



TAMING THE TORRENT ADDICTION

A COMMERCIAL SOLUTION TO INTERNET-BASED CONTENT PIRACY

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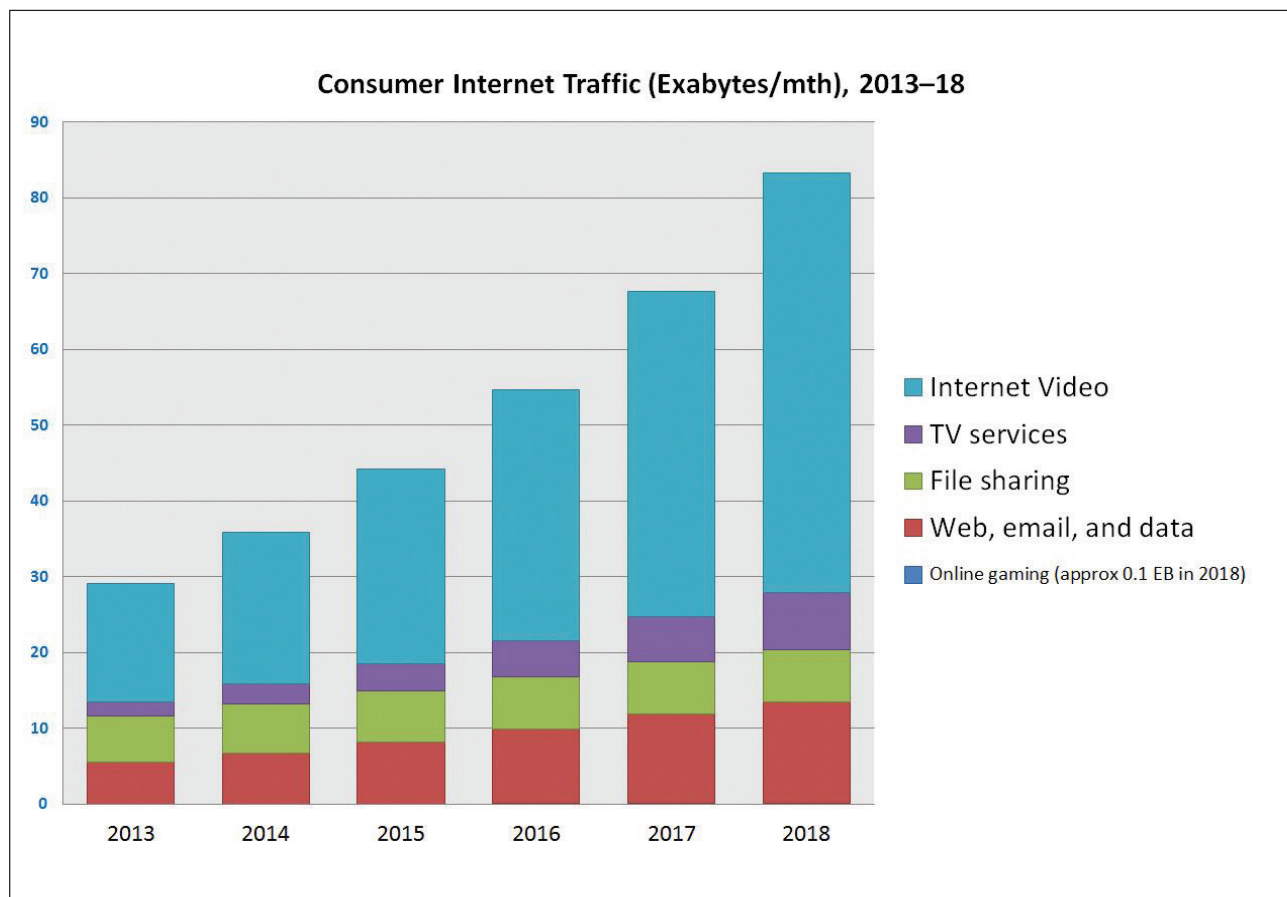
INTRODUCTION

PIRACY IS A GROWTH INDUSTRY

Piracy in the world of video content is not a new phenomenon, but in the past 15 years it has reached unprecedented scale and has undermined ground rules of content distribution. There are now so many forms of video piracy that it's hard to enumerate them all. Smart card piracy is rapidly becoming a back story, partly because of new encryption technologies, but primarily because it is now dwarfed by internet redistribution.

