

The Honorable
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The Motion Picture Industry in the 21st Century: A New Golden Age?

Somebody asked me, “Well, what does the Secretary of Agriculture have to do with the movie industry?” A lot of people here are nodding. You know, you’ve all heard this before but the classic review on Fred Astaire’s first screen test was “Can’t sing, can’t act, balding, can dance a little.” And in my case, of course, everything is true—except in my case it’s more than slightly bald, and I can’t dance at all but I was the secretary of a department that had a lot of jurisdiction in exporting and foreign policy areas. My wife said to me when I got this job, “Just tell them, if they ask any questions, that the biggest part of the word ‘agriculture’ is ‘culture’ and maybe they’ll understand the job that you’ve got here.”

But it is also true that I was secretary of the reddest of the Red States’ Cabinet departments, and perhaps we might talk a little bit about this in questions. It’s not going to be the main thrust of my speech today, but I looked at the map--the Blue States and the Red States--and when I was Secretary of Agriculture I only went to the Red States because that was the heart of the jurisdiction that I was dealing with. So I do have kind of an understanding of the country and what makes it up and a lot of these themes and issues that we’ve been talking about since the election. It is a subject that I feel I know a little bit about and also that I can be a bridge. Here is a guy from Kansas, who dealt with rural America’s small town issues, the “family values issues”—which is not true because, frankly, those issues are shared by everybody in this country—but it is something that I think maybe I can provide some insights on as we deal with some of these issues that are being raised.

I also want to pay tribute to my predecessor, Jack Valenti. It’s true that I did succeed him and I’m reminded that Jefferson said in succeeding Franklin as Ambassador to France, “I succeed him, no one can replace him.” Jack served 38 years—I’m not going to stay until I’m 90 years old, I want you to know that—but Jack did an extraordinary job for this industry and for films in general and I hope to do my best to be an effective spokesman for this most important industry in this country.

Los Angeles may be the company town of the movie business but frankly, films from here have a worldwide reach. I remember being in Nigeria and I get off the plane

and the first thing I see is a kid with a t-shirt on and it’s a picture of your current governor, before he was governor of this state. You know, whether it’s Tom Cruise or Arnold Schwarzenegger or any of a whole litany of actors, America is known in large part by movies and music, by the entertainment that it produces. It’s the greatest image-building opportunity that we have as a country.

The movie business not only does that, but it is the most significant export part of our economy when you consider it, and all the creative industries. America’s movie industry is the only American industry running a surplus trade balance with every country in the world. That is most extraordinary. Overseas ticket sales typically outstrip domestic box office receipts for most movies. When somebody asks me, “Well, what do agriculture and the movies have in common?” I can say flippantly, “Soy beans and Spielberg are both big export items for America.”

The appetite for Hollywood movies has helped fuel interest from many countries, not only for our content but also for new technology such as satellite services, Internet video delivery, high-definition DVD format, and digital cinema. Fans worldwide are eager to see our products in convenient, high quality and affordable ways, and the studios are eagerly exploring these opportunities. This industry has long embraced new technologies, whether it was sound and color, broadcast, cable and satellite TV

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or video tapes and DVDs which are doing so much to enhance the economic health of the industry and to get our product to people, both here at home and around the world, and that will continue. That is the heart of our ability to serve this country and this world.

now we're going after the Internet as well--the Internet as it relates to illegal trading of movies. This is a serious step but only the latest one in a wide-ranging multi-pronged fight against a growing threat to our industry. Illegal pirating of movies and movie content over the

taken advantage of that and they will continue to expand those services.

We see in the music industry the iPod has made it a lot more interesting and easier for music to get to consumers, particularly the young consumers and kept them from feeling that they are compelled to steal it. In addition to that, we've toughened legislation to increase penalties and ban certain kinds of problem behaviors, such as camcording movies as they play in theatres. A big part of piracy begins with this little camera that's becoming more and more sophisticated all the time, that a pirate can take into the movie fairly easily.

