MALAYSIAN COMMUNICATIONS AND MULTIMEDIA COMMISSION

DISCUSSION PAPER

Developing the Networked Content Industry in Malaysia

June 27, 2003

TABLE OF CONTENTS

INTRODUCTION ..... **II**
BACKGROUND **1**
THE NETWORKED CONTENT INDUSTRY 1
REASON FOR THE STUDY 1
MALAYSIA'S NETWORKED CONTENT INDUSTRY OBJECTIVES **3**
CULTURAL OBJECTIVES 3
ECONOMIC OBJECTIVES 4
SOCIAL OBJECTIVES 5
CURRENT PERFORMANCE AND KEY ISSUES **6**
LACK OF INDUSTRY FUNDING 6
LACK OF INDUSTRY SCALE AND CAPABILITIES 7
INEFFECTIVE CONTENT REGULATION ENFORCEMENT 7
INEFFECTIVE PREPARATION FOR THE FUTURE 8
STRATEGIC PLAN CONSIDERATIONS **9**
INTRODUCTION 9
PROPOSED UNIVERSAL DEFINITION OF LOCAL CONTENT 9
CONSIDERATION 1 – INCREASE FUNDING FOR LOCAL CONTENT 10
CONSIDERATION 2 – STREAMLINE REGULATORY OVERLAP AND REDUCE COMPLEXITY 12
CONSIDERATION 3 – IMPROVE PREPARATION FOR NEWER TECHNOLOGY ADOPTION 12
CONSIDERATION 4 – ENSURE VIABLE CONTENT CREATION IN NEWER TECHNOLOGY 13
APPENDIX 1: TELEVISION INDUSTRY CONSIDERATIONS **15**
BACKGROUND AND OBJECTIVES 15
KEY ISSUES 15
APPENDIX 2: MOVING PICTURES **18**
BACKGROUND AND OBJECTIVES 18
KEY ISSUES 18
APPENDIX 3: AUDIO/RADIO **21**
BACKGROUND AND OBJECTIVES 21
KEY ISSUES 21
APPENDIX 4: INTERNET/INTERACTIVE **23**
BACKGROUND AND OBJECTIVES 23
KEY ISSUES 23
APPENDIX 5: WIRELESS **25**
BACKGROUND AND OBJECTIVES 25
CURRENT STATE AND ISSUES 25
APPENDIX 6: ABBREVIATIONS **27**

INTRODUCTION

On behalf of the Malaysian government and the Malaysian content industry, the Malaysia Communication and Multimedia Commission (MCMC) has commissioned a study on the Malaysian Networked Content Industry. The study has the following objectives:

a) To map the current Malaysian content and Networked Content Industry, from the creation of content through to the distribution and consumption of the content

b) To compare Malaysia to some of the best performing countries in the Networked Content Industry

c) To develop an industry strategic plan that will enhance the Networked Content Industry

This document describes the consultants' key findings for the Malaysian Networked Content Industry. The basis for this document is an industry assessment (e.g. the size of the industry, the key players, trends, government and industry development initiatives and key issues) and an international comparison in performance and practice with that of leading and/or comparable countries (i.e. Canada, France, Singapore, South Korea and United Kingdom).

This discussion paper seeks to invite submission from interested parties on the issues raised in this discussion paper or any other matters relevant to the subject. Responses from this discussion paper may be used toward formulating policy directions aimed at improving the Networked Content Industry in Malaysia. Written submissions, be it in hard copy or electronic copy, be received by MCMC not later than **12.00 noon on July 11, 2003**. Submissions should be addressed to:

Malaysian Communications and Multimedia Commission
Level 13, Menara Dato' Onn
Putra World Trade Centre (PWTC)
45, Jalan Tun Ismail
50480 KUALA LUMPUR

Attention	:	Industry Development Division
Tel.	:	+6 03 4047 7051
Fax	:	+6 03 2693 4881
Email	:	content@cmc.gov.my

In the interest of providing an informed and robust consultative process, the MCMC may publish the feedbacks received. Any commercially sensitive information should be provided under a separate cover clearly marked, "CONFIDENTIAL".

The MCMC extends its appreciation to interested parties for their participation and for providing written submissions in this process.

The key issues and recommendation in this paper, including the feedback received from interested parties, will be discussed in a **public consultation session, scheduled for 16 July 2003**. Please register your interest in this session no later than **July 9, 2003**.

Unless otherwise indicated the numbers quoted in this report are from 2002.