Video and file sharing accounts for over 80% of all internet traffic, and illegal VOD and streaming services and video file sharing are the main sources of pirated content around the world.

The perceived industry wisdom is that internet piracy can only be resolved through regulatory, technical and legal means. This paper proposes a solution which is loosely bound in regulation, but is essentially a commercial answer to internet piracy.



Source: Cisco Visual Networking Index Forecast 2013–2018

THE CONTENT INDUSTRY IS STILL FIGURING OUT HOW TO RESPOND

A lot has been written about the lessons the television industry needs to learn from the music industry, as it continues to grapple with the descendants of Napster. Subscription services such as Spotify and Pandora are often held up as the only solution in the face of seemingly unstoppable advance of file sharing, but at the same time these sites offer only a fraction of the income that artists previously received through sales of physical recordings.

In the TV and film industries, producers such as HBO have resorted to creating their own distribution channels in order to remove middlemen.

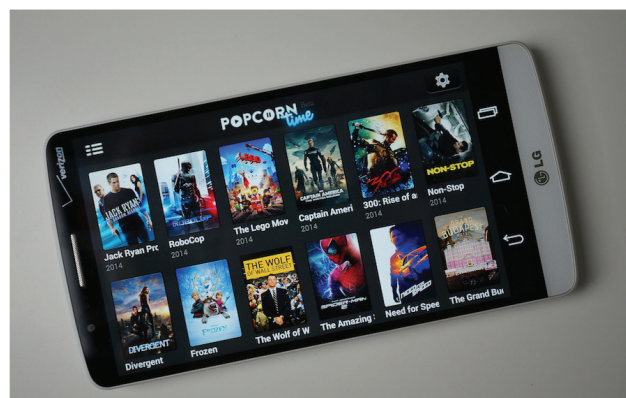
Going direct may reduce distribution costs but it doesn't prevent viewers from watching the same content through illegal redistribution. Arguably it actually makes the problem worse, because in such a fragmented distribution industry, aggregated pirate services such as torrentz.net and popcornime.io become more attractive, because they give consumers access to everything in one place.

Examples of producer-led OTT services that are in operation / imminently launching:



This global leakage of revenues ultimately starves the production industry of funding. Hollywood producers have reached larger audiences and revenues by expanding distribution, and competition between traditional pay TV and new media has helped boost revenues, but the wider industry would be better served if producers could benefit (either through advertising or subscriptions) from every viewing of shows produced by them.

In emerging markets such as MENA, piracy has effectively made it impossible to create a commercially viable OTT platform. Giants such as MBC and OSN have respectively created ad and subscription-based OTT offerings by extending their satellite rights, but these services are currently still only a foot in the door to IP delivery.



FILE SHARING IS A COMMERCIAL PROBLEM, NOT A CRIMINAL ONE

Many will recall the slogan “home taping is killing music” that appeared on cassettes in the 1980s. And yet the expression “mix tape” is universally socially accepted. It’s often overlooked that the file sharing over IP that started the internet piracy wave is essentially the same thing - just on an exponentially larger scale. Millions of Internet users around the world are sharing mix tapes with each other, and using elegantly simple distribution technology to do so. We don’t criminalise people for passing on their old paperbacks, but the publishing industry relies on the fact that most people would rather own a new book. If the original book is a digital copy it can be passed on many times over, and suddenly a whole industry is in peril.



Blocking IP-based pirate streaming and file sharing sites, and the regulation and criminalisation of these sites has proven an uphill battle because they are so numerous and pirate content is so freely available, and because consumers see piracy as a victimless crime.

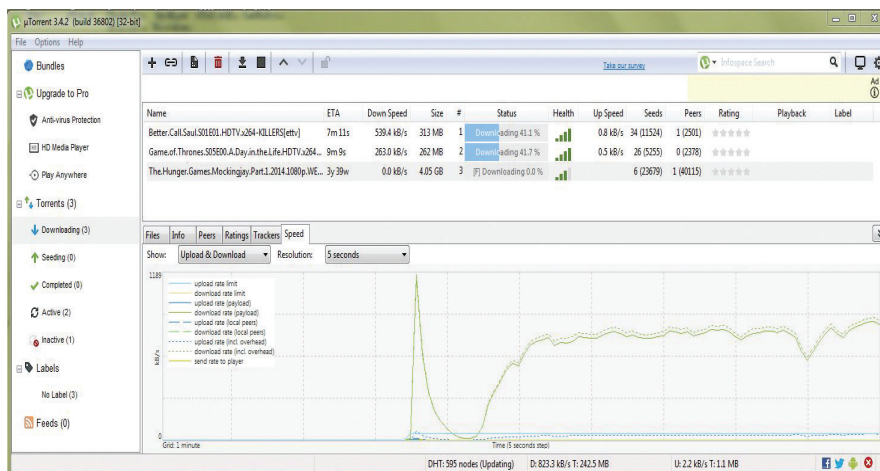
However there is an alternative solution to the problem: a commercial solution.

