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Preface

The environment of contents industries is changing significantly along with fast growth of contents markets around the world and rapid technological innovation.

Industries are being globalized, and the contents business is not an exception. There used to be few contents holders who extended their business to broader regions, let alone globally, baring exceptions, such as Hollywood studios. But now Asian and European companies are advancing to global markets. In addition, development of broadband environments and creation of new channels, realized by innovations, have diversified distribution of contents, which is accelerating globalization of the contents business, and making the global contents market more competitive.

The environment of contents industries is so drastically changing, though Japan has not fully taken advantage of the changes to develop its presence in the global market. Its contents export has shown little growth. Japanese contents industries have been growing mainly in the domestic market. But the growth of the domestic demand is beginning to slow down. Japanese market is no longer a staple source of growth for them. Slumps in the entire contents industries in Japan incur the risk of human resource drain, and excellent creators (designers and artists, etc.) might leave Japan. In the medium or long run, the possibility could not be denied that the entire Japanese contents industries might be swallow up by US and European counterparts, which are developing globally.

Under such circumstances, Japanese contents industries can continue to grow in the future and meet intensifying competition successfully only when they make the most of the their potential, or power of multi-contents, and advance into global markets.

With such issues in mind, we examined what challenges Japanese contents industries should solve to go global and what policies the government should introduce to help them. We discussed the problems from five viewpoints:

1. Global viewpoint;

   On the basis of the fact of globalization of the world economy, we examined contents industries from the view point that the contents business is a part of the globalizing economy (from overseas expansion of contents to globalization of contents industries).

2. Cross-sectoral viewpoint;

   Japan has a wide range of contents industries, such as movie, manga comics, animation, and video game, and that is the advantage Japan holds. Throughout our examinations of trends of the industries and discussions about strategies, we maintained cross-sectoral viewpoints, bringing all the contents industries into view at a time, rather than focusing on individual segments, to consider how Japan could make the most of the advantage.

3. Business viewpoint;

   Contents industries have two aspects: “culture” and “business.” We focused solely on the side of “business,” and considered how the “culture” can be applied to create “economic value.”
(4) Viewpoint based on facts on the ground;

We based our study on opinions of people working on the ground in contents industries and analyses of cases of Japanese companies that had advanced overseas, adhering to “realism” through our discussions.

(5) Stage of “Japan International Contents Festival”;

We discussed how the stage of the festival should be used as an opportunity to realize our strategies. We kept in mind how the festival should evolve (“Unusual” for the first year, “Exciting” for the second, and “Excellent” for the third).

This “Final Report” is the results of analyses, examinations and discussions we made from such viewpoints.

We put on the Final Report as many opinions and cases as possible among those on the basis of which we discussed. Especially, the opinions appear on the report just as they were expressed by the speakers or writers, instead of being summarized or modified, in principle.

We hope this Final Report will help globalize Japanese contents industries. We also expect, as a result, their products will be watched, listened to, and played all over the world, and that they will remain competitive in the global market and keep growing.
**Contents Global Strategy Study Group**

**Members of the Study Group and its working group**

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<th>Members of the Study Group</th>
<th>Members of the Working Group</th>
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I. Dynamism of the changing environment around the global contents business

1. Background and changes

(1) Rapid development of globalization

(i) Globalization of the world contents business

As contents markets are growing all around the world, not only in developed economies but also in developing countries, contents industries, especially those in the United States and Europe, are globalizing. Hollywood studios are changing their strategies. They, for instance, buy films, scenarios and plans in Asia and other parts of the world, and remake the originals or produce their own films. EU is working to strengthen cooperation among the members, and actively promoting international joint-production, as well as developing diverse sources of funds.

(ii) Globalization of production (Globalization of below-the-line)

Places for production are also being internationalized and globalized. As production costs are rising and cost control is getting more important, some countries, such as Australia and New Zealand, have introduced preferential treatment programs for foreign filmmakers to attract location crew and acquire “below-the-line”. (Details of their programs are discussed later.)

(Note) The term “below-the-line” refers to part of the filmmaking costs other than expenses for obtaining rights, performance fees for actors, and remuneration for producers (above-the-line). It includes salaries for staff and expenses for locations, transportation, and accommodations.