BACKGROUND

THE NETWORKED CONTENT INDUSTRY

1. Networked Content is all text, audio, audiotext, still pictures, moving pictures and software that is accessible over publicly accessible electronic networks. The Networked Content Industry includes the following industries (Figure 1):

    a. Television industry - including the making and broadcasting of television programming and advertising content for both free-to-air and subscription television;

    b. Moving pictures industry – including feature film production, documentaries and other film making, but not including the non-networked use of moving pictures, e.g. cinema distribution, VCD or DVD production;

    c. Audio industry – including radio and recorded music, but excluding non-networked use of recorded music, e.g. record sales;

    d. Internet/interactive – including the Internet Service Provider markets as well as the online content providers and developers;

    e. Wireless data – including the use of wireless access mechanisms to access data and the wireless content creators, but excluding private SMS and mobile phone access plans.

2. The advertising industry is analysed in terms of its contribution to industry revenue and its effect on the development of networked content.

REASON FOR THE STUDY

3. The Networked Content Industry, which has been predominantly television and audio/radio broadcast, is undergoing change as new convergent technologies emerge. Video on demand/pay per view, digital/interactive television, webcasting/broadband, online/internet and wireless media are all new forms of content distribution that will increasingly carry new types of content to Malaysians. None of these new forms of distribution have clear and consistent rules governing the quality of content available to users of these services.

Background

4. Furthermore, key industry participants believe that major issues hinder an economically viable industry. These issues must be resolved for Malaysia to develop the capabilities to participate in new Networked Content Industries.

5. In order for the Malaysian government to evaluate its options, a number of questions must be answered:

   a. What should Malaysia's objectives for the Networked Content Industry be?

   b. What are the key issues that affect the current industry?

   c. What industry development mechanisms should be put in place to achieve Malaysia's objectives?

      i. *Content Regulation and Policy*: Includes both censorship and content regulation (which defines content, directs where content can be shown and dictates who can develop content);

      ii. *Licensing Access/Regulation and Policy*: Includes licensing to remove access uptake barriers, and the licensing of various players in the industry to meet specific local content quality or quantity requirements;

      iii. *Public and Private Institutions and Bodies*: Includes the regulation enforcement aspect of industry, and the types and function of government and public agencies in the content approval process; and

      iv. *Incentives and Stimulation*: Includes private and government investment, and both domestic and foreign stimulation.

MALAYSIA'S NETWORKED CONTENT INDUSTRY OBJECTIVES

6. Malaysia's national vision is to become a developed country by 2020. The Networked Content Industry should support Malaysia to achieve this objective.

7. Furthermore, Malaysia must recognise that the Networked Content Industry is of primary importance in shaping its cultural identity. Without a strong Networked Content Industry, Malaysians will not have the cultural tools to express their views, beliefs and values, in a world increasingly dominated by global content.

8. It is proposed that the government and the industry adopt an ambitious vision for the industry:

"To develop Malaysia as a major regional and global centre for content services,
to encourage the development of local content
which projects and nurtures national identity and values,
and to establish a well-developed and efficient Networked Content Industry"

Question A.	Is the Networked Content Industry the prime driver of national identity and values?

9. To support this vision the government and industry representatives have proposed a balanced set of industry objectives covering cultural, economic and social aspects of the industry.

10. These objectives have been developed based on information contained in the draft national content policy, the Communication and Multimedia Act (1998) and consultation with industry players (Figure 2).

CULTURAL OBJECTIVES

11. Malaysia desires to project its national identity and values through local content. To do this successfully, local content must be of high quality, accessible and affordable, and demanded by Malaysians.

12. The proposed cultural objectives for the content industry are to:

    a. Consolidate racial and national unity through the projection of national culture;

b. Encourage the production of content which is high quality, innovative and creative; and

c. Enrich and enhance the quality of material and spiritual living in accord with social-economic development.

13. A critical factor to project the Malaysian national identity and values is an understanding of what national identity and values are. Given Malaysia's vibrant and diverse culture, it is unlikely that any definition will be comprehensive or be up-to-date with Malaysia's national identify and values. It is therefore prudent not to define these terms, but rather, to ensure that the strategic plan:

a. Instils a process of continual public discussion concerning these values; and

b. Actively supports different and innovative local content creators with a view of broadening and deepening Malaysia's own understanding of its national identity and values.

Question B.	Are there other cultural objectives that are important for Malaysia?

ECONOMIC OBJECTIVES

14. Malaysia desires to make the Networked Content Industry a key economic contributor. For this purpose, Malaysia needs a competitive, viable industry that is innovative and contributes to employment and Malaysia's trade balance.

15. The proposed economic objectives for the Networked Content Industry are to:

a. Establish Malaysia as major centre for the regional and global content industry;

b. Develop required capabilities to compete regionally and globally; and

c. Achieve efficiency and financial viability.

Question C.	Are there other economic objectives that are important for Malaysia?

SOCIAL OBJECTIVES

16. Malaysia's aims to become a knowledge society. The accessibility and affordability of both local and foreign content is an important contributor to achieving this national aim. Access to local and foreign content everywhere in an affordable manner will enhance knowledge and increase productivity. In addition, Malaysia needs to build trust with the public in using new forms of networked content in a secure and safe manner, in order for new access technologies to become widely utilised.