A COMMERCIAL SOLUTION TO IP-BASED CONTENT PIRACY

PIRACY IS POPULAR BECAUSE DATA IS FREE

The two things that all users of pirate content have in common are an Internet connection and a massive appetite for data.

According to the former head of VAS at du, 92% of network traffic in November 2012 was piracy. This sounds like a staggering figure, but it really shouldn’t come as a surprise when a single season of Game of Thrones in 1080p high-definition is close to 30 GB of data. Binge viewers can easily get through 100 GB in a month.



UTorrent peer to peer file sharing interface



Nobody downloads video on mobile phones, and the reason is obvious: I would be barely half way through Guardians of the Galaxy when I had breached my 1GB data allowance, after which I would be paying per MB to my mobile data provider. So there it is: if I have to pay per MB, I stop downloading. If I have access to unlimited internet I will watch to my heart's content.

OUR PROPOSITION: MAKE PIRACY EXPENSIVE

Our base proposition is as follows:

1. *All consumer internet services (whether fixed or mobile) should be subject to a monthly data cap (say 10GB for example). Any consumption of data above this cap should be subject to a variable (per MB) tariff.*
2. *Legitimate OTT service providers (whether they be video, audio or even gaming services), should be able to negotiate commercial agreements with ISPs to be exempted from this cap ("white listed"), so that content consumed on their services would not count towards the data cap.*

THE REGULATOR PLAYS A CENTRAL ROLE

No commercially minded Telco would implement such a scheme unilaterally. They would be decimated by their competitors as users migrated to avoid the data cap.

The maximum data cap and the minimum incremental cost per MB must therefore be controlled at a domestic regulatory level, such that all telcos operating within the jurisdiction of the relevant Telecoms Regulatory Authority (TRA) are required by law to adhere to them

Telcos would be at liberty unilaterally to reduce (but not increase) the data cap if they chose to, and/or to increase (but not reduce) the cost per MB for data consumption in excess of the cap.

LICENSING OTT VIDEO SERVICES

The TRA is also critically important in the licensing of legitimate video services. Any OTT video service provider wishing to be eligible to be whitelisted by domestic telcos would first be required to be licensed by the TRA.

It is important to note that unlicensed video sites are not blocked – they are still accessible to consumers. The reason service providers choose to be licensed by the TRA is to be in a position to be whitelisted by telcos, so that consumers never need to pay data charges for their services.

The licensing process centres on criteria relating to the legitimacy of the OTT provider, and specifically whether that provider holds proper distribution rights for its content in the regulator's territory of jurisdiction.

