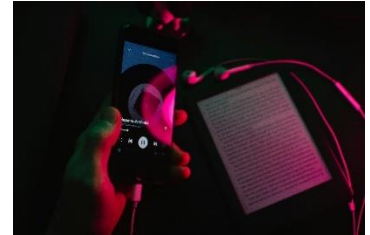


Bundle to Save: Spotify Avoids Royalties to Musicians

Mechanical Licensing Collective v. Spotify USA Inc., Case No. 24 Civ. 3809 (S.D.N.Y. Jan. 29, 2025)

By: Joseph Saltiel & Alexa Tipton | Edited by: Jason Keener | February 19, 2025

On January 29, 2025, the Southern District of New York dismissed a lawsuit filed against Spotify for allegedly failing to pay the appropriate royalties to songwriters. The Mechanical Licensing Collective (“MLC”), which collects royalties from digital streaming platforms on behalf of composition rightsholders, brought this suit after Spotify unexpectedly reduced its reported royalties. In defense, Spotify cited the Copyright Act, which regulates the collection and reporting of composition royalties under a statutory compulsory blanket license. The Court confirmed Spotify’s ability to exploit a loophole in the Copyright Act and avoid paying an estimated \$150 million per year in royalties to songwriters.



Spotify is one of the largest music streaming services with its most popular subscription, Premium, having over 44 million subscribers. Under a statutory compulsory blanket license, Spotify is required to pay royalties to the MLC according to a formula outlined in the Copyright Act. That formula distinguishes between “Subscription Offerings” encompassing solely music streaming, and “Bundled Subscription Offerings” that include music streaming and an additional product or service that is greater than “token value.” All revenue obtained from Subscription Offerings must be reported to MLC, while a Bundle requires the reporting of the revenue based on the weight of the retail price of the musical component if it was sold as a standalone product, *relative to the retail price of the bundle*.¹

MLC brought suit against Spotify alleging that its Premium plan does not fall under the definition of a Bundled Subscription Offering and, even if it does, the additional hours of audiobook access are not more than “token value.” In 2023 Spotify introduced 15 hours of audiobook listening to its Premium subscription but continued to report its royalties as a Subscription Offering. However, in 2024 Spotify reported its Premium subscription as a Bundle. MLC argued that Spotify improperly reduced the amount of royalties because it now only received royalties on a portion of the monthly subscription price, whereas Spotify previously reported the full amount. The Court reviewed the definition of Bundled Subscription Offering and found that Spotify’s Premium subscription qualifies as a Bundle because access to audiobooks is an additional product or service, and this audiobook access has more than “token value” in the “natural and ordinary meaning” of the term. Therefore, the Court dismissed MLC’s complaint.

By including audiobook access on their streaming platforms, Spotify discovered a loophole that allows it to pay less royalties to musicians even though its plan encompasses the same access to its musical repertoire. Because the Court allowed this, lawmakers will have to decide whether the law should be changed to prevent this type of pricing scheme in the future.

¹ In other words, if Spotify priced its music-only Premium subscription which qualifies as a Subscription Offering, at \$10.00, it would be required to report \$10.00 per month per subscriber. In contrast, if Spotify priced its music-audiobook subscription package, which qualifies as a Bundled Subscription Offering, at \$18.00 per month, Spotify would be required to report only \$9.00 per month per subscriber to the MLC.