17. The proposed social objectives for the Networked Content Industry are:

    a. Contribute to Malaysia becoming a knowledge society;

    b. Make access and content available everywhere and affordable to all; and

    c. Establish a secure, robust and safe networking environment.

Question D.	Are there other social objectives that are important for Malaysia?

CURRENT PERFORMANCE AND KEY ISSUES

18. Malaysia lags leading countries in the development of its Networked Content Industry due to the lack of funding and scale, and ineffective content and access regulation and enforcement:

    a. Cultural: With the exception of television, local content popularity is between 50 to 75% lower than leading countries (Figure 3);

    b. Economic: Malaysia's Networked Content Industry contributes 0.63% to Malaysia's GDP, which is less than half comparable industry contributions in leading countries (Figure 4); and

    c. Social: In penetration of 'newer' access technology Malaysia is substantially behind leading countries (Figure 5).

LACK OF INDUSTRY FUNDING

19. The Networked Content Industry has limited revenue flowing into the industry and has limited revenue redistribution to content creators, particularly compared to leading countries (Figure 6).

20. Ineffective and unfavourable advertising regulation results in limited advertising revenue for Malaysia's Networked Content Industry:

    a. Content regulation for advertising is unfavourable towards advertising on free-to-air television, which drives advertising revenue away from the Networked Content Industry towards to non-Networked media such as print (Figure 7); and

    b. Made-in-Malaysia has made advertising in Malaysia unattractive for multinationals due to the compliance burden of producing commercials in Malaysia (Figure 8).

21. There is limited revenue redistribution to local content creators (Figure 9):

    a. Subscription television is not legally required to broadcast or invest in local content; and

    b. Regulations requires 60% local language to be broadcasted on free-to-air television, rather than specifying the amount to be invested in local content (e.g. station can choose to show low cost programs or air re-runs).

22. Ineffective enforcement of copyright negatively impacts revenue flows to music and moving picture industries:

    a. Potential losses through piracy discourage investment into local content (Figure 10); and

    b. This results in less local content available for radio and television.

Question E.	Are there other funding issues that need to be considered?

LACK OF INDUSTRY SCALE AND CAPABILITIES

23. Lack of competencies due to shortage of world-class skills, industry scale and promotion ability negatively impacts the industry's ability to create popular local content:

    a. Insufficient incentives to invest in local capabilities and to attract foreign co-productions results in a lack of skills and technology;

    b. Competitive disadvantages prohibits local content creators for moving pictures to gain scale, resulting in reduced risk taking and stifling innovative content (Figure 11); and

    c. Ineffective industry organisation in promoting local content locally and overseas, thereby not stimulating sufficient demand.

Question F.	Are there other scale and capability issues that need to be considered?

INEFFECTIVE CONTENT REGULATION ENFORCEMENT

24. Overlapping content regulation and multiple governing bodies cause a high compliance burden and increase the risks in content creation:

    a. Overlapping regulations result in lack of transparent content regulation and inconsistent enforcement, thereby increasing the risk to invest in and produce local content (Figure 12); and

    b. Many government bodies govern the Malaysian Networked Content Industry, resulting in a high compliance burden and lengthy approval processes (Figure 13).

Question G.	Are there other content regulation and enforcement issues that need to be considered?

INEFFECTIVE PREPARATION FOR THE FUTURE

25. Uptake of 'newer' access technology is low due to relative high access charges and ineffective government stimulation. In preparation for the future roll-out of newer access technologies, adequate open standards are required:

   a. Lack of competition or price regulation for newer access mechanism keeps access prices relatively high (Figure 14);

   b. Limited regulation on open standards and interconnectivity slows the demand for newer technologies and reduces competition and innovation (Figure 15); and

   c. Ineffective government incentive schemes to stimulate demand for new access technology (Figure 16).

Question H.	Are there other future access technology issues that need to be considered?

STRATEGIC PLAN CONSIDERATIONS

INTRODUCTION

26. The strategic plan will describe the key recommendations, impact and priorities of industry development mechanisms that should be applied to the Networked Content Industry, with a view to achieving Malaysia's cultural, economic and social objectives.

27. Overall, an action plan must be developed to grow the Networked Content Industry twofold by 2008 through significant growth in the Internet and television industry revenues. Furthermore, by 2013 it should strive to have reached penetration rates of 50% of households in 'newer' access technologies such as broadband internet and wireless data.

28. Projecting Malaysia's national identity and values and stimulating its economic and social growth requires the Networked Content Industry to work together with the government to:

    a. Address the issues limiting the economic viability and cultural effectiveness of local content industry today; and

    b. Prepare for the successful introduction of new Networked Content technology in the future, supported by economically viable content business models

PROPOSED UNIVERSAL DEFINITION OF LOCAL CONTENT

29. Within Malaysia's legislative environment there are many definitions of local content based on their intended application and managed by different government bodies.