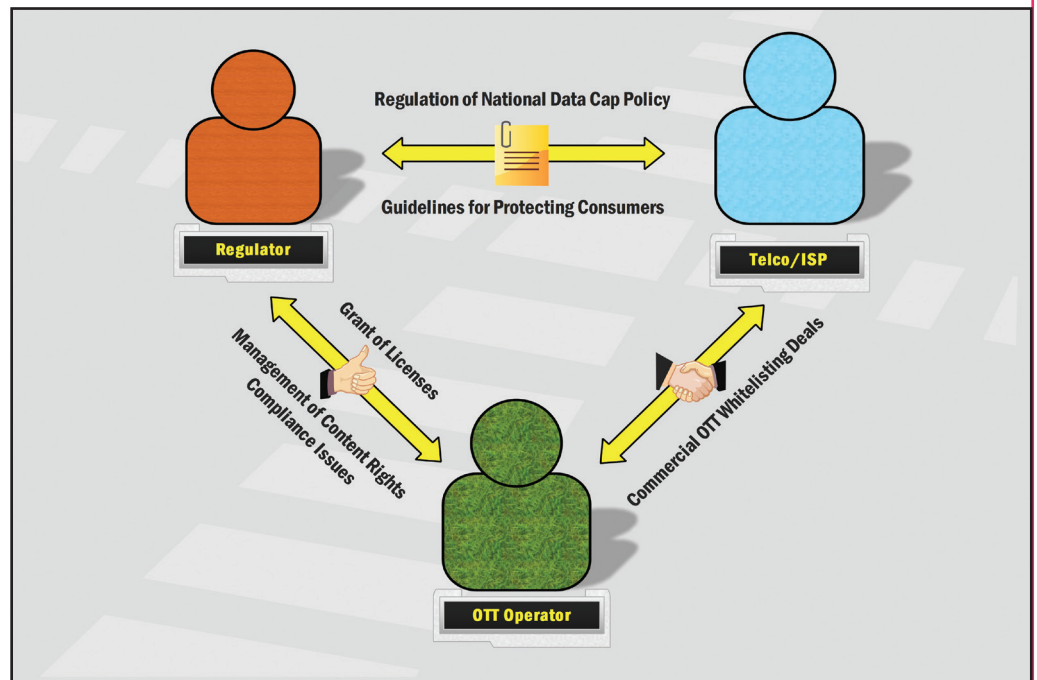
Of course the TRA cannot be expected to check the rights agreements for every movie and series distributed by licensed OTT platforms. Some whitelisted OTT platforms would likely test their boundaries by distributing content without having the rights. However, the market is self-regulating: any 3rd party could issue a complaint against an OTT operator, and the TRA would issue a request to the operator for proof of rights. If it repeatedly distributed content illegally, then the TRA would revoke its licence to be whitelisted.

WHITE LISTING AGREEMENTS WITH TELCOS

Whilst licensing by the TRA is a necessary condition for content service providers to avoid the data cap, it is not a sufficient condition.

White listing is a *commercial agreement* negotiated between the licensed content service provider and the operator. For example, subscription service providers might agree a revenue sharing arrangement with a telco partner for delivering their services. For free services such as YouTube or Facebook, there might be a fee arrangement between service provider to the operator, or more likely some kind of barter deal.

The commercialisation of video services over IP is inextricably linked to the delivery provided to them by telcos, and infrastructure costs money. Telcos must be properly regulated, but we assert that it is essential for the growth of the content industry that they participate in the success of OTT providers, as this incentivises them to improve their infrastructure to support those OTT providers.



This solution would be particularly beneficial in GCC markets, where:

- *content piracy is largely unchecked*
- *data connectivity is excellent (supporting the launch of new OTT services), and*
- *regulators are able to take rapid and assertive action*



ROLLOUT

INITIAL IMPACT OF THE DATA CAP

Of course this policy will not immediately be assimilated by the market, and consumers will likely go through a number of stages as they adapt to a new paradigm.

In the first month or two, consumers will experience bill shock as they begin to realise the cost implications of using unlicensed video services. With this in mind, it is critical that the policy is clearly communicated by regulators and telcos alike, that whitelisted services are properly marketed, and that consumers are given warnings when they are going to be charged for incremental data consumption.

As consumers become more familiar with the data cap, heavy pirate streaming and torrent users will begin to adapt their behaviours: they will start to be more selective in the services that they download in order to remain within their data cap:

- *choosing smaller video files (in other words lower resolution video), and/or*
- *limiting the number of videos downloaded per month*

By driving users of illegal services towards lower resolution content, the benefits of licensed subscription OTT services begin to emerge. If consumers can see that the content they are downloading in standard definition is offered by services such as OSN Go in high definition for \$10 a month, they begin to ask the obvious question: is \$10 month really too much to pay to watch premium TV?

