

## A Time of Reckoning

*Address by Bob Wright, Vice Chairman, GE, and Chairman and CEO, NBC Universal*

*Delivered to the attendees of the third annual anti-counterfeiting and piracy summit:  
Threatening Health, Safety, and Jobs: The True Cost of Counterfeiting and Piracy  
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Thank you, Dan [Christman], for that introduction.

Let me begin by applauding Tom Donahue and the U.S. Chamber of Commerce for their commitment to confronting the worldwide epidemic of counterfeiting and piracy. The Chamber, representing the broad sweep of U.S. business, recognizes the severity of this epidemic and understands what is at stake.

Any civil society rests upon two strong pillars: physical security and economic security.

Five years ago, we learned, tragically, that our physical security is under attack. Since then, we've been a nation at war, with immense resources mobilized to fight a difficult struggle against an elusive enemy.

Today, I want to suggest that the second pillar, our economic security, is also being challenged.

*Our nation is being tested in a way that we have not been since the start of the Cold War.* These are the words of our President, delivered two and a half weeks ago to the nation. His subject was the war on terror. Of course no one could equate the horrific loss of life we've suffered over the last five years with our theme at this Summit, but I do want to suggest that we indeed *are* being tested by piracy and counterfeiting, across *all* sectors of our economy, with enormous implications for our future.

I stand here as a chief executive of a media company. Too frequently, the fight against counterfeiting and piracy gets downplayed as just being about movies and music. But let me tell you: we in the media are one of the canaries in the coal mine. We're the Redcoats in the French and Indian War. Every other industry is lined up right behind us.

As this conference makes clear, and the presence here of the Attorney General, the Secretary of Commerce, and the U.S. Trade Representative emphasizes, significant portions of the U.S. economy are threatened by the increases of counterfeiting and piracy in sectors as diverse as automobiles, aerospace, computer software, defense contractors, fashion design, high-tech manufacturing, pharmaceuticals, and software.

At risk is every sector of our economy where creativity, innovation, and invention drive the creation of economic value and of high-wage jobs.

If we do not step up our efforts to protect the foundation of future economic growth, our nation and our children have a bleak future. This issue needs to be moved up on the agenda of every business leader, every trade organization, and every congressional office.

Many policymakers *are* paying attention. As the Bush administration's Report on Intellectual Property Enforcement and Protection, just released yesterday, clearly shows, the current administration has done more than any previous one to focus attention on this issue. President Bush and President Barroso have been forceful in calling for global piracy to be a top action item for the U.S. and the European Union. But from where I sit, we are not close to where we need to be.

Too many in policymaking and law enforcement still view counterfeiting and piracy as relatively minor crimes that pale beside the many other demands on law enforcement, such as terrorism and violent crime. Of course, we must respond vigorously to those threats.

But we don't seek a future for our children that is physically secure and economically impoverished. We seek a future that is physically secure, and economically vibrant. And this means escalating the fight to protect our most precious resource—our innovation and creativity.

Let me point out that when I speak about the piracy threat to my particular industry, it is the only sector of the economy with a positive balance of trade in every nation in the world. It is big. It is growing. And its product is 100% intellectual property. It is crucial that it receive the protection it deserves. Jobs, tax revenues, and economic growth depend upon it.

So what is our response to this threat? As business leaders, government officials, or policy analysts, what are the action steps we need to take to answer this call to arms?

I want to suggest the following four steps that will lead to real progress in this battle.

First, we need to recognize the impact piracy and counterfeiting have on our economy today and recognize the threat they pose to our future. We need to understand that it cuts across all business sectors.

Recognizing the extent of piracy means collecting data. Important work in this area has begun. The Chamber is involved. So is the International Chamber of Commerce. The well-respected Organization for Economic Cooperation and Development is conducting a major worldwide study. And in our own sector, we are taking significant steps to document the extent and the cost of piracy.

As an example of what I am talking about, I want to announce today the findings from a new study that tackles one of the businesses I know best—film. This study weighs the true economic impact of movie piracy. Similar evaluations in other sectors would provide a much more disciplined look than we've ever had at the real economic costs of piracy and counterfeiting in every business sector.

I will say more about this in a moment, but first let me thank Tom Giovanetti and his colleagues at the Institute for Policy Innovation, who published the study, and Steve Siwek from Economists Inc., who wrote it, for allowing me to announce these findings today.

Second, business and government must use all the powers of persuasion they can to get the message out that IP piracy and counterfeiting are not nuisance crimes. This isn't just a problem of one or two sectors or a few big companies. We're talking about organized crime. We're talking about a problem that touches pharmaceuticals, automobiles, aerospace, defense contractors, software ... every sector. We're talking about the future economic security of our nation.

Third, we must significantly increase resources at all levels of government, in this country and globally, to enforcement against IP crime.