Comments of experts

- Hollywood is changing their strategies from “Hollywood sourcing/Global exploitation,” where they sell their products in markets all round the world, to “Global sourcing /Global exploitation,” where they buy products all over the world. (Mr. Ishikawa, member of the Study Group)

- When I made “Spider-Man 3,” Japanese manga comics and animation films gave me great inspiration. (Mr. Sam Raimi, film director)

- When Hollywood studios make a film, they intend to sell the product in the world market from the beginning. They have a business model that allows them to make investments proportional to the scale of the global market and recover what they spent. On the business model, shows at theaters are regarded as a mere tool for publicity, and profits are earned from sales of home videos and license fees from TV stations. The fact suggests Japanese contents holders will successfully expand their business overseas only when they can complete a business model that enables them to make earnings through more than one channel. (Mr. Ozuka, in place of a Study Group member)
• In the days of Akira Kurosawa, some films were produced with the budget of two billion yen. Now in Japan the scale of films are not made more often than in those days. Hollywood studios sometimes spend as much as 30 billion yen for a film. Japanese filmmakers have fallen behind the globalization of the industry. (Mr. Ishikawa, member of the Study Group)

(2) Impacts of contents-related technological innovations (increase of new channels, and deepening cooperation between hardware and software business, etc.)

(i) Integration of digital contents / development of more sophisticated apparatuses and handsets

Different types of contents, such as films, TV programs, music, and comics, used to be clearly distinguished from each other. Development of digital contents, however, is accelerating integration of the categories. The environment is being realized where contents, regardless of genre, can be distributed on diverse types of apparatuses to users.

Development of more sophisticated apparatuses and handsets, and high definition (HD) technologies helps improve quality of contents available for users. Advanced computer graphics (CG) technologies accelerate integration of live-action movies and animations.

(ii) Qualitative changes in contents business

Development of networks, which has made distribution processes more efficient, is making qualitative changes in conventional contents business. Contents business is rapidly growing all in quality, area, and quantity.

(iii) Common platform for development of software

With digitalization of contents and development of networks, software is getting more important in all genres. Common platforms for development of software are being adopted.

(iv) Increase of related technologies, such as searching

Another clear change innovations are making for contents business is creation of new platforms and channels and integration of them. More technologies, such as file-swapping and searching, are applied for contents business.

The number of players in the contents industries is also increasing. New types of players, such as IT and search engine companies, are emerging, and they are forming coalitions with existing players.
(v) Long-tail contents

Innovations of contents-related technologies has helped business of long-tail contents emerge and induced consumer generated contents (CGC). Several types of user participation business, such as social networking service (SNS), are also evolving with development of interactivity.

Comments of experts

- Attitudes toward the P2P technology are changing. For instance, the Motion Picture Association of America (MPAA) has accepted a type of P2P that allows distributing contents in specified countries. That enabled BitTorrent to form business partnership with Warner Bros., 20th Century Fox, Paramount Pictures, and other filmmakers. Kadokawa Herald Pictures is also entering into business partnership with the company. (Mr. Kadokawa, member of the Study Group)

- Today “offline-type” personal computers, which contain applications and carry out necessary functions by themselves, is the mainstream. But Google, for example, has a plan to offer lower-priced PCs which perform such functions online. The service, if realized, would enable Hollywood to distribute their films through PCs directly to consumers. (Mr. Kadokawa, member of the Study Group)

- P2P systems work best on optical fiber lines. Broadband service is widely available in Japan, so business models based on P2P technologies have great potential there. (Mr. Hashimoto, member of the Study Group)

- As satellite digital broadcast is spreading around the world and the number of channels are rapidly increasing, needs for contents for the channels are surging. The appearance of high-definition television channels is creating needs for higher-quality programs. Such changes in distribution channels are transforming needs for programs. (Mr. Kondo, member of the Study Group)

- Digital projectors, adopted by more and more theaters, expand their potential. For example, theaters will be able to show live programs of drama and sports. (Mr. Takamura, member of the Study Group)

- Technologies themselves do not attract consumers. We must endeavor to create new business which combines technologies and contents. Existing contents industries and conventional styles of expression will also be challenged by innovations. (Mr. Hiroshi Shigenobu, Chairman of TV MAN UNION)

