

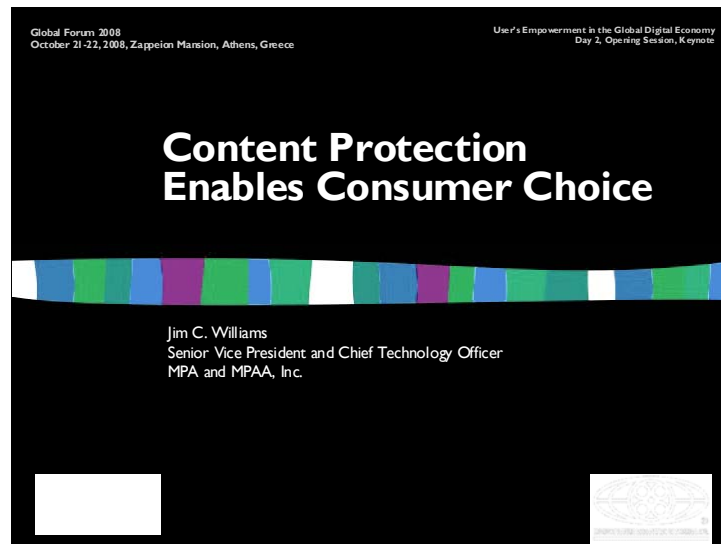
Content Protection Enables Consumer Choice

The keynote speech that follows was delivered on October 22, 2008 in Athens Greece to a diverse international audience of regulators, academics and industry executives at the annual Global Forum event.



Jim C. Williams delivering keynote speech

- good morning --



“Content protection enables consumer choice”.

This statement seems obvious to me.

...but I often and get mixed reactions from my audiences.

Some people might smirk ...
... others might roll their eyes back in disbelief upon hearing

”content protection enables consumer choice”.

How did you react?

My hope is that by the end of our time together today, you too, will consider this statement to be intuitively obvious.

As a side note, today I will use the terms “content protection” and “DRM” interchangeably so please don't be confused if I bounce back and forth between these terms.



Our theme in this forum is
“User Empowerment in a
Global Digital Economy”.

“User Empowerment” in my
industry means giving
consumers movies and
television when, where and
how they want - - - giving
consumers choices.

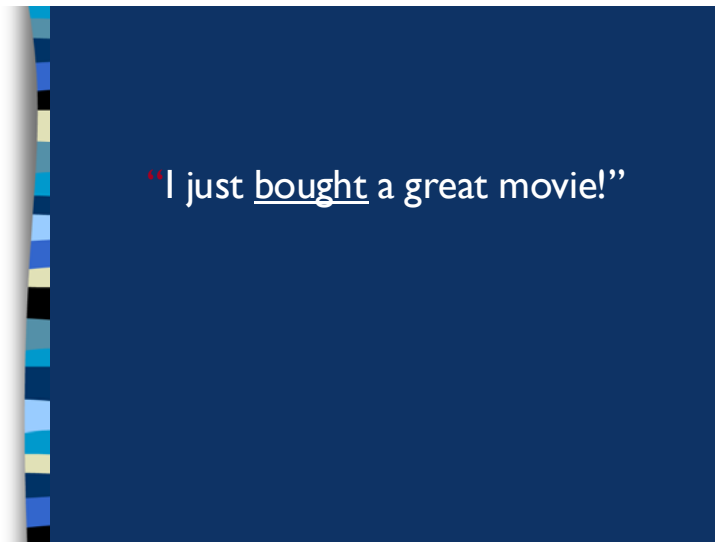
Doing this requires a
constructive collaboration
between the creative industries
that produce movies and
television and the technology industries that increasingly deliver them to consumers.

Doing this well requires solving both technological and economic challenges.

Before we address technology, let’s explore how “movies and television” fit into the
global digital economy.



Have you ever heard someone
say they “bought” a movie—
referring to a recent pay-per-
view or DVD purchase? My
friends react quizzically when I
respond to such statements
with, “Unless you spent over
100 million dollars, then you
didn’t actually buy the movie.
Why would a Hollywood
studio sell their movie to you at
such a huge loss?”



In 2007, a typical Hollywood movie cost 107 million U.S. dollars to make and market.