30. The overriding philosophy proposed in the definition of local content is to remain broad, but insist on capturing either economic or cultural value in content creation, and not to rigidly enforce both requirements. Thus, local content can be either economically valuable or culturally valuable or preferably both.

31. The proposed universal definition is that local content is <u>any</u> content that contains one or more of the following:

    a. Focuses on national identity and culture, opinion, theme, history or community opinions as guided by the National Culture Policy;

b. Substantially presents Malaysian talent and local personnel in a majority of key creative positions; and

c. Substantially expends production costs in Malaysia.

32. It is proposed that if this definition is adopted, there would be detailed guidelines which define the meanings of "substantially" in (b) and (c) for different types of Networked Content.

Question I.	The definition of local content is critical to directing funds to the "right" parts of the industry. What should the definition of local content be?

CONSIDERATION 1 – INCREASE FUNDING FOR LOCAL CONTENT

33. Improving the flow of funds to the industry and redirecting them to content creators, and streamlining content regulation enforcement, are the two major issues limiting the economic viability and cultural effectiveness of local content industry today.

34. There are four issues to be resolved that will improve the flow of funds to the industry (economic viability) and redirect them to quality local content creators (cultural effectiveness):

a. Advertising revenue in free to air television is a critical element in funding the local content industry. It is 99% of revenues for commercial stations and, in general, advertisers spend between 30 to 80% less on television advertising in Malaysia than in other benchmarked countries. Increased advertising can be used to stimulate the development of local television content.

Question J.	It is contended that two key issues affect advertising in free to air television; (1) the degree of censorship differences between television and print media advertising (considered large even though all benchmark countries enforce different regulation between these media types), (2) Made-in-Malaysia makes multinational advertising more expensive which is contended to reduce the airtime revenues flowing to free-to-air television. Given these issues, how does free to air television increase its advertising revenues?

b. Current content regulation does not effectively prescribe the amounts spent on local content. While some revenue redistribution mechanisms do exist, they offer negligible funding. For example, in moving pictures, the Mandatory Screening Conditions (Wajib Tayang), dictate the number of local films to be shown and an entertainment tax of 25% that redistributes cinema ticket revenues from local movies, back to industry (approximately RM2 million per year). In television and radio, some eligible deductions of MCMC license fee rebates (approximately RM1 million per year) and local content quotas are in place, but these do not specify the required investment in local content.

Question K.	It is contended that (1) free-to-air television stations can inject ~10 to 20% more programming into the local industry (based on benchmarked countries and assuming increased advertising revenue flow), (2) subscription television can inject more programming into the local content industry and (3) foreign music companies can support local music development by injecting a additional funding into the local industry. Given these thoughts, how does the industry effectively redistribute revenues from distributors/packagers to local content creators/publishers?

c. Government enforcement of piracy controls has not boosted revenues to the local industry.

Question L.	Is piracy still an issue, and what more can be done about it?

d. There are currently no government incentives for either domestic or international investors to invest in production capabilities for local content. In benchmarked countries, local investor stimulation and joint foreign investment have been shown to successfully drive both talent and funds into the industry.

Question M.	It is contended that restrictions for companies to participate in more than 2 of 3 areas across production, distribution and exhibition inhibits investment in local content. Should we remove this restriction and what might be the impact?
Question N.	What investment incentives should be considered and what legislative barriers need to be removed to make it more attractive for locals to invest in their industry?
Question O.	What investment incentives should be considered to attract to foreign investment to the local industry?

CONSIDERATION 2 – STREAMLINE REGULATORY OVERLAP AND REDUCE COMPLEXITY

35. The industry is plagued with overlapping content regulation that results in a lack of transparency in outcomes and inconsistent enforcement. There are three major types of regulation areas (1) content regulation, which defines the quality and quantity of Networked Content, (2) censorship regulation and enforcement, and (3) content development, which deals with the promotion and support of the content industry.

Question P.	It is contended that there should be a clear separation of governing bodies and policies that regulate, censor and develop content. In other countries, each of these areas is governed by a single organising body that performs a lead role in consolidating requirements in each of these areas. Would this work in Malaysia?

CONSIDERATION 3 – IMPROVE PREPARATION FOR NEWER TECHNOLOGY ADOPTION

36. For the future, the industry must prepare for the successful introduction of new Networked Content technology:

a. It is critical that the uptake of new computing and handset infrastructure is stimulated. However Malaysia still has some of the highest access costs to new access mechanisms relative to other countries. Malaysian's purchasing power parity makes PCs expensive and broadband prices are the highest in the region (Figure I.4). This has resulted in a low penetration of PCs of 13% (Figure I.5), and a lack of demand for broadband (3% penetration – Figure I.6).