STIMULUS FOR NEW OTT PROVIDERS

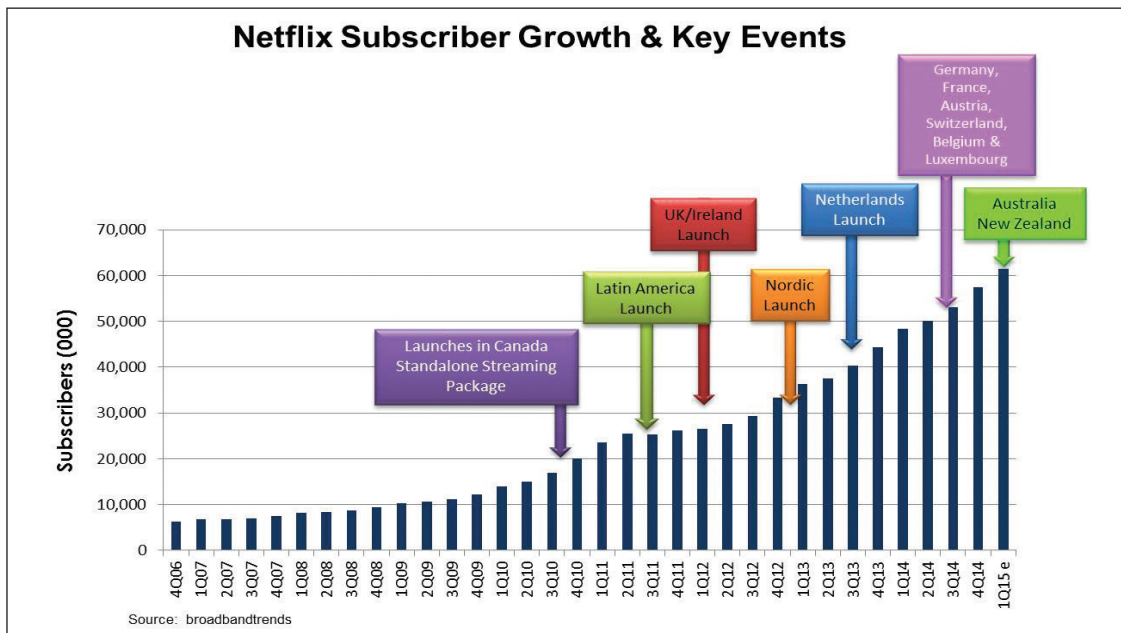
In the short and medium term, unlicensed pirate and grey market OTT services would still be able to differentiate themselves by providing access to selected content that is unavailable on whitelisted services, namely content that is:

- *too recent to be released to TV by the studios (new movies for example), and*
- *not mainstream Hollywood content, and therefore not yet commercialised by existing regional OTT service providers*

This is where things start to get interesting though. As consumption of authorised OTT services starts to increase, these operators begin to invest more in their offerings, and at the same time other would-be OTT providers start to look at the market. An increase in OTT players translates into greater demand for original content. Specialised OTT providers start to emerge, focusing on genre-specific, country-specific and/or diaspora-specific programming which would otherwise not be available on mainstream services.

GREY MARKET SERVICES TO COMPELLED TO GET IN STEP

Netflix is expanding rapidly into international markets, but not fast enough to support its growing international customer base.



Demand in territories that are as yet unserved means the company supports grey market subscribers over virtual private network (VPN) connections around the world. They are believed to be supporting several hundred thousand subscribers in MENA for example, despite having no formal distribution or rights position in the region. Without legitimate content rights in a territory, Netflix could not be whitelisted, and would become prohibitively expensive to consumers if they had to pay on a per MB basis for content above their data allowance. As a result, legitimate MENA OTT service providers would begin to take customers that would otherwise have been Netflix customers. In the face of losing hundreds of thousands customers, Netflix would need to pay for rights in order to legitimise its offering and keep its MENA customer base.

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TRANSITIONING FROM CONVENTIONAL BROADCAST

White-listing licensed OTT services over 4G connections, and thus removing data consumption restrictions on licensed services – would make smartphones and equivalent broadband devices viable alternatives to conventional TV delivery platforms: certainly for VOD and even potentially for live streaming. OTT providers can drive demand for their services by passing on savings in delivery costs (satellite capacity/terrestrial infrastructure, linear transmission equipment etc.) to consumers through:

- *higher production values in their content*
- *exclusive content not available on satellite*
- *lower price points (compared with Pay-TV) and/or fewer ads (compared with FTA)*

THE BENEFITS OF REGULATED OTT WHITELISTING

- Legitimate OTT services become more attractive to consumers, because the illegal alternatives become prohibitively expensive and/or low quality by comparison:
 - *Users of Illegal file sharing and pirate streaming services must limit their video consumption and/or video file quality in order to avoid paying per MB*
 - *Grey market services are similarly penalised*
- OTT providers are able to lobby an independent regulator and get results in the case of rights infringements by competitors.

Benefits to OTT Service Providers



- ISPs that provide the high bandwidth infrastructure needed to deliver OTT video services are able to recoup the related investments in their networks in exchange for whitelisting OTT services.
- OTT video service providers are not obliged to be whitelisted, but variable per MB data tariffs allow the ISP will recoup their infrastructure costs from excessive users of OTT services that they do not have agreements with.
- The proposed solution does not require ISPs to invest in resources to maintain a list of pirate sites and blocked IP addresses.

