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ETF MUSIC NEWS...

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HOW MUSIC ROYALTIES WORK Part 3

A PIECE OF THE PIE

Record companies and recording artists, as well as the writers and publishers, all make money based on the sale of recordings of their songs. How those royalties are calculated, however, is about as intricate and controversial as everything else in the music industry.

First, there is the calculation of mechanical royalties for writers and publishers. These royalties are paid by the record company to the publisher. The publisher then pays the writer a share of the royalty (typically split 50/50).



Writer/Publisher mechanical royalties

In the United States, the royalties are based on a "statutory rate" set by the U.S. Congress. Currently, the statutory rate is \$.08 for songs five minutes or less in length or \$.0155 per minute for songs that are over five minutes long. e.g.; a song that is eight minutes long would earn \$.124 for each recording sold or 12.4cents.

As in most areas in the business world, however, there is room for negotiation. It is not uncommon -- in fact, it is more the norm -- for record companies to negotiate a deal to pay only 75% of the statutory rate, particularly when the writer is also the recording artist. (See the "Controlled Composition

Clause" below.) Although there is a statutory rate, there is no law against negotiating a deal for a lower one. Sometimes it's in the best interest of all parties to agree to a lower rate.

Recording-artist mechanical royalties

Recording-artist royalties (and contracts) are extremely complex. Artists are paid royalties usually somewhere between 8% and 25% of the suggested retail price of the recording. Exactly where it falls depends on the clout of the artist.

That sounds simple enough, but there are many more issues that affect what a recording artist actually makes in royalties

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