Question Q.	Some leading countries have legislated for telecommunications companies to subsidise handsets to consumers/businesses or the installation fee for access to the home. Given these thoughts, how should the uptake of new computing and handset infrastructure be stimulated?

b. Malaysia's telecommunications industry is dominated by a few large companies, which results in high prices for both existing and new access infrastructure.

Question R.	It is contended that either (1) retail price regulation or (2) establishing a viable wholesale market, are key initiatives that leading countries have implemented to provide competitive prices for emerging networked access mechanisms. What solutions are practical for Malaysia?

CONSIDERATION 4 – ENSURE VIABLE CONTENT CREATION IN NEWER TECHNOLOGY

37. Support content creators with economically viable business models and demand stimulation:

a. Revenue sharing arrangements are critical to stimulating the development of local interactive and online content. At present, there are no strong revenue models to support the development of local interactive and wireless content; in the interactive industry, less than 5% of revenues are distributed to content providers, and there is limited independent wireless content being created (e.g. content created outside the large telecommunications players).

Question S.	In some markets telecommunications companies "pass back" some portion of revenues gained in transporting local content to consumers to the content provider. This results in a win-win situation, where revenues are stimulated for both the access provider and the content creator. What are the inhibitors to establish revenue sharing models? Does the government need to intervene?

b. The international benchmark study demonstrates that the government of countries leading in internet and wireless penetration and usage have adopted an active role in creating content and promoting the use of the new media with the general public.

Question T.	Some successful government initiatives in other countries include; (1) Playing an active role in establishing user confidence and familiarity with newer access technology, (2) Setting explicit targets for government services and utilities to be online, not only in terms of information availability but also functionality (i.e. ability to process applications online), (3) Taking an active role in getting public utilities and private companies online through educational introduction of new media, e-procurement programmes, etc, (4) Providing venture capital to wireless content providers, (5) Providing government funded education programmes for the public (bundling PC, wireless and internet education together). Are the government and industry doing enough and are the current initiatives effective?

APPENDIX 1: TELEVISION INDUSTRY CONSIDERATIONS

BACKGROUND AND OBJECTIVES

38. The Television industry is worth almost RM1.9 billion in revenues per year, and is Malaysia's largest Networked Content Industry (Figures T.1 and T.2). The Malaysian television industry is growing on average 26% a year, which is almost entirely fuelled by subscription television, while free-to-air television remains stagnant (Figure T.3).

39. Malaysia's social objectives of "access everywhere and affordability" are being achieved by the industry with high penetration across free-to-air and subscription television (Figure T.4 and T.5).

40. However, the industry is lagging in achieving its economic and cultural objectives. The industry is 11 to 50% smaller in terms of relative GDP compared to other leading countries (Figure T.6), and while free to air television's most popular programmes are local (Figure T.7), Malaysia's cultural objectives are only partly achieved as more viewers choose subscription television, and thereby view more foreign content.

41. Advertising is of particular concern in this industry and many industry participants believe it is at a crisis point. Over the last few years, advertising spending in free-to-air television has grown less than 2% per year, which is below Malaysia's inflation rate (Figure T.8). In general, advertisers spend between 30 to 80% less on television advertising in Malaysia than in other countries (Figure T.9).

KEY ISSUES

Limited Advertising Revenue

42. The level of advertising revenue into the Malaysia's free-to-air television is limited due to relative unfavourable content regulation for television, the Made-in-Malaysia requirements and a cumbersome approval process for television advertisements:

    a. Malaysian content regulation limits what products and advertising content can be shown on television. In some cases this results in advertisers choosing alternative media for their advertisements (e.g. alcohol and sanitary advertisements are not allowed on television, but are allowed in other media);

    b. Made-in-Malaysia requires every free-to-air television advertisement to obtain a Made-in-Malaysia approval. This approval is conditional on the use of

Malaysian resources and the location and membership of the producer of one of two professional industry associations (i.e. PPFIM and POSTAM). The current impacts of Made-in-Malaysia are:

i. To advertise on free-to-air television, advertisers who have produced a commercial that cannot be certified by Made-in-Malaysia, must re-shoot their commercial in Malaysia;

ii. This increases the cost of advertising on free-to-air television and causes advertising on free-to-air television to be less cost effective in Malaysia; and

iii. Advertisers, in particularly multinationals, choose to limit the number of advertisements or products to be advertised on Malaysian television.

c. Advertising production is also hindered by a complex and burdensome approval process, which increases the cost and uncertainty that advertisements will be approved. This process can take up to five weeks for approval, and must be passed by at least three government agencies (Ministry of Information, FINAS and the LPF) (Figure T.10). This impacts smaller, less flexible local advertisers and reduces the level of advertising into free-to-air television by an estimated 10 to 15%.

