

**TESTIMONY OF JACK VALENTI  
CHAIRMAN AND CEO  
MOTION PICTURE ASSOCIATION OF AMERICA  
BEFORE THE  
UNITED STATES TRADE DEFICIT REVIEW COMMISSION  
March 13, 2000  
New York**

My name is Jack Valenti. I am President and Chief Executive Officer of the Motion Picture Association of America. MPAA is a trade association representing the interests of the seven major producers and distributors of motion pictures, home video entertainment and television programming. MPAA members include Buena Vista Pictures Distribution, Inc. (A Walt Disney Company), Metro-Goldwyn-Mayer Studios Inc., Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios, Inc. and Warner Bros., a division of Time Warner Entertainment Company, L.P.

The American audiovisual industry and its economic importance.

The American movie industry is unique. Like America herself, the movie industry is a melting pot. The actors, writers, directors, and craftspeople that fuel the creativity of the motion picture industry come from all over the world. Although the industry is colloquially referred to as “Hollywood” - a small patch of geography in California – in fact, the stories and creators that comprise the industry are very international.

The filmed entertainment industry is also an economic engine, driving hundreds of thousands of well-paying jobs. In California alone, more than 450,000 jobs were generated in 1996 as a result of entertainment production (representing a 20% growth in jobs over the previous 5 years). At a macro level, the motion picture industry is an essential component of the information economy, with copyright industries providing employment for 6.9 million US workers in 1997 (5.3% of the US workforce). The number of US citizens employed in the copyright industries has grown by 24% over the past five years, and has more than doubled over the past 20 years.

Thus, “Hollywood” is a global industry; it provides a home to artists from the world over to tell universal stories. Perhaps more important for the

purpose of today's proceedings, America's audiovisual industry is a global industry because the magic of Hollywood is eagerly sought after by consumers in over 100 countries around the world. We estimate that the U.S. filmed entertainment industry earned over \$12 billion in revenues in 105 foreign countries in 1998. According to our analysis, America exports at least \$8.15 billion more in audiovisual goods and services than it imports - another indicator of the importance of this sector to the American economy.

In 1997, the U.S. copyright industries as a whole, including the motion picture industry, achieved foreign sales and exports of \$66.85 billion, once again leading all major industry sectors, including agriculture, automobiles and auto parts and aircraft. Foreign sales and exports for the combined copyright industries in 1998 are projected to be \$71 billion.

By any measure, the American movie industry is a healthy exporter, a bright spot in the American trade picture. But, there are also clouds in the picture.

### Industry Concerns.

The phenomenal success and appeal of American movies has had several effects. First, the audiovisual industry has been so successful in creating demand for its product that American works are stolen on an industrial scale. We conservatively estimate losses in 1999 from piracy of motion pictures at \$2.5 billion.

Second, this success has, predictably, frightened overseas competitors. The all-too-common reaction in such cases has been for countries to erect barriers, to put up walls, through import quotas, high tariffs, licensing restrictions, and other mechanisms, in an attempt to protect local businesses.

Third, our trading partners are becoming much more aggressive in shaping industrial policy in an attempt to compete with the American filmed entertainment industry. Fifteen years ago, national policies in this area reflected a view that audiovisual works were part of the artistic or cultural sector of the economy. Now, policymakers discuss how to build their "cultural industries" and drive job growth to compete with America. New policies are taking shape abroad intended to shore up infrastructure, train

talent, improve facilities, and support distribution, as well as the more traditional policies of subsidization. If done fairly, this is not bad – it makes for a more dynamic, competitive industry – but it does mean that there are many eager to take the crown of leadership from America’s film industry.

### Remedies/Goals

The American film industry, unlike its overseas competitors, does not seek government subsidies or complicated protectionist policy instruments. In short, we seek two simple things:

- . to have our creative works protected from theft; and,
- to have open market access.