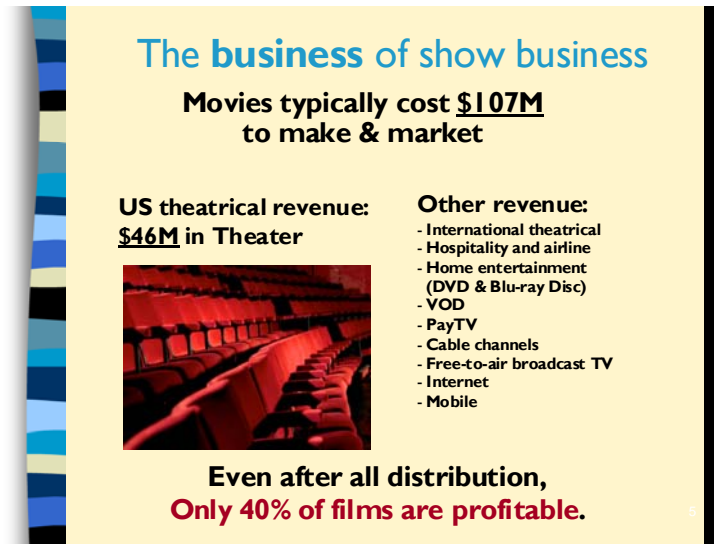
That same typical movie made only 46 million dollars at the U.S. box office.

Very few films are profitable through their theatrical release alone. Increasingly, they rely upon a variety of distribution paths to break even and --- eventually, we hope --- generate a profit.

Paths like...

- domestic theatrical
- international theatrical,
- hospitality and airline,
- video-on-demand,
- home entertainment (like DVDs and Blu-ray discs),
- PayTV channels (like HBO and Canal+),
- cable channels
- free-to-air broadcast channels,
- and, increasingly over the Internet and to mobile devices.


Even after all of this, only 4 in 10 movies ever generate a profit. Yes, only 40%!



The business of show business

Movies typically cost \$107M to make & market

US theatrical revenue:
\$46M in Theater




Other revenue:

- International theatrical
- Hospitality and airline
- Home entertainment (DVD & Blu-ray Disc)
- VOD
- PayTV
- Cable channels
- Free-to-air broadcast TV
- Internet
- Mobile

**Even after all distribution,
Only 40% of films are profitable.**

Why should people care if the movie industry generates a return on its investment? Yes, of course, because we love to see these films.

But more fundamentally because we live in a world that is increasingly dependent on the value of intellectual property --- not just for Hollywood --- but also across the many industries that depend heavily on the power, creativity and ingenuity of the mind.



“User Empowerment in a Global Digital Economy”

The Impact of Motion Picture and Television Industry

- **The motion picture and television industry is one of America's most vital and valuable resources**
- **Built on a foundation of Intellectual Property Rights.**
- **Real jobs!**
Over 1.3 million jobs
\$30 billion in wages to American workers
- **Real tax revenue!**
Generates over \$1.0 billion annually in tax revenues
- **Real economic growth!**
\$9.5 million in trade surplus

Increasingly, this impact is spread around the world.

It is fitting that we discuss this here in Athens, where Aristotle laid the groundwork for science --- and also a place considered by many to be the birthplace of the creative arts --- as you know, drama existed long before Hollywood. Around 2500 years ago Sophocles's and Euripedes's dramas were performed in a massive theater near the location of this event.

But back to the global digital economy --- the foundation of this global digital economy in which we all increasingly share a stake is intellectual property rights.

It adds up to real jobs --- real tax revenues --- real economic growth... that are increasingly spread around the world and across many industries. Intellectual property rights are a far broader concern than solely to the U.S. or Hollywood. The current state of affairs is a challenge to the underpinnings of the modern global digital economy, which is why we come together in these forums.

So increasingly, across borders and across industries, we have a common stake. We also have a substantial mountain to climb when it comes to the technical challenges before us.

The purpose of Digital Rights Management is to protect these assets as they are offered to consumers through the variety of distribution paths and with the variety of choices needed to generate a return on investment --- to make innovative, legitimate offers possible --- in other words, to enable choices for consumers.