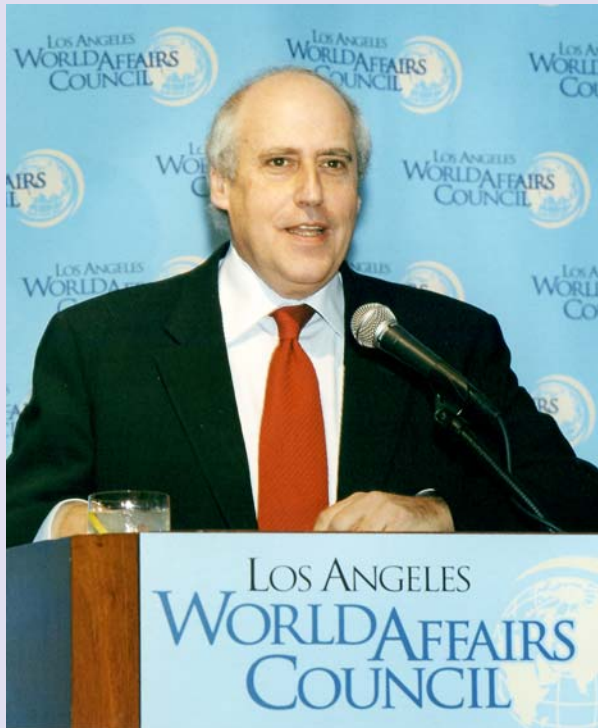
Finally, I have planned to spend much of the next several months building relationships with technology companies that are committed to using technology in ethical and legal ways. Technology and change are inevitable. We should not fight it and besides it would be a hopeless exercise, but stealing copyrighted products cannot be tolerated and it is compatible with embracing technology. We are acting now to ensure that another promising new technology doesn't become permanently corrupted as a way to steal movies. Our big concern, particularly among young people in this country, high school students and college students, is the belief that if this practice is not stopped--stealing music and movies from the Internet--it becomes mainstream behavior, it becomes acceptable and then there is no possible way to stop it at all.

Worldwide motion picture piracy lawsuits right now are estimated at around \$3.5 billion a year. That's primarily in the physical piracy area, but this does not include illegal file-swapping costs. We already worked with law enforcement and the courts around the world to stop people from selling illegal DVDs and tapes.

Internet poses the greatest existing threat to the motion picture industry. If a movie is free it likely will not be produced in the future. Free is often easier than paying for it, and we're facing a technology that is both wondrous in its ability to get content around the world but very easy to replicate at no cost. That poses a giant threat for all creative industries, but particularly for the music and now the movie industry.

In the process of thinking about this, we have reached out to students, to parents, educators, and community leaders, to talk about this issue. This is a cultural issue in this country and the world: that is, who

owns this stuff on the Internet? Is it free? Since it is so accessible, why do I have to pay for it? These are challenges that we are in the process of dealing with. We have run anti-piracy campaigns in newspapers, magazines and even in theatres, which I assume a lot of you in this audience have seen. In addition to that, we've developed new technologies to protect our content as well as embracing services, such as movie-link, cinema-now, and movie-beam that produce legal ways to get films online and I presume people in this room have



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But new technologies bring challenges as well as opportunities. With movies that's especially so with piracy issues and the illegal trading and copying, both in physical terms but particularly on the Internet. As many of you may have seen recently, I have announced that later this month the MPAA member studios will begin suing people who steal our movies online. The industry has aggressively pushed against physical piracy of these DVDs and tapes and movies for some time, but

We have fought film theft of many kinds for many decades in many venues and countries, but illegal file swapping—taking movies off the Internet—represents a different kind of challenge. People who would never dream of taking a crowbar and breaking into a house to steal your DVD player seem to think it's okay to download an online copy of a

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movie that he or she didn't pay for, and that is the same kind of stealing. Just because technology makes the theft easier doesn't mean it isn't stealing. We need to understand that, and hopefully these lawsuits that we're filing—which, granted, are not going after thousands and thousands of people, they're going to be selectively filed—hopefully these lawsuits will help.

I spent two years at Harvard, at the Kennedy School, one of the great institutions of higher education in the country, working on government and politics and related problems. It is very interesting to talk to young people about their attitudes of ownership and ethics when it comes to things they see and things they trade on the Internet. This is a big problem in our society, one that

we'll have to address not only in the movie industry but generally speaking in terms of the ethics and morality of young people as it relates to private property interests.

The other difference with digital stealing is that it is viral, like a virus, and it can spread extraordinarily quickly. When a single copy of a film is put online on what are called peer-to-peer distribution networks, that film can be quickly copied by millions of people and those digital copies in turn quickly show up in the illegal DVDs and video tapes sold on street corners worldwide. One example is *Spiderman II*. It was camcordered illegally in three theatres at midnight on its first day, and by 4:00 a.m. that day a copy was already on the Internet. Within 48 hours pirated DVDs, copies of that Internet file, surfaced in the United States and four other countries and those DVDs were subtitled in three languages within several days. Within two weeks of opening day, the pirated versions of the film were found in 15 countries on five continents.

