



Publishers Licensing Society



Annual Review

April 2015 – March 2016

Report from the Chairman

This year has brought a number of reminders of the underlying nature of collective rights management; none sharper than the independent valuation to which PLS committed in 2014, in response to the challenge brought by the Authors' Licensing and Collecting Society (ALCS) to the decision taken by some magazine publishers to move their mandates from the Copyright Licensing Agency (CLA) to NLA media access (NLA).

In an unprecedented agreement with ALCS and three organisations representing photographers and illustrators we entered a binding process, led by Mark Bezant of FTI Consulting, to determine how licensing revenues from CLA and NLA should be apportioned between different right holders in future.

This was a painstaking and detailed process. PLS' contention – that money should “follow the rights” – was accepted. The challenge was to determine who owns those rights. Publishers were asked what rights they held in a large sample of chapters and

articles that had been copied recently under licence. These were analysed by licence sector and by publication type to arrive at a matrix for revenue allocations. A relatively small number of claims of rights made by publishers were independently audited.

Ultimately, the split of revenues between the three right holder groups was little altered. But, when things change, there are always individual winners and losers.

Although the allocation process is now more closely reflective of rights ownership between different sectors, differences between publishers in the same sector cannot be reflected in the outcome.

An important part of the valuation process was an agreement for regular reviews to be undertaken in future, starting by reviewing journals in 2019 and magazines in 2022. In light of the lessons learned in our first independent valuation, I expect outcomes to be somewhat different in future.

This has been a testing process for PLS, and I gratefully



Mark Bide, Chairman

acknowledge the hard work done not only by Sarah and her team but also by the PLS Board.

We have said goodbye to three members of the Board since the last annual report – Dave Jago, Ian Russell and Richard Mollet – and we are grateful to all of them for their outstanding contributions. We have welcomed Harriet Wilson (Condé Nast), Peter Richardson (Society of Bone & Joint Surgery), Oliver Gadsby (Rowman & Littlefield) and Stephen Lotinga (Publishers Association).

We also welcomed the Independent Publishers Guild into membership, our first new member since PLS was established.

Foreword

Revenues distributable to publishers reached £35.2m, showing a growth in collective licensing revenues despite the economic pressures that both of our licensing agents, Copyright Licensing Agency (CLA) and NLA media access (NLA), are contending with. On behalf of all 3,400 publishers signed up to PLS I take this opportunity to thank each of them for their part in achieving such an excellent result.

The year stands out for a number of reasons. In July 2015 we moved into new offices, which we are sharing with CLA and our joint owner of CLA, the Authors' Licensing and Collecting Society (ALCS). The advantages of working under one roof became apparent in the first week, with improved collaboration and opportunities to streamline our ways of working. This significant step, which we hope will benefit the publishers and authors we each represent in the long term, was made possible by virtue of the strong working relationships we have built between the three organisations.

The valuation exercise, which Mark Bide has reported on, was

a dominant feature of 2015. The outcome turned on the evidence that publishers were able to provide, and PLS and all the publishers we represent owe an enormous debt of gratitude to all those who responded to our requests to delve into their archives – no easy task given the age of some of the sample extracts copied under licence. The valuation is to be welcomed for providing a much firmer basis for distributions we make to publishers.

The Collective Management of Rights Directive came into force in the UK after the year end. Whilst the Directive reinforces the values of fairness and transparency which PLS has traditionally adhered to, we have nevertheless had to make adjustments to ensure we satisfy the detail of the new regulation. The Publisher Account Form launched during the last year was partly in preparation for this.

As the focus on the modernisation of copyright has shifted to Europe, within the context of the EU's ambition to achieve a digital single market,



Sarah Faulder, Chief Executive

PLS has been working with ALCS and CLA as well as its trade association owners. Our efforts in Brussels have centred on the possible changes to the education exception and the likely introduction of an exception for text and data mining.

Back at home, the demand amongst publishers for PLSclear and our rights management services is growing rapidly. And Access to Research has moved into a new post-pilot phase.

I am proud that the PLS team has risen to the challenges that have presented themselves this year whilst continuing to provide an excellent service to publishers.