In the analog days, movies and television were much easier to protect. You couldn't:

- Camcord a movie in the theater using only a mobile phone.
- Record a show from your television and distribute it online.
- Rent a DVD for a few dollars, rip away its protections and make an unauthorized copy—or 10...or 100...or more.

Consumer choices enabled by DRM

Broadcast TV
"I watch commercials so that I get to enjoy it for free"

DVD
"I can buy it or I can rent it"

VoD
"I get to watch it once for less than I would pay to buy it"

A television screen displays the HBO show 'Deadwood' with the text: 'A HELL OF A PLACE TO MAKE YOUR FORTUNE', 'DEADWOOD', 'PREMIERES SUNDAY, MARCH 21, 10 PM', and 'HBO'.

It's a new world today. All of these forms of piracy are in fact happening now --- blurring the lines between one choice that is available to a consumer and another. It robs the content producer of their ability to fine-tune their offers based on consumer demand. And when content producers cannot adapt their offers to consumer demand, consumers lose choice.

Delivering movies and television to consumers with the features and flexibility to satisfy their demand requires collaboration across the creative and technology communities. It is happening today. Speaking for filmmakers, I can tell you that is our preferred mode of doing business. We recognize that legitimate technology partnerships are not part of the problem, but—in

Piracy blurs the line between one choice that is available to a consumer and another.

It robs the content owner of their ability to fine-tune their offers based on consumer demand.

Consumers lose choice.

fact—part of the answer to our current challenges. But we can and must continue to defend ourselves against those who break that compact of collaborative innovation.

Let's explore an example of the blurring of the line between one offer and another --- between one choice and another --- in this case, between a DVD sale and a DVD rental.

As you may be aware, there are illegal DVD copying products in the marketplace, such as Slysoft's AnyDVD, DVDFab and others, that disregard legitimate content protection and copy DVDs. This allows someone to make an illegal copy from a borrowed DVD or rented DVD rather than purchasing a legitimate one — essentially eliminating one window of distribution...one means of recapturing investment for the folks who actually made the film.



What may seem to the casual observer as an innovative product, is actually simply a transfer of value from one industry, in this case the copyright owner, to another industry, in this case the maker of the DVD copying product.

These products also compete directly with other legitimate channels that are opening up as a result of broader industry collaboration, for example:

- Internet download services like iTunes, where a typical purchase is about \$15 and a rental is about \$4; and
- “Digital Copy,” which offers a second, copy-able disc along with the purchase of a traditional DVD.

We want to be able to continue collaborating with technology industries to offer consumers more innovative choices such as these. But it is hard to do so in competition with those who don't have to worry about ensuring that the artists, authors, producers and distributors are paid for their work. The last thing on a pirate's mind is the broader consequences to our digital economy that we are exploring here today.

Suppose we had no content protection or laws to protect intellectual property rights?

Could a movie producer still offer a \$4 rental option?

Would those who just wanted to watch the movie be disadvantaged by those who wanted to purchase a copy for their archives?

What about people who are willing to wait, watch a few commercials and get it for "free?"

These are all legitimate and quite popular choices that consumers make every day.

DRM --- effective DRM --- enables these choices.

Properly conceived and implemented, content protection empowers consumers.

The lack of content protection forces everyone toward a one-size-fits-all world.

There are a few implementation challenges that industry needs to address to give consumers choices to consume content when, where and how they want.



The good news? They are being addressed.

In the next session, my colleague will discuss an important initiative recently completed in Europe's DVB consortium and subsequently standardized by Europe's ETSI. This standard allows for home networking and remote access of all types of commercial content --- but done so in accordance with rights granted. It enables many, many choices that were previously not available through a standardized system.


To summarize, content protection plays an essential role in helping us meet the ever more sophisticated and diverse demands of today's consumers. It enables consumer choices like the option to pay less to rent than to buy.

There will always be those who try to exploit weaknesses and steal content.

Existing and emerging content protection systems help ensure that the legitimate avenues of enjoying film and television offer a superior consumer experience --- a sustainable marketplace --- and the commensurate benefits to the global digital economy.

So, I conclude by restating my premise, "Content protection enables consumer choice" and I hope that fewer of you are now rolling your eyes and more of you are now nodding your heads in agreement.

Thank you.



"Content protection
enables
consumer choice"