

DIGITAL ECONOMY FUTURE DIRECTIONS

CONSULTATION DRAFT

SONY RESPONSE

1. Introduction

Sony appreciates the opportunity to provide comments on the Digital Economy Future Directions consultation paper released by the Department of Broadband, Communications and the Digital Economy (DBCDE).

In its response, Sony has provided below some background on the company (Section 2) and its involvement in the digital economy (Section 3). This includes an overview of the company's future strategies relating to wireless connectivity and networked services. Sony has also provided below some examples of the company's Australian initiatives involving digital economy related activities as outlined in the consultation paper (Section 4).

Finally, Sony has responded briefly to some of the key digital economy interest areas for the company in Australia, both those raised in the consultation paper as well as others that are seen as significant for the future success of Sony, and other companies, in the digital economy (Section 5).

In summary, key issues for Sony in relation to the future directions of Australian public policy and industry activity with respect to the digital economy are:

- The vital importance to the Australian economy of the deployment of high speed, broadband data networks to allow development and activation of future business strategies, for example e-distribution of Sony's content to consumers (eg, via Sony's PlayStation Network);
- The importance of administering standards/codes of conduct for ISP's to deliver the above in such a way as to protect the Intellectual Property (IP) of content/copyright owners, and for such standards/codes of conduct to be as a result of collaboration and co-operative dialogue between the ISP industry and content/copyright owners;
- The need for future Government legislation, as well as policy development and program reviews, to fully consider possible implications for the digital economy. Expert advice on digital technology and industry issues should be sought at an early stage in any policy development or legislative drafting processes so that any associated digital economy related issues can be identified and addressed.
- The importance of the roll-out of digital TV (particularly when allied with High Definition (HD) content) in facilitating digital economy activities, including those relating to transactions (via interactivity), content production (including for export), and skills formation. Switchover must be supported with enhanced digital content (specifically HD) for consumers;

- The need for environmental considerations to be at the centre of digital economy policy, with Government to play a key leadership role. This reflects the significant energy efficiency/greenhouse gas and recycling benefits that will flow from strong Government leadership, but also requires more urgent action;
- The need for more effective industry/government approaches to skills development and qualification; and,
- The need for more effective industry/government policies and programs to address investment issues such as those relating to the Australian digital games sector.

Sony is keen to participate further in discussions on digital economy matters and would be happy to meet with DBCDE at a mutually convenient time to discuss these, and other, issues.

2. Sony Company Background

Sony is a global electronics and entertainment company. Through the activities of its diversified technology businesses, Sony straddles the digital economy as defined in the DBCDE consultation draft.

For the financial year ended 31 March 2008, Sony Corporation had consolidated sales of approximately US\$88.7billion and employed 180,500 staff worldwide. Sony's corporate structure comprises the following major business operations:

- **Sony Electronics**, consisting of major product lines for television (the BRAVIA range of LCD TVs), information/communications (VAIO notebooks), video, audio, semiconductors and electronic components;
- **Sony Pictures Entertainment**, comprising motion picture, television business and theatre operations;
- **Sony Computer Entertainment**, comprising PlayStation game consoles and software business, including the internet-enabled PLAYSTATION3 (PS3);
- **Sony Music Entertainment**, music recording, marketing and publishing businesses;
- **Sony Ericsson Mobile Communications**, a 50% equity in a major joint venture wireless communications company to design, manufacture and sell wireless personal communications products including mobile phones (for GSM and CDMA), PC cards and accessories.

In Australia, Sony's business operates through five autonomous companies and comprises consumer and business electronics and IT (Sony Australia Limited), motion pictures and TV programming (Sony Pictures Entertainment Australia), electronic games hardware and software (Sony Computer Entertainment Australia), wireless communications/mobile phone (Sony-Ericsson Australia), music (Sony Music Entertainment Australia) and Sony Digital Audio Disc Corporation (audio CD, CD-ROM, CD and DVD PlayStation games manufacturing).

In Australia the Sony businesses turnover approximately A\$1.7 billion and employ directly nearly 1,000 people, with many more employed in distributor and reseller companies. More information about Sony can be found at: <http://www.sony.com.au>

3. Sony and the Digital Economy

Sony's array of digital technologies and products (hardware and software) embracing consumer and professional markets, and the continued convergence of devices and content, means that Sony is ideally positioned for a leading role in the digital economy.