I remember two examples I must tell you. I don't want to embarrass my son, but two examples that indirectly involved his work product. One was when he was involved in a movie, and Gary Barber was as well, called *Mr. 3000*. The movie came out. It premiered all over the country on a Friday and the following Monday my staff comes in to see me and they said, "Look." It was a DVD of *Mr. 3000*, not, of course, legal. I said, "Where did you get that?" They said, "14th and I." My office is 16th and I. You'd think that they would have a little more consideration than to do it that close. It wasn't a terribly good copy, clearly a camcordered copy. We looked at it and I called my son and I thought he would be shocked and surprised, but he said, "No, it happens all the time to a lot of movies." Then he said, "What are you going to do about it?" That brought it

home. And several years ago I was in Malaysia at an Asian-Pacific Economic Conference, a big trade conference with President Clinton, and I was very proud of my son. He had just been involved in a movie called *Rush Hour* with Jackie Chan. It was a fun movie and I was telling the people at the table about this movie and there was one of the ministers – I think the Minister of the Interior — and I said, "Well, my son's movie is just coming out called *Rush Hour*," and the guy says, "I saw it," and I said, "No, you couldn't have seen it. I haven't seen it yet." I was very naïve at the time, but the fact of the matter is that he did see the movie. So, this is an enormously significant phenomena that, if left unchecked, especially with new technologies allowing faster downloading, broadband widening where you can replicate a movie in a few minutes, right now it takes a lot longer but if it moves faster, which it undoubtedly will, it will become a problem for virtually every movie that's produced.

Worldwide, movie piracy has become very lucrative, in some cases more lucrative than drug dealing, and

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reportedly is even practiced by some terrorists who are trying to finance their operations. Like drug dealing, the profit margins on piracy are high, but unlike

drug dealing, which carries a very large offense in most countries, pirating movies has been relatively risk free. Furthermore, countries that haven't actively enforced their intellectual property laws have become hot beds for movie piracy.

So we are putting some risk into this legal activity, just like when the IRS audits taxpayers, and the idea is to make people understand that they are not totally anonymous when they use the Internet to trade movies illegally. To check this trend on a global basis, we must enforce existing trade laws and compel our trading partners to honor their commitments. At the same time, we must tell, and work with, these countries to develop indigenous film industries. It means more people are interested in anti-piracy if more of their people are producing and directing movies. I just came back from France, where I participated in a film conference and it was extraordinary. There were several hundred French people in the film industry, there were many directors and producers, and they were the most committed anti-piracy advocates that I have ever seen because they knew that they had a stake in this; they produced films and they know how significant anti-piracy is. What we find is that most of the countries where we have problems are countries that have very undeveloped film industries. It's another reason why it's important that we try to develop this all over the world. We must craft new agreements that provide more protection for American creative content, and most importantly, we must act now before piracy undermines our leadership in the international market place. We must take strong action now before online film piracy erodes the economic

basis of the movie business, like it did with the recording business, which lost 25 percent of its revenues over a short period of time. That will not only hurt our business but it also hurts the choices consumers have, because studios will not be able to make as many films or as wide a range of them if piracy isn't stemmed.

So in a sense what we're doing with this is taking a preemptive strike. In

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Kansas we call that "closing the barn door before the horse is out," or, as JFK said, "The time to repair the roof is when the sun is shining." So, we think that the lawsuits are a good opportunity to warn people that they will be subject to law enforcement action if they violate the law. The truth is we would much rather pull people into theatres than drag them into court, but we have to protect our property while at the same time giving legitimate new technologies a chance to gain a foothold in the market.

So, the strategy is the following: one, to enforce the law civilly, and, with the help of the Justice Department and others, criminally. Two, educate and make people aware of the issues of piracy, particularly people in high schools and colleges, and, three, to use technology to do two things: Continue to develop low-cost, hassle-free ways to bring movies online and to protect the work product technologically through a variety of digital rights-management techniques. This is not the first time that the industry has protected its property. It already pursues those who steal cable or satellite signals or trade illegal videotapes or DVDs. This is no different than what we've done before, and the courts have always backed us up.

I will close by saying that it's kind of strange that I began my career at the MPAA with this issue, but I truly believe that this is a threshold issue that has to be addressed, even before we address a lot of the other issues, foreign trade, taxation, and even the culture issues, because our product under our system of government has always been granted the constitutional right of copyright protection. A critical part of the American way of life, our founding fathers knew that in order to have a society which was creative, a society that was imaginative, a society which kept ahead of the game, you had to preserve the ability of people to be compensated for developing new things and new ideas. In no industry is that more evident than the movie industry. I look forward to working with you and with folks in this room to design strategies to make sure that this industry can remain strong for another 50 years or more.

Thank you all very much.

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