First, the protection of our works. We have seen the development of new technologies in recent years – digital discs and the Internet. Pirates have taken advantage of these innovations, just as Hollywood has. Over the past two years, our anti-piracy organization seized 55 million unauthorized discs.

The frightening news is that the Internet will only exacerbate this problem. Industry is doing its part. We are in the process of **transforming** our private effort to fight piracy from an effort that has been primarily focused on the physical world, to one that can operate in cyberspace. But our efforts will be futile if there are not adequate laws in place around the world to combat **cyber** crime. And, equally important, if those laws are not enforced we will be equally forlorn.

The 1996 WIPO treaties provide important tools for fighting digital piracy. The US Congress showed tremendous domestic and international leadership in implementing those treaties through the adoption of the **Digital Copyright Millennium Act of 1998**. It is possible that by mid-year 30 countries may have ratified the treaties, so that they could enter into force. Certainly, the industry will work tirelessly to that end – and we hope our government will continue to make this a high priority. Nor can we rest after the treaties enter into force. Until every country has adopted and implemented the tools necessary to combat high-tech piracy, America’s intellectual property industries are at risk.

The second condition necessary for the continued health and success of America's audiovisual industry – an veritable export machine – is open market access. Put another way, this goal is simply the American filmed entertainment industry's interpretation of the Golden Rule. Filmmakers from all over the world are free to come here and market their works without facing unfair taxes, import quotas, screen quotas, burdensome censorship requirements, or obligations to distribute through American companies.

We, in turn, seek the same treatment that we have afforded others – a simple, fair request that can only strengthen America's trade. Each year the MPA files with USTR a global catalogue of barriers to trade. What that filing does not contain is a list of proposed laws and other recommendations that never survive to become legislation. Taken together, these two elements – the existing restrictions, and the threats in various stages – clearly show that, unfortunately, many of our trading partners do not subscribe to the golden rule.

The benefits of seeking open markets are real and substantial. One of the clearest examples I can point to is in the Far East. Twelve years ago, in 1988, in one particular market, our member companies, collectively, earned no more than \$6.4 million, their earnings potential seriously constrained by a barrier that did not allow them to open offices in that country and distribute their own product. With the support of USTR we were able to fight for a change, and a decade later, annual earnings jumped from \$6.4 million to \$125.2 million.

Many of today's barriers are less obvious. A quota here, a discriminatory or excessive tax there, but collectively, they add up. We estimate that, were we to operate in a world free from such barriers, the earnings of our member companies could increase by as much as a billion dollars annually. Industry will do its part. Just as early warning radar protects our nation, we strive to be ever alert for trouble – new proposals designed to tilt the competitive playing field to the advantage of our competitors. But we cannot and will not prevail, in the end, without the continuing vigilance and support of Government.

WTO offers an opportunity to reduce the spread of new trade barriers by creating a network of rules and commitments that increases certainty, and that guard against erosion of access. We look to a new trade round to

secure services market access commitments from the majority of trading partners in the area of filmed entertainment. We also want to ensure that the trade regime facilitates the growth of e-commerce. We also want to ensure that TRIPS rules remain strong and that enforcement of the TRIPS agreement remains a high priority.

### Summary

Doubtlessly, this esteemed Commission has heard many troubling accounts of the causes behind America's trade deficit. I am happy to say that our industry is doing the best it can to sail against the prevailing winds. We do not shy away from global competition – we relish competition – provided that the competitive playing field is fair, and that our trading partners treat us as even-handedly as we treat them.

America's trade story is not all gloom and doom. Among the bright spots, the filmed entertainment industry is one of the biggest success stories. To ensure that we can continue to export successfully, to increase employment, to fuel America's economy, the US Government needs to continue to work to stem piracy and to fight protectionism abroad. In fact, a new round of WTO talks, we believe, will advance both of these goals, and help to move our trading partners towards our simple goal: that we be protected from theft, and that we be allowed to compete fairly.