And fourth, key players in the private sector must take steps within their control to reduce piracy. We must collaborate, public and private, and across industry sectors, with special attention to technological solutions.

#### I: Recognize the Cost

Now, let me elaborate a bit on each of these four prongs of attack. First, we must recognize the enormous cost posed by counterfeiting and piracy—not just in terms of lost revenues to the business sectors involved, but in terms of lost jobs, lost wages, lost taxes, and lost growth for the future.

If you look at the literature generated over the past few years on the cost of piracy, you'll see numbers that are all over the map. Obviously, measuring this activity is not easy. But recently we have made very good progress.

Last year, we commissioned a study from Steve Siwek entitled *Engines of Growth: Economic Contributions of the U.S. Intellectual Property Industries*. The study was designed to answer an important question: How dependent is our economy on those industry sectors that are driven by innovation, invention and creativity?

The Siwek study aggregated the "IP industries"—industries that rely heavily on copyright or patent protection—and measured their revenue, employment, compensation to workers, and growth.

The Siwek study found that these industries are essential contributors to U.S. GDP, responsible for 20% of the total U.S. private industry's contribution to GDP and 40% of the contribution of U.S. exportable products and services to GDP.

And it found that they are the most important growth drivers in the U.S. economy, contributing nearly 40% of the growth achieved by all U.S. private industry and nearly 60% of the growth of U.S. exportable products and services.

*Engines of Growth* put some numbers on what was already quite evident: IP industries are our economic future. These sectors are the driving force behind our ability to sell goods and services around the world.

And they are being seriously damaged by piracy. But what does this mean specifically in terms of lost output, lost jobs, and lost tax revenues?

We decided to try to make progress toward solving this puzzle by starting with the movie sector, where we are close to the source material.

The Motion Picture Association of America had undertaken a comprehensive study of global movie piracy, based on consumer research. The study established that the six MPAA companies lost \$6.1 billion to worldwide piracy in 2005.

But why should policymakers—and the general public—care?

In the study I mentioned earlier, which will be released today at a press conference immediately following the Summit, the Institute for Policy Innovation has answered this question.

When a studio loses revenues to piracy, it doesn't have that money to reinvest into making more movies and television. But the important point is that not only does this affect the individual studio, but it impacts all the companies that would have contributed to or benefited from these unmade productions.

It reduces the revenue both of the upstream suppliers of entertainment products, and of the downstream industries, like movie theaters, DVD retailers, and video rentals.

How can these losses be measured? The U.S. Department of Commerce, through its Bureau of Economic Analysis, has developed a method of measuring these cascading effects. It uses what are called input-output multipliers to quantify how much the change in the output of one industry will change the output of other, related, industries.

Using these analytical tools, the IPI study found that:

- Motion picture piracy results in *total lost output* among all U.S. industries of *\$20.5 billion annually*.
- Motion picture piracy costs U.S. workers *\$5.5 billion a year in lost earnings*, *\$3.6 billion* of which would have been earned by workers in other U.S. industries.
- Motion picture piracy *costs jobs*. Absent piracy, *141,000 new jobs* would have been added to the U.S. economy.
- And finally, motion picture piracy costs governments at all levels, conservatively, *\$837 million in lost tax revenue*.

This first step—which takes as its starting point the losses in one industry, the motion-picture industry—starts to indicate how damaging the true cost of piracy and counterfeiting is.

Imagine if we included the losses of other industries that are hit hard by IP theft, such as software, luxury goods, and automotive parts. The numbers would be staggering. For example, the software industry conducted a study recently and concluded that a 10-point drop in the global piracy rate in their industry would yield 2.4 million new jobs and \$400 billion in economic growth over four years. It is clear we are talking about hundreds of billions in lost productivity and many millions of jobs.

This study focuses only on the United States. But, as we all know, piracy and counterfeiting are also a significant global problem, both for developed and developing nations. What is it costing them?

Today's public policy debates have not benefited from a documentation of the overall impact of these crimes on our economy. A full accounting would galvanize a far greater appreciation of the extent to which our economic security is at stake.

## II: Communicate the Findings

My second point is that we need to do a better job of communicating how important this issue has become. As I said at the beginning, this discussion demands the same degree of urgency as our policy debates about physical security.

To my colleagues in the business community, I say these issues need to be recognized as CEO-level issues, deserving personal time and leadership. To policymakers at all levels of government and to the senior leaders in the law enforcement community, I recognize the many demands on you and your organizations. But I urge that we all need to communicate forcefully that economic security has a rightful place near the top of our agenda and that counterfeiting and piracy have reached crisis levels and require more attention and more resources.

Events like this Summit are, of course, an important step. I want to commend the Chamber of Commerce, the National Association of Manufacturers, and the Coalition Against Counterfeiting and Piracy for their efforts. Internationally, we have a similar effort under way with BASCAP, the Business Alliance to Stop Counterfeiting and Piracy, which is spearheaded by Jean-Rene Fourtou and the International Chamber of Commerce. These are crucial cross-sector efforts, and they are gaining momentum.