Income and Expenditure

For the year ended 31 March 2016

| | 2016 | 2015 |
|------------------------------------------------------------|---------------------|---------------------|
| | £ | £ |
| LICENCE FEES RECEIVED | 37,534,113 | 35,954,366 |
| Distributable to publishers | <u>(35,182,864)</u> | <u>(33,856,095)</u> |
| TURNOVER | 2,351,249 | 2,098,271 |
| Administrative expenses * | <u>(2,431,525)</u> | <u>(2,037,642)</u> |
| OPERATING (DEFICIT) / SURPLUS | (80,276) | 60,629 |
| Bank interest receivable | <u>34,695</u> | <u>40,679</u> |
| (DEFICIT) / SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION | (45,581) | 101,308 |
| Taxation | <u>12,103</u> | <u>(34,066)</u> |
| (DEFICIT) / SURPLUS FOR THE YEAR | (33,478) | 67,242 |
| BALANCE BROUGHT FORWARD | <u>620,000</u> | <u>552,758</u> |
| BALANCE CARRIED FORWARD | <u>586,522</u> | <u>620,000</u> |

* This figure includes £193,532 (2015 £168,153) for Directors' remuneration including pensions.

Balance Sheet

At 31 March 2016

| | 2016 | 2015 |
|------------------------------------------------------|---------------------|--------------------|
| | £ | £ |
| FIXED ASSETS | | |
| Tangible assets | 74,853 | 15,820 |
| Intangible assets | <u>343,730</u> | <u>326,795</u> |
| | 418,583 | 342,615 |
| CURRENT ASSETS | | |
| Debtors | 1,148,337 | 1,014,698 |
| Short-term fixed deposits | 1,533,215 | 4,535,783 |
| Cash at bank and in hand | <u>9,420,973</u> | <u>4,348,043</u> |
| | 12,102,525 | 9,898,524 |
| CREDITORS: amounts falling due within one year | <u>(11,910,308)</u> | <u>(9,589,272)</u> |
| NET CURRENT ASSETS | 192,217 | 309,252 |
| PROVISIONS FOR LIABILITIES | <u>(24,278)</u> | <u>(31,867)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS | <u>586,522</u> | <u>620,000</u> |
| RESERVES | | |
| INCOME AND EXPENDITURE ACCOUNT | <u>586,522</u> | <u>620,000</u> |

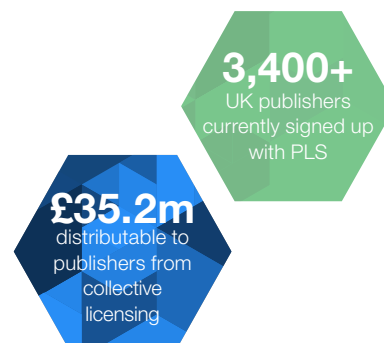
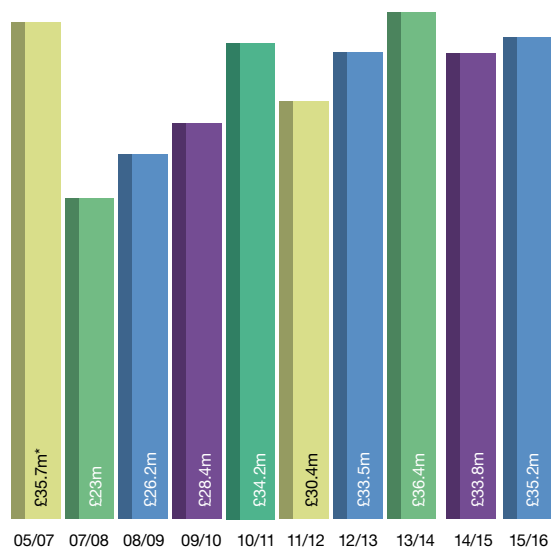
Commentary

The financial information on pages 4 and 5 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Income and expenditure account and the balance sheet have been extracted from the audited statutory accounts for the year ended 31 March 2016. These accounts have been delivered to the Registrar of Companies and carry an audit report,

which was unqualified and did not contain a statement under Section 495(4) of the Companies Act 2006.