For example, in the Electronics segment, Sony's LCD television business has moved from having a limited presence three years ago to being one of the market leaders today on the strength and capabilities of the BRAVIA brand.

For example, Sony is now playing a key role in the move to Internet Protocol TV (IPTV), a newly emerging reality in the broadband-enabled world. IPTV offers consumers a new way of accessing digital content and is already available on Sony's BRAVIA range in the US. Sony has launched its BRAVIA Internet Video Link in the US, allowing a TV to stream content such as IPTV and web pages direct from the internet. Sony hopes to introduce this to Australia in the future. The move to IPTV, and associated new business models, inevitably raises issues to do with broadband speeds, download charges, content protection, etc which will all need to be addressed.

In addition, globally Sony was the first to market with the next generation television—the organic light-emitting diode, or OLED, TV—which is only 3 millimeters in thickness. These consumer products, combined with Sony's pre-eminent position in TV studio equipment, establishes the platform for Sony to lead in the digital TV area.

In the Game segment, over the past three years Sony has benefited from the continued strength of the PlayStation®2 platform and a resurgence in sales of the PSP® (PlayStation®Portable) platform, as well as the launch of the PS3™ platform with HD and Internet capability. With 50 million users of network-enabled PSP® and PS3™ units worldwide, Sony has an enormous global base upon which to build a video delivery service.

Sony's Pictures segment continues to benefit from the strength of the home entertainment releases of a number of successful titles and the continued vitality of its television business. Over the past three years SPE has expanded its theatrical, home entertainment and local language production businesses into markets across the globe. With the growth of digital (specifically HD) content and its deployment across a number of platforms this has set the stage for future growth in the digital age.

However, the business environment in which Sony operates is changing rapidly and, with the advance in digital technology and broadband networks, technological innovation is moving at a pace never experienced before.

As a result, Sony is implementing a strategy to position itself as the leading global provider of networked consumer electronics and entertainment. This will be achieved by Sony leveraging its unique advantage of producing both hardware and content, continuing to offer cutting-edge products and delivering superior content and services to meet the needs and expectations of customers.

A key aspect of the mid-term plan will involve the launch of a range of network and wireless connectivity initiatives to deliver content from SPE and other providers to Sony devices, both in the home and “on the go”.

These include providing network connectivity across the company’s devices. Specifically, 90% of Sony’s key device categories will be network-enabled and wireless-capable by the fiscal year ending 31st March, 2011.

Sony will also build a service platform to provide a seamless user experience across its key hardware devices and content. Sony is planning to expand services that will enable its customers to enjoy content such as motion pictures and television programming through the network on a variety of Sony products such as BRAVIA™ LCD TVs, PS3, PSP® (PlayStation®Portable) and Walkman® video music players.

Sony's unique position in electronics and entertainment allows the company to offer compelling network services. As an example of this potential, in November 2008, SPE offered a major movie release, "Hancock", exclusively to all internet connected BRAVIA LCD TVs in the US before it was available on DVD. This film was distributed to Sony customers directly to their televisions outside conventional distributors and without the need for any set-top box. This was an industry first.

Another example of the move towards network services was the launch late in 2008 of the PLAYSTATION®Network and the associated delivery of video services to PS3 customers.

Underpinning much of Sony’s digital economy strategy is the Digital Living Network Alliance, or DLNA, (<http://www.dlna.org/jp>). DLNA is an organization established to enhance the interoperability of home networks. The organization issues design guidelines to support the seamless sharing of video, music, photographs and other content through home networks. It also issues a logo for use on products that qualify under these guidelines.

Sony established the DLNA in June 2003 after convincing other manufacturers of the need to improve interoperability through industry-level standardization initiatives. Sony continues to play a leading role in the organization, and a Sony executive is Chairman of the DLNA Board of Directors. Today there are over 240 members, including the world’s leading manufacturers of electrical appliances, mobile equipment and computers, as well as developers of software, devices, services and applications, and content providers. By supplying a wide variety of DLNA-compliant products, these manufacturers are helping to raise awareness of DLNA as an industry standard for home networking.