- Japan has the proud technology of high-definition (HD) broadcasting that offers images of the highest quality in the world. If we enhance the technology and develop more sophisticated conversion technologies, we can spread our specifications all around the world. (Mr. Shigenobu, Chairman of TV MAN UNION)

- TV sets in homes will inevitably be used both for broadcasting and telecommunication. The technology of digital terrestrial broadcasting will surely diversify value for audience. Segmentation of contents, for example on the internet, cannot be avoided. The
broadcasting and telecommunication industries will consider together how they can use new networks in creative ways while making effective use of merits of the terrestrial broadcasting media for growth of their business. (Mr. Shigenobu, Chairman of TV MAN UNION)

- To produce mega-contents, long-tail contents are also necessary as an opportunity of experiences. (Mr. Takamura, member of the Study Group)

(3) Changes in financing

Along with the globalization, scales of projects are expanding. That trend pushes up production costs as filmmakers employ famous directors and actors to reduce risks, which further drives globalization of financing. In the contents business, the “upward spiral of scale” is growing. The growing scale of projects makes it more necessary to secure more diverse sources of funds. Filmmakers around the world are trying to diversify their financing methods to raise a large amount of fund. For example, they adopt the methods of international joint-production or presale. (Figure I-1)

Increase of costs for higher quality of images and frequent use of computer graphics is another cause for globalization of financing.

Suppliers of funds, on the other hand, apply financing techniques, such as portfolio management, to diversify risks. The same level of risk management as that for investments in other sectors is needed.

Comments of experts

- When a Japanese filmmaker finds it impossible to recover production costs in Japanese market, it can refrain from releasing the product in Japan and instead sell it in the United States by the method of presale. The technique is often used by US and European studios. (Mr. Ishikawa, member of the Study Group)

- In Japan, it is quite tough to raise more than 20 million dollars for production even if, for example, a fund is formed. To raise such a large amount of money, commitment of mega banks and other major financial institutions is needed. (Mr. Ishii, member of the Study Group)

- In the music industry, new technologies have enabled musicians to create a large variety sound. As a result, they often elaborate a piece of music almost endlessly before completing it. That increases production costs. (Mr. Sato, member of the Study Group)

- Production of video games and films requires a large amount of money. The day will come when new methods of collecting fund from various sources, instead of relying on single company, will be needed. If we intend to compete in a full scale with mega media firms overseas, we may have to form funds jointly with foreign investors in the future. We might also have to make investments in foreign contents holders. We must study business partnership. (An expert)
Globalization, innovation, and changes in financing, intertwined with each other, are each forming an upward spiral of development. They are strong forces driving changes in global contents industries.

<table>
<thead>
<tr>
<th></th>
<th>Production costs</th>
<th>P&amp;A costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>9.4</td>
<td>4.3</td>
</tr>
<tr>
<td>1985</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>1990</td>
<td>26.8</td>
<td>12.0</td>
</tr>
<tr>
<td>2000</td>
<td>54.8</td>
<td>27.3</td>
</tr>
<tr>
<td>2005</td>
<td>60.0</td>
<td>36.2</td>
</tr>
</tbody>
</table>

Causes of higher production costs
- Acquisition of copyright of originals;
- Scripts costs
- Rising guarantees for actors and directors

Figure I-1 “Upward spiral of scale” of contents

(4) Restructuring of value chains (value deconstruction) (vertical and horizontal development)

(i) Global horizontal development (Global development at each of the stages from production to distribution, such as sale of originals and plans in overseas markets and globalizing of human resources)

Globalization is growing horizontally at any stage of production from its upstream phase of originals and plans through human resources, such as producers, directors, and actors, to technologies used to produce contents, filming, and distribution of completed products. Such restructuring of value chains cannot be limited within the boundary of a single country, and instead are developing beyond national borders.

"Globalization," "innovation," and "changes in financing," intertwined with each other, are each forming an upward spiral of development. They are strong forces driving changes in global contents industries.