Summary of Distributions

Total distributable revenue from all sources



Overview

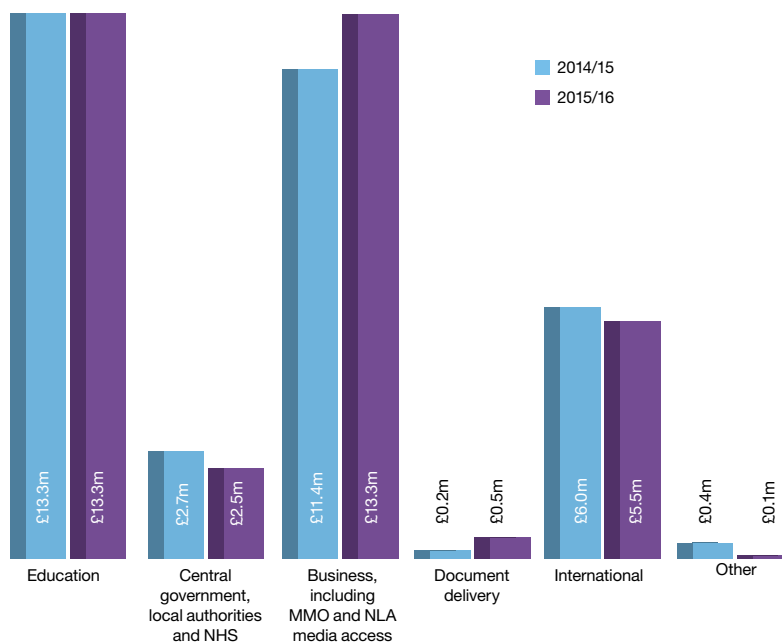
Distributable revenue in the year ended March 2016 was 4% up on the previous year. This increase was primarily due to increased receipts from business licensing where both CLA and NLA saw strong growth. In the Education sector an 8% increase in Higher Education combined with a 20% decrease in Further Education – both due to changes in student numbers – resulted in a net increase of 0.5% for the sector overall. The distribution of business licensing revenue in the final month of the year (March) was the first to reflect the new shares provided for in the rights valuation.

How we pay publishers

We allocate the licence fees we receive from CLA and NLA by linking the usage data they supply to us to the relevant publishers on the PLSe database. This usage data indicates which titles have been used under each licence and is gathered from a representative sample of licensees through a combination of surveys, audits and record keeping returns. We deduct 6% from the monies we receive to meet our administration costs and we distribute the balance of licence fees, as allocated, in accordance with our Distribution Charter and Distribution Timetable (available on our website at www.pls.org.uk).

* PLS changed its accounting date during this period and the distribution therefore spans 18 months rather than the usual one year period.

Total distributable revenues from each sector



Deductions

Before distribution, the Copyright Licensing Agency (CLA), NLA media access (NLA) and PLS each deduct an administration fee from the licensing revenue each receives to cover the costs of its respective operations, including third party costs. The amount that is deducted in each financial year is approved by the relevant Board. In addition, third party contributors' shares of CLA and NLA revenue in amounts determined by the Independent Rights Valuation in December 2015 (Collective Contributors' Shares) are deducted "off the top" before the balance is distributed to Publishers. Contributors include authors and visual artists. The Collective Contributors' Shares of CLA

revenue are paid by CLA before remittance of the balance to PLS, whereas NLA remits all revenue it receives (less its administration fee) to PLS, and the Collective Contributors' Shares of that revenue are deducted by PLS before the distribution of Net Revenue to Publishers.

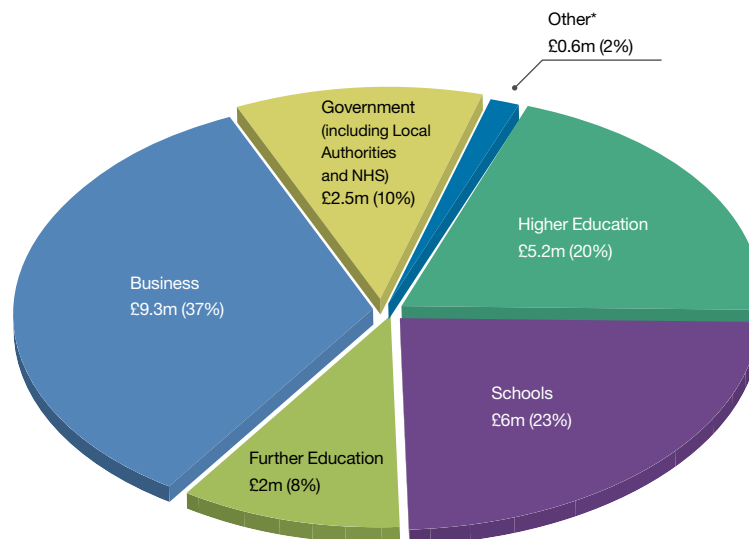
Further details about the deductions can be found in the PLS Distribution Charter at www.pls.org.uk/distribution-charter