Sony is also promoting the concept of "open innovation", whereby the company is looking not only inside the company, but outside for technologies that foster innovation. By combining Sony's inherent technological strengths with external expertise, Sony aims to accelerate R&D efficiency and enable the company to effectively respond to rapidly changing customer needs and preferences in the network era.

It should also be highlighted that environmental considerations are a key aspect of the company's future strategies and integrated into the company's plans to lead in the digital economy. "Green Management 2010" is a series of corporate mid-term environmental targets that are guiding the Sony Group in its efforts to help prevent global warming, recycle resources, ensure appropriate management of chemical substances and address a broad range of other environmental issues. Through these initiatives, Sony is striving to achieve an absolute reduction in greenhouse gas emissions, specifically a 7% or greater reduction in CO2 emissions by FY2010 compared to the level of FY2000.

Sony's continuing strong commitment to the environment is reflected through activities such as:

- Being an industry leader in implementing measures aimed at reducing the environmental impacts of its TVs and other products throughout their lifecycles. These measures range from performing assessments at the planning, design and engineering stages, to setting targets for reducing power consumption.
- Ensuring that electrical and electronic products sold globally are compliant with the European Union's RoHS (Restriction on Hazardous Substances) Directive to ban the use of six hazardous substances.
- Being a partner of Energy Star, an international standard for energy efficient electronic equipment.
- Developing an 'Eco-Info' mark in catalogues, websites and on product packaging to indicate environmental considerations in design and manufacture.

4. Sony's Australian Digital Economy Experiences

Sony's Australian operations are also pursuing the digital economy business strategies enunciated by the company's global leadership.

DBCDE might find relevant to the current consultation draft the following examples, or 'case studies', of engagement in Australian digital economy activities.

- **Online marketing.** Sony Music Entertainment Australia's (SME Australia's) network of websites is an important marketing and promotional tool for the company's artists and increasingly an invaluable resource in development of new business and commercial revenues.

SME Australia controls a network of over 100 current web sites including 45 official Australian Artist sites. In addition, SME Australia has several mobile, commercial and promotional sites, as well as the www.sonymusic.com.au Music Portal which, according to the online market research company, Hitwise, is rated

the most popular music company site in Australia. This includes all music related company sites, not just those of the record companies.

As a publisher of websites, SME Australia is in the top ten of entertainment web site publishers in Australia as measured by Nielsen NetRatings. The network receives six million page impressions per month, 300,000 unique browsers and 500,000 unique user sessions. Furthermore, SME Australia's broadband video player, MusicBox, receives 500,000 video plays per month.

- **Games support and development.** Sony Computer Entertainment Australia (SCE Australia) is responsible for the distribution, marketing and sales of PlayStation® software and hardware in Australia. SCE Australia has been implementing a strategy to support and encourage the Australian developer community. This is critical given the situation where there is a continuing need to attract games developers from other software engineering opportunities and to retain skills in Australia given the global demand for developers.

SCE Australia looks to provide resources and know-how and create a supportive and enabling environment for the Australian games developer industry. SCE Australia's investments have provision of developer kits, technical support and training, etc. In addition, SCE Europe has provided significant funding for local developers. As a result of this strategy, SCE is aiming to drive an increase in Australian developed games, including many that can be successfully published and distributed overseas.

- **Skills Development.** The Sony group in Australia, through the non-profit Sony Foundation, has provided development and skills support to Australian universities and educational organisations through its Scholarship Program. Recent activities have included:
 - Investing in scholarships to support undergraduate and Honours level IT degrees at Queensland University of Technology (QUT);
 - Funding the attendance of students at the Academy of Interactive Entertainment; and,
 - Providing financial assistance to Latrobe University for their Bachelor and Honours Degrees in the Department of Computer Science and Engineering.
- **Environmental Initiatives.** Sony is actively involved in a variety of Australian environmental initiatives including:
 - Sony has been a strong supporter of the development of an Australian MEPS and Energy Rating Label Program for TVs. Sony will also be a participant in the voluntary energy efficiency labelling scheme that has been introduced as an interim measure.
 - To help buyers consider energy efficiency issues, Sony already makes power consumption figures of BRAVIA LCD TVs freely available on its website (See www.sony.com.au).