(Figure I-2) Dynamism of changes in contents industries

- Globalization of originals and plans
- Globalization of people, including producers, directors and actors
- Participation of new players
- Restructuring of value chains
  - Global horizontal development
  - Vertical development (from packaging to service)
  - Media conglomerate
  - Long-tail
- Innovations
  - Advancement into world markets accelerated by development of digital technologies and networks
  - Use of new channels
  - Strategies to recoup rising costs for adopting HD and CG
  - Use of new technologies, IT and hardware
- Participation of IT and search engine companies into the business
- Causes of higher production costs
  - Larger scale of financing
  - Use of support on the basis of collaboration agreements
  - Overseas advancement of below-the-line
  - Further diversification of international sources of fund
  - Retail investors as a new source of fund
  - Emergence of institutional investors
  - Globalization of financing
  - Inflow of money from different industries
  - Increase of new channels
  - Development of linkage of hardware and software
  - Integration of contents from different segments
  - Mega-contents and long-tail
  - Strategies to recoup rising costs for adopting HD and CG
  - Use of new technologies, IT and hardware
  - Larger scale of financing
  - Use of support on the basis of collaboration agreements
  - Overseas advancement of below-the-line
  - Further diversification of international sources of fund
  - Participation of IT and search engine companies into the business
  - Retail investors as a new source of fund
  - Emergence of institutional investors
  - Globalization of financing
  - Inflow of money from different industries
As contents industries around the world, especially Hollywood, are rapidly globalizing, contents producers around the world are paying attention to contents made in Japan as “originals” for their products. Japanese manga comics have been employed by foreign companies as materials for their movies, animation films, and TV programs. (The director of “Spider-Man 3” was inspired by Japanese manga comics.)

(ii) Vertical development (Diversification of distribution channels caused by innovations and consequent increase of new channels)

In addition to the horizontal development of contents business, innovations have made contents available through new channels and on new types of hardware, which is accelerating diversification of distribution channels. Digital technologies are integrating genres of contents, which used to be clearly distinguished from each other. As a result, contents industries are constructing new vertical value chains.

For example, the business model might be transformed drastically from offering consumers contents as tangible object, such as a package of software, to providing services for audience all over the world from a single server through streaming or other techniques. (“from package to service”)

Some companies are considering how they can combine their contents with other services, such as theme parks, to offer consumers more fun. (“from ownership to experience”)

(iii) Development of conglomerates

Media conglomerates, which integrate the process from production to distribution, are growing. Trend toward mega-contents business is accelerating as companies are pursuing source of profits globally.

A wide range of players who used to be out of the value chain, such as shosha, hardware suppliers, telecommunication carriers, IT firms, and financial institutions, are entering the contents business, and they are play an important role in producing mega-contents. They are expanding global networks of business by, for example, establishing local subsidiaries overseas.

(iv) Long-tail

Development of digital technologies and networks has also enabled long-tail types of business. Contents created by individuals by use of interactive technologies, such as SNS, are emerging as well. As ordinary people begin to create contents, they are appearing as a new player of contents business.
Comments of experts

- The movie industry began as a service business, and movies were provided at theaters for audience. Movie companies then began to sell their products on Videotapes and DVDs, and that has been continuing until now. But in the future the industry will shift again to a type of “service” business that distributes movie contents, instead of selling tangible objects,” such as tapes and DVDs. (Mr. Kadokawa, member of the Study Group)

- In the United States many Japanese animations and manga comics are used as originals for remakes, and demand for such materials is high. Video games might be adapted for films. A producer of “Spider-Man 3” said he would like to make a movie base on “Super Mario Brothers.” (Mr. Yoda, member of the Study Group)

- In the music industry, the vertical structure of value chain is crucial for marketing. Our business would not exist without it. A value chain must be constructed in such a way that profits are made through the whole process. (Mr. Sato, member of the Study Group)

(Figure I-3) Time spent for using contents in US (hours per person per year) (by channel)