Sources of Distributable Revenue

Copyright Licensing Agency

UK Licensing: £25.6m

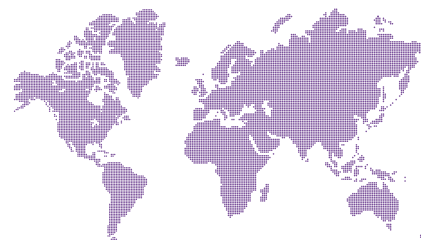
- Higher Education: Up 8% due to increased student numbers.
- Further Education: Down 20% due to changes in funding for the sector affecting student numbers.
- Business: Up 13% due to increased sales to the sector.



*Other: Includes Document Delivery and Media Monitoring.

International distributable revenues: £5.5m

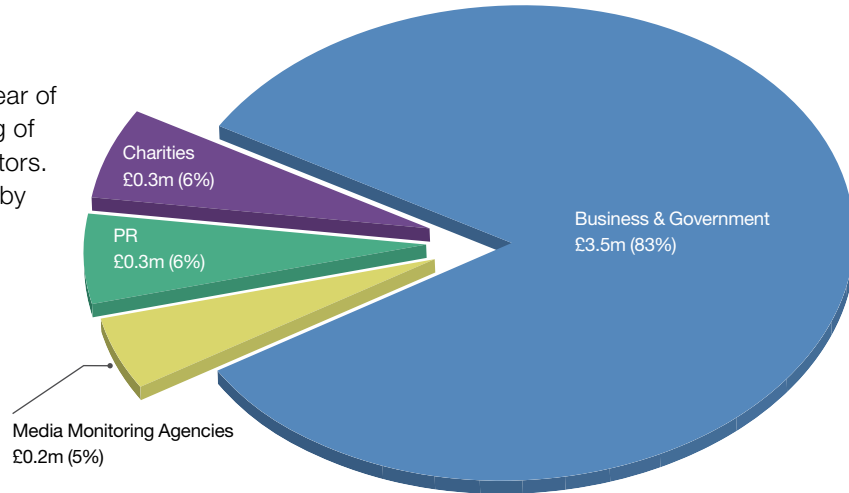
| | | | |
|---------------------------------|----------------------------------|----------------------------------|-----------------------------|
| Australia £1.3m (24%) | Norway £486k (9%) | Germany £201k (4%) | Austria £63k (1%) |
| USA £834k (15%) | New Zealand £371k (7%) | Ireland £91k (2%) | Sweden £52k (1%) |
| Japan £622k (11%) | Canada £290k (5%) | South Africa £84k (2%) | Finland £47k (1%) |
| Denmark £497k (9%) | France £261k (5%) | Belgium £75k (1%) | Other £167k (3%) |



NLA media access

Total licensing: £4.3m

2015/16 saw the second full year of payments from NLA's licensing of business and government sectors. Licensing revenues increased by £1.2m on last year (2014/15).



Year in Brief

An overview of activity

First ever Independent Rights Valuation published



The split between rightsholders of licensing revenues collected by the Copyright Licensing Agency (CLA) and NLA media access (NLA) was independently determined for the first time ever in a rights valuation process that ran throughout 2015. The decision is effective from 1st January 2016.

The key objective was to commission an independent evidence-based determination as to how collective licensing revenues for copying text and images in books, journals and magazines should be shared between publishers, authors and visual artists. The valuation provided a timely opportunity to ensure that distributions would in future also satisfy the requirements of transparency and fairness in the Collective Rights Management Directive (subsequently implemented into UK law in April 2016).

The valuation was commissioned by the Authors' Licensing and Collecting Society (ALCS); the Artists' Collecting Society (ACS); the British Association of Picture Libraries and Agencies (BAPLA); the Design and Artists Copyright Society (DACS) and PLS. They appointed an independent valuer, Mark Bezant of FTI Consulting, to undertake the valuation. To ensure that the valuation was effective, all five participating organisations agreed at the outset to be bound by

the outcome. Mark Bezant analysed and assessed detailed evidence relating to usage and perceived value and rights ownership in material copied by CLA and NLA licencees in the education, business and public sectors. PLS was tasked with gathering rights-based evidence from publishers.