- Sony will also be undertaking advertising and promotion of the Government's energy efficiency labelling scheme, for example by promoting the labelling through the Sony Australia website (the No. 1 consumer electronics website in Australia) and through Sony's Pulse magazine and catalogue, 130,000 copies of which are distributed twice-yearly to retailers and direct to My Sony members.
- Being a partner of Energy Star, an international standard for energy efficient electronic equipment. The standard is applied to many Sony products in Australia, including PC notebooks, computer monitors, TVs and audio equipment.
- Being a member of Product Stewardship Australia (PSA) which focuses on recovery and recycling of electronic and electrical products in an environmentally sound manner, initially targeting televisions.

5. Sony Comments on Issues Raised in the Consultation Draft

The Consultation Draft addresses a number of issues that are relevant to Sony's interests in the digital economy. In this regard, Sony wishes to comment on the following:

- **Knowledge and skills base:**
 - Sony believes that the continued development of Australia's knowledge and skills base is fundamental to Australia's successful participation in the digital economy.
 - From Sony's perspective, however this should not be narrowly focused on formal IT training. Rather, it should encompass the whole, inter-related 'eco-system' of skills that impact the digital economy ranging from design, technical and engineering, through to 3-D animation/computer games development, professional ICT skills and critical business skills. This will include the vocational sector as well as the tertiary sector.
 - By way of example, Sony has established its BPPA (Business Products, Pacific Asia) group in Australia. BPPA is the regional hub for delivery of technical and engineering services related to digital TV and broadcasting equipment (including manufacturing, fit-out and systems integration of DTV Outside Broadcast Units) and CCTV cameras. Availability of local technical skills was a prerequisite for the company's investment in this facility, and it will be vital to maintain appropriate workforce skills in Australia to continue the work of the BPPA,
- **Regulatory framework:**
 - As noted in the consultation draft, Australia's regulatory framework should facilitate, rather than discourage, the growth of the digital economy.
 - In this respect, Sony believes ISPs and content/copyright owners must collaborate to resolve issues of copyright protection in a code of conduct or industry agreement and as such the Government should refrain from

initiating any process to extend the current safe harbour scheme until such industry regulation and collaboration occurs.

- Sony would also emphasise the need for any future Government legislation, as well as policy development and program reviews, to fully consider possible implications for the digital economy. Expert advice on digital technology and industry issues should be sought at an early stage in any policy development or legislative drafting processes so that any associated digital economy related issues can be identified and addressed. Without this, future legal interpretation may undermine the Government's objectives and create industry uncertainty, or efficient and effective Government service delivery may be hindered.
- **Digital economy and the environment:**
 - It is important that Government and industry work closely to promote more environmentally responsible practices encompassing energy efficiency, product stewardship and e-waste.
 - Sony believes that there is a significant environmental issue caused by the scale of historical e-waste. In addition, the rapidly growing digital TV market reinforces the need to quickly address e-waste, including TV, environmental issues, particularly e-waste. Sony strongly supports the immediate introduction of a national scheme to allow the recycling of TV equipment.

In addition, Sony wishes to highlight a number of other digital economy related issues:

- The importance of the rapid implementation of a national, high speed broadband network in Australia to support the development and delivery of future company business strategies. In Sony's case, this would include the e-distribution of content, for example to customers of SCE's PlayStation Network.
- The key role that the roll-out of digital TV (particularly when allied with HD content) will play in facilitating digital economy activities. This will include those relating to transactions (via interactivity), content production (including for export), and skills formation as well as the benefits flowing from the 'digital dividend' and the deployment of analogue spectrum to new commercial activities. Accordingly, it is vital that the Australian Government and industry remain committed to switchover by 31st December 2013. It is also vital that consumers receive the benefits of digital/HD TV through enhanced content offerings and that broadcasters must continue to be encouraged to improve their level of digital/HD programming. HD, and HD content production and distribution for consumers, is clearly the global future for digital TV.
- The quantum leap in the sophistication and expense of digital games technology and development that is emerging with next-generation products. This requires a new approach to public policy for this industry. It will be vital for stakeholders (developers, publishers, educational institutions and governments) to develop a

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strategy that ensures the continued growth of the Australian industry in the face of new international skills and investment pressures. If this is unsuccessful, the future of the local digital games development industry is uncertain.