<table>
<thead>
<tr>
<th>Channel</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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</thead>
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<td>CATV/Satellite broadcasting</td>
<td>828</td>
<td>886</td>
<td>909</td>
<td>980</td>
<td>989</td>
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<tr>
<td>Television</td>
<td>744</td>
<td>729</td>
<td>711</td>
<td>679</td>
<td>684</td>
</tr>
<tr>
<td>Internet</td>
<td>138</td>
<td>155</td>
<td>165</td>
<td>172</td>
<td>177</td>
</tr>
<tr>
<td>Videotape/DVD</td>
<td>57</td>
<td>60</td>
<td>67</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>Theater</td>
<td>14</td>
<td>13</td>
<td>13</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Mobile device, etc.</td>
<td>4</td>
<td>5</td>
<td>8</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,785</td>
<td>1,848</td>
<td>1,873</td>
<td>1,916</td>
<td>1,937</td>
</tr>
<tr>
<td>Radio (incl. satellite)</td>
<td>825</td>
<td>834</td>
<td>821</td>
<td>805</td>
<td>794</td>
</tr>
<tr>
<td>Music (CD, etc.)</td>
<td>203</td>
<td>189</td>
<td>195</td>
<td>189</td>
<td>191</td>
</tr>
<tr>
<td>Newspaper</td>
<td>196</td>
<td>194</td>
<td>191</td>
<td>184</td>
<td>181</td>
</tr>
<tr>
<td>Magazine</td>
<td>125</td>
<td>122</td>
<td>125</td>
<td>124</td>
<td>122</td>
</tr>
<tr>
<td>Book</td>
<td>109</td>
<td>109</td>
<td>108</td>
<td>108</td>
<td>107</td>
</tr>
<tr>
<td>Video game</td>
<td>71</td>
<td>76</td>
<td>78</td>
<td>73</td>
<td>75</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,529</td>
<td>1,524</td>
<td>1,518</td>
<td>1,483</td>
<td>1,470</td>
</tr>
<tr>
<td>Total</td>
<td>3,314</td>
<td>3,372</td>
<td>3,391</td>
<td>3,399</td>
<td>3,407</td>
</tr>
</tbody>
</table>

*Adapted from materials published by the Motion Picture Association of America (MPAA)

As value chains are restructured, hours to spend for watching TV, conventional type of media, are gradually decreasing, while people spend more hours in using new types of media based on the Internet or mobile technologies.
<table>
<thead>
<tr>
<th>Case of linkage of different channels: internet and publishing</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENTOSHA COMICS published a book of comics in seven countries at a time. The serial comics had been released on its website, and attracted a large number of viewers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Case of active response to the new age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movies are now more often distributed on broadband networks and mobile tools. In the broadcasting and telecommunication sectors, some companies, such as Asia Contents Center, began to form their own funds to produce contents and retain rights to their own contents. They make business plans themselves, and operate business in systematic and aggressive ways.</td>
</tr>
</tbody>
</table>
(Figure I-4) Restructuring of value chains

From days when different types contents are distributed through different channels to days when distribution channels are indifferent to genres;

From days when contents are offered on DVDs or other types of packages to days when they are offered in a form of service distributed through high-speed wide-bandwidth data transmission networks;

Further toward days when suppliers consider how contents should be combined to offer consumers more fun;

Construction of new value chains: “From package to service, and from ownership to experience”
2. **Moves in regions of the world**

(1) United States

The business is shifting from marketing products of Hollywood to other countries to collecting plans and people from around the world to produce products that can be sold worldwide (Changes of global strategies from “Hollywood sourcing” to “Global sourcing.”)

Along with the strategic changes, the United States is shifting its focus to Asia, including Japan, and working to develop business there because in the region the level of income is rising and markets are expanding. Hollywood not only sell their mega-contents around the world, but also have the strategy of “local production” and adjust their products to target markets. (Example: Distribution of the movie of “Death Note” in the Japanese market)

While “media conglomerates” are developing vertical integration, new types of players, such as “IT” and “search engine” companies are participating in the contents business. Conventional media conglomerates are deepening ties with IT and telecommunication companies to make active use of innovations.

**Comments of experts**

- Nowadays many Hollywood studios would like to get acquainted with people in the Japanese film industry to produce films jointly with them. (Mr. Ishii, member of the Study Group)

- When we produced Spider-Man 3, we paid attention to the movie market in Japan. Japan is an important market to test a new film. Now I’m working to produce a movie base on Japanese manga comics. I believe good films are accepted by people living in different cultures and speaking different languages. (Mr. Avi Arad, film producer)

- Among films made by Hollywood studios, remakes account for more than 60%. (Mr. Lee, member of the Study Group)

- Hostility to P2P has dramatically changed. MPAA has also recognized BitTorrent to be useful. P2P is more advantageous than YouTube especially because it places less burden to systems. (Mr. Kadokawa, member of the Study Group)

- In the United States, filmmakers sell their products to TV stations, and use broadcasting to promote the sale of DVDs and character goods. The conventional business model is collapsing. (An expert)