Collective licensing delivers an important secondary revenue stream, worth £68.2m in 2014/15, to authors, publishers and visual artists. Whilst the valuation does not affect the licences offered by CLA and NLA, it does mean that licensees can be confident that the fees they pay for the right to copy small extracts from books, journals and magazines are distributed to the appropriate rightsholders.

To read the final determination and see how it impacts on distributions to publishers, see <http://bit.ly/1WMknA4>



Increasing awareness



The last year has seen PLS deliver new initiatives to benefit the publishing community. These serve two purposes: to add further value to those publishers

signed up with PLS already and to encourage more new publishers to sign up.

Our new permissions workshops, launched in Summer 2015, offer publishers the chance to learn how to manage permissions more effectively. These complement our existing series of free Introduction to Collective Licensing seminars, which are now run monthly with some being targeted at particular types of publisher.

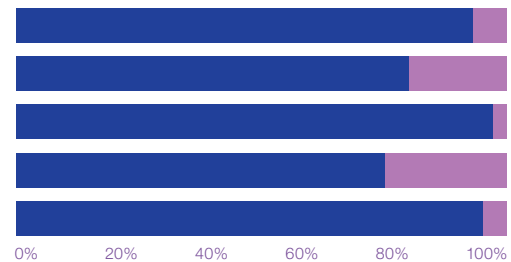
We launched a new webinar series in Autumn 2015, with the focus so far being on getting the most from PLSe and on our Introduction to Collective Licensing. Future webinars will be promoted on our website.

Lastly, PLS has increased collaboration with its trade association owners in order to raise awareness of the benefits PLS offers to publishers. This collaboration includes event sponsorship at leading publishing conferences and awards ceremonies across the UK; increased website presence on trade association websites; emarketing; and membership of key industry focus groups and panels.

Satisfaction Survey findings

In December 2015 PLS sent out a survey to gauge publisher opinion on collective licensing, wider services, communications and customer experience. 10% (312) of publishers signed up with PLS responded. Responses to key questions are shown (right).

- I understand PLS' role
- I know what my collective licences entail
- I am satisfied with PLS customer services
- I want to know how to optimise revenues from PLS
- PLSe is easy to navigate



Year in Brief

PLS Services Update

PLSe – your account management service

PLSe continues to be the backbone of the PLS offering and is regularly updated to provide publishers with transparent and simple access to their account with PLS. As a result of a comprehensive upgrade PLSe is now an integral part of the new PLS Account Form, launched in July 2015.

Key features include a new dynamic homepage, more intuitive licensing options, and improved tools for managing



licensed repertoire. Use has continued to grow throughout the year as more publishers discover the direct control, insight and convenience that the service offers.

Development of PLSe's core account management services will continue in the coming year, fully integrated with our other offerings, including PLSclear.

Find out more: www.pls.org.uk/plse

Access to Research given green light to continue

Now offering more than 15 million academic articles for free to users in UK public libraries, publishers and librarians have agreed that the well-received Access to Research initiative should continue following the completion of the pilot service at the end of 2015, subject to annual reviews.

The service was originally

launched as a pilot by the Universities and Science Minister in 2014, in order to support expanded access to publicly funded research in the UK. Two years on and over 80% of UK local authorities have signed up to the initiative from across England, Scotland, Wales and Northern Ireland.

Ciara Eastell, President of

the Society of Chief Librarians, said: "This news is welcomed by libraries and library customers, and we appreciate all the hard work that has gone into ensuring Access to Research can be prolonged. It is an incredibly valuable information resource."

Find out more: www.accesstoresearch.org.uk



New Permissions Management Services

PLS now offers a variety of services to help publishers manage permissions more effectively.

These include:

Outsourcing: Not all publishers have specialist staff to manage their permissions effectively. PLS is providing an outsourced service that manages permissions from beginning to end on behalf of publishers. The specialist team at PLS is not only saving publishing staff time, but also maximising returns and customer goodwill.

Digital tools: Very few publishers have digital tools to manage their permissions efficiently. For those publishers who wish to manage permissions in house, the PLSclear digital service provides various tools to



make the workflow easier to manage. Version 1, which makes it easier to identify the current rightsholder and provide them with the information they need to make a quick decision, was used by around 9,000 publishers and authors in 2015/16. The latest release enables publishers to automate responses to “free-of-charge” licences, and manage requests from a permissions inbox that facilitates responses and reporting.

Workshops: The Straightforward Permissions workshops help publishers manage permissions

effectively; maximise income generation; and think more strategically about rights licensing. PLS is developing rights management workshops to complement this service.