Benefits to Internet Service Providers



THE BENEFITS OF REGULATED OTT WHITELISTING (Continued)

- By acting as an independent licensing body, the regulator is able to benefit both service providers and ISPs at the expense of illegal and grey market services. This support of legitimate content distribution grows the subscription and advertising industries, and ultimately the content creation industry itself.
- By getting closer to the industry, the regulator gains a proper insight into the OTT market, allowing it to form a bridge between government and industry in this area.

Benefits to Telecoms Regulators



- Internet users around the world have become addicted to file sharing, grey market and pirate streaming services. The immediate implication of a data cap for those users is a restriction on supply: How does that restriction benefit consumers?
- Even with piracy, the global content industry is profitable. The cost of piracy is funded by consumers in the form of higher content prices, more advertising, higher internet costs and taxes. Regulated OTT Whitelisting is the equivalent of putting speed humps in the service lane of a highway – limiting the gains of cutting in line.
- Whitelisting provides an incentive to play by the rules, but it does not require sites to be blocked, and does not prioritise data traffic between service providers.

Implications & Benefits for Consumers



POSTSCRIPT: NET NEUTRALITY

Video now consumes the lion's share of internet traffic around the world. This paper deals with video piracy, but in doing so it necessarily touches more broadly on the subject of net neutrality.



Of course, establishing a licensing body for video services could have unhelpful repercussions for the industry if the scope of the licensing body strayed beyond the legitimacy of content rights into editorial considerations. It should be clearly noted however that this paper has nothing whatsoever to do with editorial control of media. That is a matter for governments.

Equally, this paper does not support or condone the activities of individual telecoms operators in prioritising speeds of one internet service over another. On the contrary, this paper asserts that any "data cap" is regulated at an industry body level rather than at operator level.

The sole purpose of this paper is to offer a commercial solution to the problem of illegal redistribution of video.

About the Author

Nick Grande is one of MENA region's prominent TV strategists, and has worked with or advised numerous major regional and international media companies over the past 20 years. He was instrumental in MTV Europe's rapid channel growth during the 1990s, before moving in 1999 to Showtime Arabia. As Head of Strategy he was the architect of the company's 2004/05 move from London to Dubai Media City. In 2007 he was Launch Director for MTV Arabia.

In April 2008, Nick founded ChannelSculptor, a UAE-based strategic consultancy and service provider, working with international broadcast brands such as RTL Group, Arqiva, Eutelsat and IBC as well as regional broadcast heavyweights such as Rotana Media, Abu Dhabi Media and Sky News Arabia. The company also provides award-winning free to air channel licensing and management services to MENA telcos such as du and Orange



ChannelSculptor is an award-winning Dubai-based strategic consultancy and service provider, founded in 2008.

STRATEGIC CONSULTING SERVICES

ChannelSculptor offers a range of strategic planning, operational support and managed services to TV businesses. Our senior consultants specialise in the areas of TV Strategy, Financial Planning, Distribution, Platform Development and Operations. All are internationally trained and have MENA experience. Over the past six years, we have built a reputation for regional know-how and international standards, working with major international players such as RTL Group, BSkyB, IBC and Arqiva as well as MENA heavyweights such as Abu Dhabi TV, Rotana Media, Omantel and twofour54.

LINEAR CHANNEL LICENSING FOR REGIONAL NETWORKS

The company provides free-to-air channel licensing and management services to MENA IPTV and OTT networks. We are the exclusive free-to-air channel licensing partner the du and Orange ITPV networks: any free to air channel seeking to be licensed for these networks should talk to us. In November 2014 the MENA TV industry recognized ChannelSculptor's channel licensing and management service as the "Best Telco/Broadcast Initiative" at the 2014 ASBU BroadcastPRO awards.

PARTNERSHIP OPPORTUNITIES

ChannelSculptor provides services to hundreds of MENA broadcasters. This places us in a privileged position as a supporter of their strategic needs. We work with leading industry solution providers to benefit regional broadcasters in the following areas:

- Understanding and increasing their viewing audience
- Developing new revenue opportunities (such as international licensing, interactivity)
- Operational efficiencies (for example through shared/outsourced services)
- Improving their on-screen offering
- Future proofing their channel (for example through streaming solutions)

We welcome partnership opportunities with high end industry players in these areas.

Our Offices are located in Dubai Media City.

For more details please visit www.channelsculptor.com or contact us at info@channelsculptor.com