- Hollywood studios are looking for ideas and plans in Japan for their business. It is a great opportunity, and we must take full advantage of it and secure profits. (Mr. Tetsuya Fujimura, Filosophia Entertainment Alliance)
• Now specialty channels in the United States have great interest in Asian markets. In North American, European and Asian markets, coproducers of jointly-produced films have retained rights in their won regions. Along with growing expectations for China and India as a market, some North American and European coproducers are beginning to demand more rights in Asian markets. (Mr. Kondo, member of the Study Group)

• In the United States, portal service on the internet has left the others far behind. In the conventional type of giant capitals, production departments were the mainstream. A different type of integration is emerging. (An expert)

(2) Canada, Australia, and New Zealand, etc.

Some countries have programs in place to offer preferential treatment for foreign filmmakers to attract location crew. They are working hard to acquire economic benefits mainly from “below the line” as world filmmakers, especially Hollywood, are globalizing. They are dependent on Hollywood and other major filmmakers in “above the line” because they have only limited resources for that. On the other hand they offer generous public support for “below the line,” resources rather accessible to them, to acquire more advantageous positions in the field and attract film productions. They avoid confronting the structure of the world film industry, whose core is Hollywood, and instead, have chosen strategies to promote movie production in their countries with focus on their economic growth.

Such strategies are typically adopted by the English-speaking countries. Canada has been a leading country, but similar strategies are rapidly spreading to Australia, New Zealand, Ireland, and others. (Example: New Zealand succeeded in attracting location shootings of the “Lord of the Rings” to the country).

(Figure I-5) Shares of OECD members in film production by region (2005)

<table>
<thead>
<tr>
<th>Region</th>
<th>Estimated share (value basis)</th>
<th>Countries included</th>
</tr>
</thead>
<tbody>
<tr>
<td>English-speaking countries</td>
<td>45%</td>
<td>US, UK, Australia, Ireland, New Zealand</td>
</tr>
<tr>
<td>Asia</td>
<td>20%</td>
<td>Japan, South Korea</td>
</tr>
<tr>
<td>Latin America</td>
<td>15%</td>
<td>Mexico, Portugal, Spain</td>
</tr>
<tr>
<td>Western Europe</td>
<td>10%</td>
<td>Austria, Benelux, France, Germany, Italy, Greece, Switzerland</td>
</tr>
<tr>
<td>Middle East &amp; Africa</td>
<td>7%</td>
<td>Turkey</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>2%</td>
<td>Czech, Hungary, Poland, Slovakia</td>
</tr>
<tr>
<td>Northern Europe</td>
<td>1%</td>
<td>Denmark, Finland, Iceland, Norway, Sweden</td>
</tr>
</tbody>
</table>

In EU, US films have an almost 60% share. (Figure I-6)

In the region, close cooperation for film production has been developed. For example, in major film-producing countries in EU, such as United Kingdom, France, Italy, Spain and Germany, one-third to one half of the movies are jointly produced in average. (For UK filmmakers, most of the coproducers are US counterparts, while those in other EU countries produce films jointly mainly with producers in the region.)

EU also have programs, such as “Media 2007” and “e Contents Initiative,” to help digital contents produced in EU to be translated into several languages and integrate movie markets in the region.

Since the mid 1980’s, when major studios’ own financial resources began to shrink, they have been introducing more diversified and complicated methods of financing. Now investment banks, insurance companies and other major financial institutions are emerging as new sources of fund.

EU is also working to expand its international joint production agreements within and out of the region to help its filmmakers access preferential treatment and grants offered by foreign governments as incentives. Such diversification of financing and use of preferential treatment provided by foreign governments (including support for “below the line” are transforming production of movies to international business.

At the same time, EU issued a directive that requests the member states to reserve more than half of TV broadcasting time for programs produced in Europe for the purpose of preserving culture of the region and promoting production and distribution of European TV programs. (“Television Without Frontiers” Directive) Ministers of the member states have agreed to expand the TWF directive to the Audiovisual Media Services Directive, which will also cover internet protocol television (IPTV) and other media. They are promoting integration of contents market in the region with their focus on protection of their cultures and their diversity.

