

Title: PPV Encryption: A Wait-and-See Game.(pay-per-view cable TV movies)

Date: 5/11/1998; **Publication:** Multichannel News; **Author:** Farley, Mary Ann

As digital-cable boxes get closer and closer to becoming a reality, the issue of copyright protection has become a major concern for Hollywood studios, which fear that digitally transmitted pay-per-view offerings could mean pay dirt for pirates.

The clarity of digital signals and the ability to make quality copies have studios calling for PPV films to be encrypted. But just how far they will go to demand this protection has generated much speculation among all players in the industry.

Some industry observers believe that shortening the windows between PPV and home video will give cable operators the incentive that they need to buy digital boxes containing some type of copy protection, while others said lengthening windows would be a threat to those that don't. Still others believe that the solution lies in legislation.

Cable operators, of course, have concerns of their own, and they wondered just how tolerant subscribers would be if they were no longer able to tape PPV movies. They were also concerned about the expense of digital boxes that contain the encryption technology, and about who's going to pay for a service like that of Macrovision, which deploys a "peruse" charge.

Currently, Macrovision is the only company that both studios and operators discuss when talking about copy protection, although there are other encryption technologies being researched by the Copy Protection Working Group, which is being financed by both the studios and the cable industry.

"We asked studios if they would give us a shorter window if we used copy protection in this situation," said Ted Hodgins, manager of PPV at Media General Cable in Fairfax, Va., "and many said it would just never happen. So what's my motivation to buy these boxes? They're expensive, and the Macrovision-compatible ones cost even more."

Digital technology, of course, greatly improves picture quality, but it also allows for more channels, which, for a company like Media General, isn't a concern. It already has a large channel capacity via the use of "A" and "B" cables, so the incentive to switch to digital would have to come from somewhere else. Some studios believe that it would come from them taking a much harder stand. "It was never written that pay-per-view was designed for taping," said Ed Bleier, president of pay TV, cable and network features at Warner Bros. "It's an accident that it has been tolerated for such a long period of time, but when things go digital, it won't be tolerated any longer. In time, copy protection will be the terms under which cable companies will get the movies."

Holly Leff-Pressman, vice president of worldwide PPV at Universal Pictures, took a similar hard line.

"Whenever you have a digital signal, you have the ability to download, and the copyright can be pirated. Many people assume that taping is a God-given right, but that has never been fully addressed," she said.

It's comments like these, of course, that make cable companies bristle.

While many are sympathetic to filmmakers and studios that want to protect their copyright, cable operators believe that should home taping no longer be a threat to home video due to encrypted signals, they're entitled to a shorter window.

"Copyright protection is a big concern, and it's legitimate," Hodgins said.

"If the signal is so good that you could hook up 20 VCRs and sell the copies on a street corner, there's cause for alarm. But that's not where the piracy is coming from. The pirates aren't making copies off PPV taping, but from distributors or dub houses."

Still, studios said, they'll want those digital signals protected, but even they don't know how far they'll go to enforce it.

Some cable operators worried that the Motion Picture Association of America is preparing legislation or legal action to stop the practice. If that happens, they feared, it will discourage their subscribers from buying digital boxes.

But Rich Taylor, vice president of public affairs at the MPAA, said there is currently no move to legislate encryption. He declined to comment about the possibility of legal action, saying that the MPAA was simply "working with all of the players to ensure a safe environment in the digital age."

"We'll need to guarantee the protection of the signal," he said, "but we don't want to prevent all copying. We don't object to someone taping Seinfeld, but pay-per-view is something that we'd like to ensure."

The Supreme Court has only ruled on taping as it relates to television broadcasts, saying in the landmark "Betamax" case in the early 1980s that since these broadcasts are free, taping them is not illegal. Whether this same reasoning would apply to pay services has never been tested.

One company that would love to see encryption legislation is Macrovision.