PLSclear Text and Data Mining launched



PLSclear TDM is a web service developed to help reconcile the needs of publishers and researchers, to make it easier for publishers to manage requests for text and data mining.

A digital clearing house for researchers’ requests, PLSclear TDM takes researchers through a simple request form developed by a group of leading publishers. This gathers basic information about their text mining project, which is then forwarded to the

appropriate manager within the publishing company.

PLSclear TDM can be used by any publisher with content that researchers wish to mine. It is also particularly useful for smaller publishers who are unfamiliar with text and data mining.



The regulatory environment



The European Union started work in earnest to move towards the much vaunted digital single market (DSM) first announced by Jean-Claude Juncker on his appointment as President of the European Commission in 2014. No sooner was the ink dry on copyright modernisation in the UK, ensuring it was “fit for the digital age” following the Hargreaves Review of IP and Growth, than plans for the DSM, which include a copyright modernisation programme, were published in the Commission’s Communication in December 2016 with draft legislation now expected in October 2016.

A key concern is the EU’s intention to “clarify” the exception for illustration for teaching so as to enable material to be used in education online and across borders. Whilst the EU accepts that CLA licences already enable such uses, there is a risk that CLA’s ability to license could be impacted by a more general provision that will apply to all Member States. Accordingly, together with ALCS and CLA, we are actively engaging with the Commission and MEPs in Brussels.

There is heavy pressure on the EU to introduce a new exception for text and data mining (TDM). Whilst the EU looks likely to follow the UK exception, but limited to scientific research, the more open question is whether it will extend to TDM for commercial purposes. In the light of the continuing low take up of TDM, the vast range of industry solutions from

licensing to tools, including PLSclear for TDM, and the strictures of the law it would be surprising if the exception went beyond that in the UK.

Meanwhile, two shock Court decisions have effectively disentitled publishers from receiving secondary licensing revenues under European levy schemes (*Hewlett-Packard v Repobel*, Court of Justice of the EU) and from *VG Wort* in Germany (*Vogel v VG Wort*, German Federal Court of Justice). This is a particularly worrying development for European publishers and, whilst the impact on PLS distributions will be modest, it sets a very dangerous precedent. We are supporting European reprographic rights organisations seeking to have legislation corrected at both European and national level.

A longer standing regulatory development that for once favours publishers is the implementation in April 2016 into UK law of the European Directive on collective management of copyright, which was passed by the European Parliament in early 2014. This enshrines many of the principles under which PLS has traditionally operated and which we have always considered to be in the best interest of publishers, including allowing publishers to make choices about how their rights are collectively managed, transparency, fairness and non-discrimination. We have nevertheless had to review and adjust our documentation and our internal operations to fit with the specific detail of the regulations.

People at PLS¹

Directors

Chair

Mark Bide

ALPSP

Jen Holton

Audrey McCulloch

Peter Richardson²

IPG

Oliver Gadsby³

PA

Stephen Lotinga⁴

Mark Majurey⁵

Lis Tribe

PPA

Nick Service

Harriet Wilson⁶

Andrew Yeates

Directors

Up to three directors are nominated by each of the trade association members of PLS (ALPSP, the IPG, the PA, and the PPA) and are approved by the Board. The Chairman is appointed by the Board and is independent of the members. The Chief Executive is appointed by the Board.

¹ As at March 2016

² Appointed January 2016

³ Appointed September 2015

⁴ Appointed January 2016

⁵ Appointed September 2015

⁶ Appointed January 2016

Executive Director

Chief Executive and Director

Sarah Faulder

PA to the Chief Executive

Mia Copas

Operations

Head of Operations

Tom West

Data and Distributions Manager

Pam Singh

IT Manager

Mohammed Anisuzzaman

Operations Officer

Rachel Hunt

Operations Officer

Emily McLean

Operations Administrator

Claire Houguez

Operations Administrator

Josephine Nakanwagi

Publisher Relations

Head of Publisher Relations

Jeremy Brinton

Publisher Relations Manager

Suzanne Beynon

Digital Services

Head of Digital Services

Jonathan Griffin

Digital Services Officer

Amy Ellis

Communications

Communications and Events Manager

Joanna Waters

Communications and Events Assistant

Evie Ioannidi



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Learned & Professional
Society Publishers



Independent Publishers Guild

THE PUBLISHERS
ASSOCIATION



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