43. If Malaysia is able to improve the conditions for advertisers in free-to-air television, by reviewing and redefining Made-in-Malaysia, content regulation and enforcement, the advertising revenue will flow into the industry by between RM200 and 500 million, without substantially impacting advertising revenue for other media adversely (Figure T.9).

No Effective Funding To Local Content Creators

44. Broadcaster Funding: Based on benchmarked countries, broadcasters should be able to inject 10 to 20% more programming into the local industry, while subscription television can inject as much as double their current spend into the local content industry (Figure T.11).

45. Investor Funding: Lack of transparency in content regulation enforcement increases the risk for content creators and ultimately reduces the investor funding appetite. Content rules and guidelines are inexplicit and therefore inconsistently applied.

46. In total the industry lags local content funding by as much as RM120 to 350 million (Figure T.12).

Limited Open Access Preparation

47. Digital bandwidth (whether via satellite or digital terrestrial television) is not regulated to allow third party access. For instance access to the Astro set-top box can be enabled, but only at the discretion of Astro at unregulated prices. Based on the outcomes of commercial negotiations, Malaysia may duplicate infrastructure in rolling out interactive television technologies to the home.

APPENDIX 2: MOVING PICTURES

BACKGROUND AND OBJECTIVES

48. Even though the moving picture Industry is not directly part of the Networked Content industry, it is nonetheless a key provider of creative talent, skills, and know how and thus very important for the overall industry development.

49. The Moving Picture industry in Malaysia is worth approximately RM140 million. Growth currently averages around 17% per year (Figure M.1). The industry's revenues are almost entirely derived from the box office, as returns from television royalties and video sales are negligible (Figure M.2). In contrast, the moving pictures industry in most countries derives more than 70% of their industry revenues from television royalties and video sales.

50. The industry is dominated by foreign content. Local content only accounts for RM18 million or 12% of total revenues. Given the dominance of three major local production companies in Malaysia, these players can achieve little returns to scale in such a small industry (Figure M.3).

51. Malaysia's social objectives are achieved, as most people have access to cinemas, as well as to television and video / VCD / DVD players. In addition cinema addition prices are low relative to benchmark countries (Figure M.4). However, Malaysia has one of the lowest numbers of cinema admission per capita, which is around 4 to 8 times less than benchmarked countries (Figure M.5).

52. The cultural objectives are not achieved. Only a small number of local movies are produced each year, and local content is unpopular, evidenced by low revenues at box offices (Figure M.1).

53. The economic objectives therefore have also not been achieved, as limited sources of revenues, low overall admissions, and low popularity of local content do not provide a sufficient revenue stream to make the local production industry viable. Furthermore, Malaysia has not been able to successfully export local movies. Hence, the industry's impact on GDP is negligible.

KEY ISSUES

54. Reaching a sufficient level of scale is the overriding problem of the local moving pictures industry in Malaysia. Without sufficient investment available for new movies, quantity, quality and thus popularity will stay at low levels and it will not be

possible to export movies with commercial success. Several key issues hamper the industry's growth overall as well as local content industry growth in particular.

Piracy

55. Malaysian consumers are not visiting cinemas as much as consumers in other countries, even though income adjusted ticket prices are more affordable than in many other countries. This factor is largely caused by piracy (Figure 10). Since a pirated VCD is about half the price of a cinema ticket, consumers choose to watch movies at home rather than in the cinemas.

56. Reducing the levels of piracy to the average worldwide benchmark can increase the number of annual admissions per capita to the level of South Korea and increase current industry revenues 4 to 5 times (Figure M.6).

Lack of Industry Scale

57. Initiated by the anti-trust policy in the 1960s, competitive advantage along the moving picture value chain has shifted from (1) production to (2) distribution and (3) exhibition. Large industry players can only compete in 2 out of the 3 areas of the value chain. Most players choose to abandon local movie production, especially as they could show increasingly popular foreign content at lower cost. Hence, local production shrunk continuously and now lacks scale and bargaining power within the overall industry.

58. Thus, local producers lack the scale to invest sufficient amounts of money in production and promotion. Exhibitors and distributors can dictate prices and have the strategic choice to show foreign movies rather than local productions, while local producers lack access to distribution channels.

59. As a result, local productions do not get sufficient public attention, and loose major revenue streams from video, which, if on par with international benchmarks, could contribute another 130% to the industry's revenues (Figure M.2).

Implicit and non-transparent content regulation and enforcement

60. Unclear regulations, ineffective enforcement, a long approval process, and the current practice of censoring only after the movie has been fully produced, make it difficult for any investor to estimate a movie's commercial success and increase the risks of investment. Thus, private investors avoid investing in the local film production industry (Figure M.7).

