

Understanding Royalties in the Music Industry: From Definition to Dispute

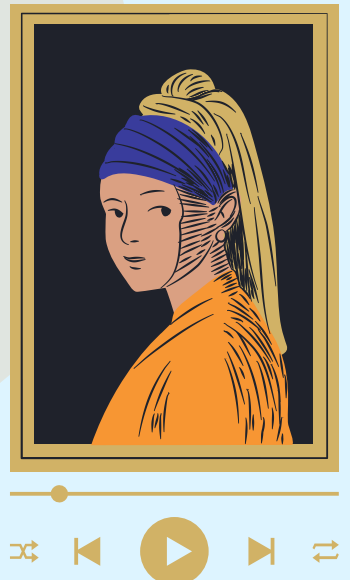


Background

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Recent disputes concerning royalties are part of copyright disputes. Royalties are collected and distributed by the Collective Management Institution (*Lembaga Manajemen Kolektif* / "LMK"), a non-profit legal entity authorized by creators, owners of copyrights and/or owners of related rights to manage their economic rights.

One of the recent disputes was between Sentra Lisensi Musik Indonesia and PT Mitra Bali Sukses (the manager of Mie Gacoan outlets in Bali and outside Java, "PT MBS"), in which PT MBS was reported to the police in Bali for playing songs at several outlets of Mie Gacoan without paying any royalties. The dispute was eventually resolved amicably, with PT MBS paying royalties in the amount of Rp2.2 billion.



What is royalty?

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Royalty is defined under Law No. 28 of 2014 on Copyrights (as amended, the "**Copyright Law**") as compensation for the utilization of the economic rights of a creation or product of related rights received by the creator or the owner of the related rights.

Royalty is also provided under (i) Government Regulation No. 56 of 2021 on Song Copyrights and/or Music Royalties Management ("**GR No. 56/2021**") and (ii) Minister of Law Regulation No. 27 of 2025 on the Implementing Regulation of GR No. 56/2021 ("**MOL Regulation No. 27/2025**").



03

Why do royalties matter?

Royalties aim to not only protect the economic rights of creators, copyright holders and related rights owners, but also provide legal certainty for commercial users of songs and/or music. Royalties also affect wider concerns such as economic growth, investment and global compliance. Non-compliance may lead to sanctions and reputational damage.



Who has the authority to collect royalties?

04

**NATIONAL COLLECTIVE
MANAGEMENT INSTITUTIONS**
LEMBAGA MANAJEMEN KOLEKTIF NASIONAL

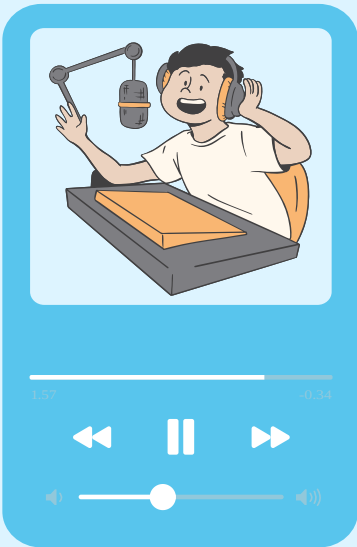
The authority to collect royalties lies with the National LMK ("LMKN"), consisting of LMKN for creators and LMKN for owners of related rights, which operates directly under the Ministry of Law and is mandated to collect, administer and distribute royalties from commercial users.

The LMKN coordinates with individual LMKs, which are non-profit legal entities authorized by creators, owners of copyrights and/or owners of related rights. Unlike LMKN, LMKs only administer and distribute royalties to their members; they do not collect royalties from commercial users.



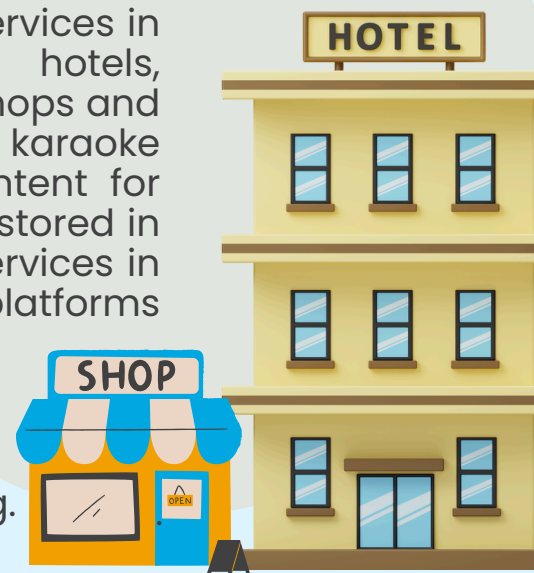
Who should pay royalties?

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Any person commercially using songs and/or music in commercial public services, with or without a license agreement.

Under MOL Regulation No. 27/2025, commercial public services in the analogue form include, amongst others, (i) hotels, apartments and resorts, (ii) restaurants and cafes, (iii) shops and malls, (iv) sports facilities such as fitness centers, (v) karaoke venues and (vi) provision of songs and/or music content for communication purposes to the public, including music stored in digital storage or hard disks, while commercial public services in the digital form include (aa) audio/video streaming platforms such as Spotify and YouTube, (bb) audio/video download services, (cc) simulcast/webcasts (simultaneous broadcasting of television and radio), (dd) video on demand/over the top services such as Netflix, (ee) online/web radio and (ff) live event streaming.



Who is responsible for the payment of royalties for the use of songs and/or music in commercial public services?

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Event organizers or business owners.





What are the consequences of non-compliance with the royalty payment obligation?

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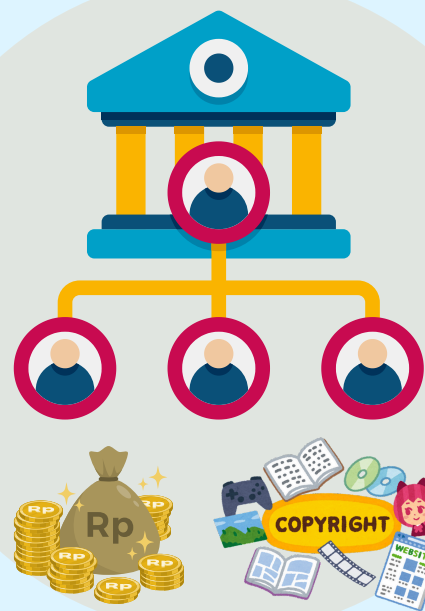
The Copyright Law provides that civil and/or criminal claims may be filed for copyright infringement, including for cases relating to royalty payment. Sanctions that may be imposed include compensation, criminal fines and/or imprisonment.

What is the mechanism of royalties management?

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The LMKN collects royalties for creators, copyright holders and owners of related rights, which have and have not yet become a member of an LMK, through one single account in the name of the LMKN, of which LMKs have the right to know.

The collected royalties are then used for (i) distribution to creators, copyright holders and owners of related rights who have become a member of an LMK, (ii) operational funds and (iii) reserve funds. The distribution of royalties is carried out by the LMKN through LMKs.



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Are royalties collected in Indonesia only?

No, royalties collection is also carried out overseas based on a cooperation agreement between the LMKN and the collective management institution in the relevant country or a foreign digital platform.

If there is a dispute regarding royalty payment, how can this dispute be resolved?

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Dispute settlements for copyrights, including those related to royalty payment, can be done through mediation, negotiation or conciliation, arbitration or a commercial court.

