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Too expensive, say US state attorneys

State attorneys from 28 US states have filed a law suit against the world's five largest record companies, accusing them of fixing compact disc prices.

Record companies are accused of trying to fix prices, by subsidising advertising of retailers that agree not to sell CDs below a minimum price set by the labels.

The attorneys have filed suit against Time Warner's Warner Brothers music group, Sony Music, Universal Music Group, Bertelsmann's BMG Entertainment, and EMI.

Also in the dock are three large retailers, Tower Records, MusicLand Stores (Sam Goody and Musicland), and Trans World Entertainment (Camelot, Music & Movies, Planet Music, and Record Town).

The states are demanding damages running into "hundreds of millions of dollars", or "several dollars" per CD sold.

The US market for CDs is worth \$14bn at wholesale prices.

If US compact discs were indeed overpriced, European consumers may wonder why on average they have to pay even more for their music CDs.

'Conspiracies'

“ Because of these conspiracies, tens of millions of consumers paid inflated prices to buy CDs

”
Eliot Spitzer, New York State Attorney General

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New York State Attorney General Eliot Spitzer spoke of "illegal action" and "conspiracies" that resulted in "tens of millions of consumers [paying] inflated prices to buy CDs".

State officials allege that the so-called "minimum advertised pricing" policy violates anti-trust laws and drove up CD prices.

It was first introduced when large retailers like Wal-Mart and Circuit City began to sell CDs of top artists as "loss leaders" below costs, in an attempt to lure customers into their shops.

In May, the five record companies named in the law suit agreed to suspend the minimum pricing policy for seven years, in a deal with the US Federal Trade Commission.

Back then, none of the labels admitted any wrongdoing, nor did they agree to pay any damages.

But the Federal Trade Commission estimated that consumers had lost out to the tune of \$480m.

The labels argue that their policy simply was an attempt to help small record stores that could not compete with their bigger rivals.

State attorneys, however, say music stores could lose advertising funds worth millions of dollars if they advertised CDs for less than the agreed minimum.

Shares nosedive

In London, the share price of EMI took a dive following the news from New York.

The firm is the world's third largest music label, and investors fear a multi-million dollar pay-out.

One analyst said: "You mention US law suit and everyone dives for cover".

However he added that it was "very difficult to say at this stage what the likely implications for EMI will be".

EMI shares tumbled more than 7.6% to 600 pence.

The states and territories participating in the lawsuit are New York, Florida, Arizona, Arkansas, Connecticut, Delaware, Hawaii, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Mississippi, Missouri, Nevada, New Mexico, North Carolina, Northern Mariana Islands, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Texas, Utah, Vermont, Washington, West Virginia and Wisconsin.

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