"Home taping seems like such a harmless activity, until one calculates the amount of revenue lost in terms of repeat PPV buys or displaced home-video rentals and sales," said Tom Carroux, director of business development, PPV copy protection at Macrovision. "The increased availability of digital-quality movies on DBS [direct-broadcast satellite] and digital-cable networks [means that] many consumers can now make commercial-quality videos of PPV programs with a simple press of their VCR button."

Carroux pointed to two studies. One, conducted in 1996 by Chilton Research on behalf of the Video Software Dealers Association, found that 24 percent of surveyed households taped PPV movies. And in the second, in 1997, Nielsen Media Research found that 14 percent of Digital Satellite System households taped PPV movies frequently.

"If you average those two figures, you could say that 19 percent of all pay-per-view viewers tape what they're watching," Carroux said. "You would think that cable operators, which are spending tremendous

sums of money to upgrade their networks from analog to digital, would welcome copy-protection technology, as it helps to maximize their return on investment."

Taking this argument further, a few operators that encryption will actually increase PPV buy-rates. Instead of subscribers turning away from PPV in anger, they may actually order movies and events more frequently if they can't tape them.

And as PPV companies make their selections more available with all-day movie tickets, the need to tape programs for later viewing isn't as great.

"If subscribers can't tape, they may order that pay-per-view movie a second time," Carroux said. "And they won't be able to share that tape with a neighbor, who will now order that movie for the first time."

Denny Wilkinson, senior vice president of marketing and programming for PrimeStar Inc., agreed.

"When copy protection is put in, buy-rates will go up," he said. "Subscribers will understand if we are forced to use it. We really don't have this fear that if we must enforce copy protection, people will get angry."

Wilkinson said he doubted that PrimeStar would have to use copy protection unless a dramatic downturn in PPV or home-video revenue showed studios how the lack of it was actually hurting them.

"I think that the studios have a wait-and-see attitude," he added.

Others agreed. Both Mike Luftman, vice president of corporate communications at Time Warner Cable, and David Speigelman, vice president of New Line Television, said it will take some time before the whole issue is sorted out. Both said it's in their companies' best interests to keep consumers as happy as possible, yet not at the expense of having their copyrights pirated.

"We haven't made a firm decision yet on how we want to handle this," Speigelman said, "nor have we decided which direction we want to go in."

"We all want to maximize our revenues," Luftman said, "and no one is going to do anything that will get in the way of that. It's a very complex situation, and much will depend upon the choice of technology that will make all of the players comfortable."

It's the technology, in fact, that may ultimately resolve the issue. Bleier said film companies are currently working with technical companies on developing an effective encryption system.

"How it will get embedded in films and converter boxes remains to be seen," he said, "but there are a lot of good technical minds working on it right now."

One of those minds is that of Jerry Bennington, senior vice president of Internet technology at Cable Television Laboratories Inc. He said that, typically, to copy-protect the interface between a conventional television and a digital set-top box, companies would use an encryption system like Macrovision's.

But once high-definition television sets hit the market, Macrovision isn't going to work, he added.

"Most of the research so far has not been on the analog interfaces, but on the digital interfaces," Bennington said, "and that process is being driven by IEEE 1394," which is a digital interconnection method used for digital data.

"Right now, there are no digital set-top boxes that will support high-definition television. But by the time high-definition TV shows up next year, there will be," Bennington added. "It would be a mistake to infer that Macrovision has it in the bag, and that everyone will be building things [with their technology]."

In the meantime, cable operators are just sitting tight.

"We have not been notified by the studios that there are any time lines or schedules to put this protection on their product," said Joe Boyle, vice president of corporate communications at Viewer's Choice. "This story will continue, but, at this stage, it's not yet fully cooked."

COPYRIGHT 1998 Reed Business Information

This material is published under license from the publisher through the Gale Group, Farmington Hills, Michigan. All inquiries regarding rights should be directed to the Gale Group.