61. In addition to the economic effects, unclear content regulations also results in unpopular content, as producers tend to avoid controversial or sensitive issues, situations and images because they cannot predict the outcome of censorship review.

Lack of Local Talent, Skill Base and Technology

62. The current public sponsoring policy does not provide enough funds to improve the local talent and skill base, and to enable new producers to utilize world class technology.

63. Furthermore, government funds currently available do not reach local content producers, as a major share of the funding is not disbursed and the remaining is used by a only a few major producers.

64. Existing studios and technology, though available, do not get utilized due to low production levels. Due to the low utilization levels, technology does not get upgraded. Furthermore, producers who invested into these studios are not able to recover their investments.

APPENDIX 3: AUDIO/RADIO

BACKGROUND AND OBJECTIVES

65. Radio broadcasting is the key industry responsible for the dissemination of networked audio content. In 2002, the radio industry was worth approximately RM220 million (Figure A.1) and has been growing at a compound annual growth rate of almost 20% per year since 1997 (Figure A.2). The growth in the radio industry has been led primarily by the entrance of five highly targeted radio stations owned by Airtime Programming and Management (Figure A.3).

66. Malaysia's social objectives of "access everywhere and affordability" are being achieved in the industry with high penetration and coverage of radio receivers (Figure A.4).

67. Despite the success of the radio industry, the local audio content industry is lagging and not meeting its economic or cultural objectives. The local audio content industry is worth under RM20 million and captures only 18% of the total audio industry in Malaysia. This represents a significant fall from 1998 when the local audio industry captured almost quarter of the market (Figure A.5).

68. To meets its cultural and economic objectives, the local audio content industry must double in size in the next three to five years. This growth would bring Malaysia back into line with other regional countries where on average local content accounts for 40% of sales (Figure A.6).

KEY ISSUES

Limited Demand for Local Audio Content

69. Malaysia's local audio content industry is the smallest of any of the benchmark countries. Malaysia's domestic repertoire as percentage of total sales is almost two thirds less than that of United Kingdom, South Korea and France. Even though Canada and Singapore have similar local content market shares to Malaysia, they are not experiencing the sharp contraction in market share that Malaysia is experiencing. From 1998 to 2000, Malaysia's local audio content market share dropped from 24 to 18% (Figure A.5). In addition to this Malaysia's exports of local music is negligible.

70. Commercial radio stations are licensed according to different local content quotas based on the format and target audience for the radio station. However, these

local content quotas offer little stimulation to the local audio content industry. For Malay radio stations, local content quotas can be easily met by broadcasting local content from Malaysia's existing repertoire of locally produced music. For other language stations, quality standards are often dropped to meet the quotas using the small repertoire of non-Malay local music available. As a result, it is estimated that as little as RM1 million in royalties is redistributed each year from radio stations to local publishers and artists of audio content (Figure A.1).

High Rates of Piracy

71. Malaysia audio content industry suffers from a 70% loss in revenue each year due to the high rates of piracy of both local and international music. The rate of piracy in Malaysia is among the highest in the world and three times larger than the closest benchmark country, South Korea, whose piracy rate is about 20% (Figure 10). Piracy reduces the incentives for record labels to invest in local artists and limits the amount of funding to attract new artists.

72. Malaysia's enforcement of piracy has not gone far enough to curb its growth rates. In 2002, the government conducted over 200 raids on sound recording reproduction and distribution sites. However, not a single optical disc license was suspended as a result of the raids nor a single factory owner jailed. The lack of punishment as a deterrent for those guilty of piracy represents a major opportunity to step up enforcement controls.

No Industry Body Responsible for Development of Local Audio Content

73. Malaysia local audio content industry suffers from a lack of representation by an industry body responsible for the development and promotion of local artists. Currently in Malaysia, the only significant music industry body is RIM (Recording Industry Association of Malaysia). RIM represents record labels, production houses and manufacturers and has been primarily concerned with the prevention of piracy in the industry. In addition, there is no government body responsible for the development or funding the local industry.

APPENDIX 4: INTERNET/INTERACTIVE

BACKGROUND AND OBJECTIVES

74. Interactive services are a key contributor towards Malaysia becoming a knowledge-based society. Today the industry is worth approximately RM540 million but this figure expected to grow rapidly as Malaysia increases it Internet penetration rate and online service offerings (Figure I.1).

75. To meet the social objectives of a knowledge-based society, Malaysia must increase the pervasiveness and penetration of the Internet. To do this Malaysia must first increase the Internet penetration rate of households from 12% to over 50% in order to be on par with other benchmark nations (Figure I.2). Second, Malaysia must seek to improve the affordability and accessibility of broadband to Malaysian households to be on par with other benchmark nations (Figure I.3).