All of us—in the private sector and government—have a responsibility to convey to our customers and constituencies that intellectual property rights are vital to our economic future.

We need to call upon private industry to step up worldwide campaigns to educate consumers and policymakers about the moral and economic reasons to protect intellectual property.

We need to call upon the administration to ensure, in its negotiations with trading partners, that it makes the case that this is an economic security issue.

We need to call upon our elected representatives, through the Commerce Committees, as well as through the Judiciary Committees and the International Relations Committees,

which do not normally deal with this issue, to keep the spotlight focused on our economic security.

We need to call upon both political parties, as the election season draws near, to make IP protection a centerpiece in the effort to keep the U.S. competitive.

### III: Enforce the Law

My third prong is enforcement.

This is a time of constrained resources. But failing to act is penny wise and pound foolish, because future tax receipts will more than offset today's enforcement expenditures.

Globally we must wage this battle in Beijing and Barcelona as well as in Boise. Whether it is a counterfeit drug, a computer-generated car design, the theft of a valve technology from a French industrial parts supplier, or a pirated copy of *King Kong* distributed online, counterfeiting and piracy must receive priority enforcement attention.

We need to fight it on the street, where it operates in the shadows of organized crime. Just as we are doing in our fight against threats to our physical security, we need to analyze the support structures, identify the facilitators and target the chokepoints.

The media sector, of course, faces special challenges. I do want to applaud the Attorney General and the IP Task Force for their efforts in prosecuting international online gangs that illegally supply movies, music, and software to peer-to-peer networks. Cutting out that supply and driving consumers toward the many legitimate online services that are available, is a critical step.

In the wake of the Supreme Court's Grokster ruling, enterprises based on theft—Napster, Kazaa, and Grokster itself, have either gone legit ... or moved out of the United States.

But these are, unfortunately, only initial victories. Technology makes it easier than ever to illegally access and distribute copyrighted materials from anywhere in the world. Practically anyone with a computer can make copyrighted content available instantly to millions of people.

This makes enforcement efforts at once more difficult and more important. At the federal level, we've seen the Department of Justice increase its prosecutorial resources in this area significantly.

But I urge Congress to act this year to appropriate funds for significant increases in FBI investigative resources devoted to IP crime.

We need more resources at the Department of Homeland Security dedicated to stopping counterfeit and pirated goods from coming into this country. We need more enforcement resources at the state and local levels, and I urge the National Governors Association, the National Association of Attorneys General, the U.S. Conference of Mayors, and the National Association of Chiefs of Police to make IP protection a major priority for 2007.

In particular, I hope we will see significant leadership in plans to combat IP crime from some of our largest cities and states in the coming months.

Overseas, the U.S. must continue and step up efforts to ensure that our trading partners—including Russia and China—respect and enforce intellectual property laws.

Internationally, the media sector faces two different challenges. On the one hand, there are entire countries in many parts of the world where the piracy rates are so astronomical that doing business is virtually impossible. Plenty of people consume our products, but it is all stolen property. This is a huge opportunity for growth that is completely foreclosed by piracy. But it is not a hopeless situation. Where there is the political will, the tide can be turned. Taiwan and Hong Kong, for example, have made good progress when their governments made strong enforcement a serious priority.

On the other hand, there are the more industrial countries where our business is traditionally strong but is beginning to be eroded by piracy. This is the case in Spain and Mexico, for example.

We need both these situations to be addressed. Where piracy dominates the market, we need serious criminal enforcement commitments from governments that have historically allowed piracy to go unchecked. Where piracy is eroding established markets, we need modernized enforcement initiatives from governments that have historically enforced IP protection but are falling behind in adapting enforcement to today's more sophisticated and dedicated IP criminals.

The commitment made by Presidents Bush and Barrosa at the June EU-US summit represents a major step in the right direction. But a huge amount remains to be done internationally.

#### IV: Work in Partnership

Fourth, we need cooperation within and across sectors. We need all industries to be committed to taking action in areas that are under their control and also to support wider public policy efforts. We should recognize, too, that effective solutions will require a heavy measure of technology. Technology, for example, that will help identify counterfeit goods at the border.

Again, let me use my own business as an example. In confronting our piracy problem, it is imperative that we have our partners on the technology side as part of the solution.

The media industry has long been criticized for resisting technology and protecting old business models. Today, nothing could be further from the truth. We and our competitors are embracing new digital delivery systems as quickly as they appear. Consumers can download our TV shows on the iTunes service. They can get our movies from Amazon.com. They can watch streams of our programs on NBC.com or MSNBC.com, or even on AOL.

We are entering an era marked by an incredible wealth of video choices at your fingertips.

