-simplification.

Even if it is true that more active pirates also pay for more legal consumption, the key question to ask is: would that level of paid consumption have been higher were it not for the existence of piracy? Drilling down into the survey results, we also see that the most prolific users claim that they’ve “already spent enough” on content and use this as a reason to justify their behaviour. This implies that piracy is at least in part a substitute for paid consumption.

My own research has shown that even digital pirates tend to behave in a way that is largely consistent with economic expectations about behaviour and this is backed up by the findings of the Ofcom survey.

People generally consider their chance of facing any serious legal consequences to be low, which in turn leads to increased levels of participation. Only 25% of respondents to the Ofcom survey said they would stop downloading materials illegally if they thought they might be sued and 20% said they would stop if they received a letter from their internet service provider threatening to cut them off.

It is therefore likely that legal measures and punishments do not serve as a particularly strong disincentive to participation, which calls into question the likely effectiveness of the UK government’s plans to send warning letters to pirates via ISPs as part of the Digital Economy Act, currently planned to come into effect by 2015.

The evidence on the way people access legal and illegal online content presented by Ofcom today backs up my own research suggesting that more prolific movie downloaders can be willing to pay for subscription services that offer unlimited access to material for a fixed monthly fee. The rise in popularity of companies such as Spotify and Netflix are a clear indication of this.

Greater competition between companies like these and lower resulting subscription fees may end up alleviating many of the problems brought about by online piracy. After all, history has shown that the creative industries tend to (eventually) find ways to take commercial advantage of technological developments.