76. To meet its cultural and economic objectives, Malaysia must seek to become a content hub within the next three to five years. The worldwide market for interactive content is estimated to be US$18 billion and growing at 38% per year. If Malaysia could capture 1% of this market by 2005, interactive content would contribute US$0.74 million (RM 2.8 billion) to the Networked Content industry.

KEY ISSUES

High Personal Computer Prices

77. Despite Malaysia being one of the largest exporters of personal computers, the income-adjusted price of computers in Malaysia is over one third more expensive than the average benchmark country and the highest of any benchmark country (Figure I.4).

78. As result of high personal computer prices, Malaysia has the lowest penetration rate for personal computers the benchmark countries at just 13% of households compared with the a figure above 60% for Canada, Singapore and South Korea (Figure I.5). The low number of personal computers limits the extent of Internet penetration in households. Thus, even though Malaysia has achieved a household Internet penetration rate of 12%, it is unable to grow this figure without increasing the number of personal computers in homes.

Broadband Availability and Affordability is Low

79. Malaysia's broadband penetration is only 3% of households (Figure I.6). The primary reason for the low penetration rate of broadband is the high access prices. Compared to benchmark countries, the income adjusted cost of broadband in Malaysia is a third higher than South Korea, the closest benchmark country, and four times more expensive than Singapore, the least expensive country (Figure I.3).

80. The lack of competition in the broadband market is key contributor to the high prices of broadband in Malaysia. The ISP market is dominated by Telekom Malaysia who control over 50% of the market (Figure I.7). The existence of a strong player in the market limits innovation and competitive rivalry.

81. In rolling out new ADSL service, Telekom Malaysia maintains 98% ownership of the 'last mile' to residential premises. There is no regulation on the price and service levels offered on a wholesale basis to competitors in the broadband market. The existence of a single owner of the 'last mile' hinders competitors ability to rapidly rollout new services and price competitively.

Lack of Local Content Creation for Interactive Services

82. Despite Malaysia's aspirations of becoming a global content hub, Malaysia's local Networked Content industry for interactive services is negligible with little revenue flowing to local content providers (Figure I.1). Malaysia has been successful in attracting content development firms to MSC however this had not yet spurred significant local content creation. While a world-class infrastructure exists for local content creation, the key challenge for Malaysia is to create the right incentives for content providers to develop local content.

83. Malaysia has made significant efforts towards the Electronic Government initiatives of the Vision *2020* policy, however Malaysia is still building the platform for e-government services but is yet to fully automate government processes online (FigureI.8).

APPENDIX 5: WIRELESS

BACKGROUND AND OBJECTIVES

84. Similar to international markets, Malaysia's mobile operators will soon need to face slowing subscriber growth and will need to generate additional growth through increasing average revenue per user. A key driver of this additional growth will be wireless data services (Figure W.1).

85. In countries, similar to Malaysia, the wireless handset is increasingly becoming a more important channel for accessing local and foreign content. The advances in handsets and the rollout of 2.5G and 3G in Malaysia will similarly introduce an alternative content access mechanism.

86. While Malaysia's overall wireless industry generates substantial revenues of RM11.7 billion and is growing strongly (Figure W.2), the wireless data industry is in an early development stage similar to many countries worldwide, making only RM50 million in revenues. The majority of revenue is generated through premium SMS data services, which is not a strong contributor to cultural objectives (Figure W.3).

87. While many countries are expanding their offering wireless data services, Malaysia's operators have only recently introduced the first GPRS data service on a trial basis.

88. Thus, Malaysia's social and cultural objectives of access to wireless data and local content have not yet been achieved due to lack of available services.

CURRENT STATE AND ISSUES

89. Malaysia has been successful in introducing the mobile telephone and created a viable competitive market structure. However, uptake of wireless data services has not been en par with global developments (Figure W.4). Steps need to be taken in order to ensure that Malaysia does not fall behind.

90. The majority of the population needs to be made aware of the technology and it's advantages. Malaysians need to be able to access the service at an affordable price. While affordability has been achieved, next generation handsets might be substantially more expensive and steps need to be taken to ensure affordability.

91. Ultimately, access is only a means to access content providers. In order for wireless data services to be successful, content needs to be available in abundance. In order to overcome the inertia of subscriber uptake, funding and revenue redistribution for content providers needs to be ensured.

92. Even though competition is key, industry players must work together on several key issues like interconnect agreements, open technology standards, and revenue sharing models, to optimise resource allocation and minimise costs and complexity for consumers.

APPENDIX 6: ABBREVIATIONS

FINAS	Perbadanan Kemajuan Filem Nasional Malaysia
LPF	Lembaga Penapisan Filem
MOI	Ministry of Information
MSC	Multimedia Super Corridor
PPFIM	Persatuan Penerbit Filem Iklan Malaysia
POSTAM	Association of Post Production and Animation Companies in Malaysia