All this has a dark side, however. It makes our most valuable products incredibly vulnerable to theft.

We need our business partners to be as aggressive in deploying technology for fighting theft as they are in deploying technology for new digital distribution.

It is ironic that some of the very same parties who suggest content companies aren't moving fast enough to embrace new technologies for distributing our content, fail to call on technology and distribution companies to accelerate the development of technology to fight piracy.

All too often, our business partners act as if digital piracy is a problem just for the content industry. It is terrific that ISPs are investing billions to roll out broadband services. Yet independent firms report that well over half of broadband traffic is devoted to P2P filesharing, which is dominated by the illegal exchange of movies, music, software and games, not to mention pornography. We need ISPs to work in partnership with content companies, passing notices to and if necessary terminating customers who abuse their networks by illegal downloading.

Moreover, ISPs and content companies should be working together to find ways in the future, always consistent with subscribers' legitimate privacy concerns, to filter out illegal content while speeding along legal content. This is an acute issue on college campuses, where students all-too-often use ultra-fast computer networks not for academic research, but for illegal downloading.

We need university administrators to take much stronger action, including most importantly the use of blocking technologies, to stop wholesale illegal downloading and exchange of stolen copyrighted works on campus. Their action or inaction sends an important message to students about whether illegal activity is condoned or condemned. I pledge the full support of my company—including the formidable capabilities of the GE Research Lab—in these efforts. Together, we will find a way.

The fact is, technological steps that would significantly reduce much of the piracy problem for media companies are available right now. We have the ability to insert a digital "tag" or "watermark" in our content. I am delighted that the CE, IT and content industries have cooperated in developing technological standards for the new HD generation of DVDs, which will include provisions for detecting copyright watermarks in order to interfere with the playback of pirated material.

It is absolutely critical that we continue down this path. Technological sophistication should be our partner in the fight against digital theft. We need our business partners to help us apply the same technology to our content viewed in the context of the PC and the hard drive, to the new devices that will facilitate moving digital material from device to device within the home, from computers to handheld devices to TV sets and so on.

In this connection, I applaud the recent formation of the Digital Watermarking Alliance, consisting of companies that are at the forefront of developing technologies devoted to the protection of copyrighted and proprietary content.

I mention these issues as examples of how we in the media industry need cooperation to make progress. But every business sector needs to look at ways specific to their industries to address this problem.

Sometimes all it takes is the recognition that no competitive advantage is worth violating intellectual property rights. That's the position PepsiCo took when a Coca-Cola employee came to them with trade secrets. They promptly alerted their rival and enabled the FBI to set up a string operation to catch those responsible.

### Conclusion

I've discussed—at some length—four steps that will lead to progress on this issue. By way of conclusion, let me suggest four specific things that need to happen between now and when we gather again at next year's Summit.

First, we need to have hard numbers on the table that reveal the full impact of piracy and counterfeiting on our economy. The IPI study is a great start but it needs to be expanded and complemented by other studies, in industries from manufacturing to pharmaceuticals. That is going to take a commitment of resources and data from government and from other business sectors.

Second, we need to see stepped-up advocacy by both the private and public sectors. On the private side, this means companies in every sector, from aerospace to automotive, working together with organizations like the Chamber of Commerce's CACP and the International Chamber's BASCAP to convey the scope of the problem and the urgent need for solutions. On the government side, it means clear pronouncements from the administration, Congress, and both political parties that our future growth depends on rigorously protecting intellectual property.

Third, law enforcement at the federal, state, and local levels needs to be in a much better state of readiness, with adequate resources in place. Congress should follow through on the effort to add 65 agents at the FBI and Customs dedicated, educated, and well-equipped to investigate IP crime, in sectors ranging from financial services to fashion. I would also call on the governors and attorneys general in our ten largest states, and the mayors and chiefs of police in our twenty largest cities to have adopted coordinated, model IP protection enforcement programs in their jurisdictions.

Fourth, when we reconvene next year, we need to have made real progress in implementing technological solutions to the counterfeiting and piracy problem. In our own industry, I hope we are well on the way to partnering with the CE, IT, and ISP industries, as well as the university community, and putting serious resources and effort into developing and implementing effective technological solutions that create real roadblocks to the digital distribution and playback of pirated products.

I titled my remarks today, "A Time of Reckoning." *To reckon* means to consider or to weigh something. But in its earliest definition, it has to do with counting. Today, both definitions apply. IPI is literally announcing a new reckoning when it comes to piracy and counterfeiting.

By accurately measuring the scope of the problem, communicating its importance, ensuring adequate enforcement both here and abroad, and working in tandem with our technology partners, we can make a real difference.

NBC Universal has made a commitment to work with the CACP domestically and with BASCAP internationally and with all governments here and abroad. I hope you all will join us in support of these important efforts. The time of reckoning is right now.

Thank you.