**Comments of experts**

- In Europe, different countries have different conditions, and each of the market is not so large. VIZ Media’s Europe business is carried out through agents. The entire European market is almost the same size as the Japanese market. France, for example, is beginning to accept manga comics. I think Japanese contents culture is gradually spreading in European markets. (Mr. Ishikawa, member of the Study Group)

- The largest sales of manga comics are made in Europe, thanks partly to higher euro. In the region, a copy of manga comics sells at around ¥1,000. France is the largest market in Europe. (An expert)
EU is working to integrate contents markets in the region while giving importance to diverse cultures of the member states.

EU member states preserves their own cultural roots, and have strong belief that diversity of their cultures is treasure. They give importance to preserving diverse cultures within and around the region while they believe it is important to enjoy benefits of their culture in an open environment instead of confining themselves in their own cultures.

(Figure I-6) Countries that produced films distributed in OECD members, etc. (2005)

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>EU</th>
<th>US</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>36.8%</td>
<td></td>
<td>45.9%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>17.1%</td>
<td></td>
<td></td>
<td>82.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>24.7%</td>
<td>12.5%</td>
<td>53.3%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>17.0%</td>
<td>20.0%</td>
<td>60.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>UK</td>
<td>33.0%</td>
<td></td>
<td></td>
<td>67.0%</td>
</tr>
<tr>
<td>China</td>
<td>60.0%</td>
<td></td>
<td></td>
<td>40.0%</td>
</tr>
<tr>
<td>India</td>
<td>92.5%</td>
<td></td>
<td></td>
<td>7.5%</td>
</tr>
<tr>
<td>South Korea</td>
<td>55.0%</td>
<td>2.3%</td>
<td>60.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>41.3%</td>
<td></td>
<td></td>
<td>58.7%</td>
</tr>
<tr>
<td>US</td>
<td>86.0%</td>
<td>11.6%</td>
<td></td>
<td>2.4%</td>
</tr>
<tr>
<td>Canada</td>
<td>4.6%</td>
<td></td>
<td>86.7%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Australia</td>
<td>2.8%</td>
<td>11.6%</td>
<td>81.2%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>


(4) China & Hong Kong

China is rapidly introducing measures to develop its own contents industries as demand for contents is fast increasing along with economic growth. The country now gives intensive support to the digital contents business and animation and comics industries. It has a clear intention to nurture domestic contents industries and products.

On the other hand, China maintains censorship and quota systems. It has also regulations on broadcasting time of animation and other TV programs. (Figure I-7) That generates frictions between China and Hollywood or others as contents industries are globalizing.

China participated in WTO in 2001, and hosts the Olympic Games in Beijing in 2008 and an Expo in Shanghai in 2010. It shows attitudes to opening its culture markets to foreign countries while it introduces new, more severe regulations. Repeating opening and tightening of the market, China is carrying out measures to give the strongest support to national contents.

Hong Kong is working to be the center of Asian contents. For example, it is trying to attract more foreign participants to the Hong Kong International Film & TV Market, held in March.
**Comments of experts**

- China has a complicated censor system, and limits the number of titles of contents that can be sold in the country. We always encounter problems of culture, and that hinders our business. (Mr. Tsuchiya, member of the Study Group)

- China has tough attitudes to online games, animations, and character goods. The country tries to introduce import restrictions to industries it intends to develop by itself. (Mr. Kadokawa, member of the Study Group)

- The market for Japanese animations in China is shrinking. TV stations broadcast only a few titles of Japanese animations, and theaters do not show Japanese products. They narrowly accept Japanese films produced jointly with Chinese. (Mr. Takayuki Matsutani, President of the Association of Japanese Animations)

- TV programs can be exported to China only after cooperated procedures are completed. Among 300 or so TV stations there, only 60 are authorized to import foreign programs. The country also has a quota system for imported programs, and TV stations are allowed 20 hours for foreign programs. Applications are received only in two months, January and July. The programs must censored. China also imposes other restrictions. For example, imported programs cannot be broadcast during prime time. China is one of the most attractive market, but such strict restrictions must be met to enter the market. (Mr. Den, member of the Study Group)

- It is crucial to standardize basic contents technologies. Some countries, especially China, intend to introduce their own standards and exclude foreign companies from their markets. We must try to persuade China, BRICs or other countries to stop that. (Mr. Ozuka, in place of a Study Group member)

- Since the turn of the 21st century, Koreans has been making remarkable progress in Asian markets, and Japanese are on the defensive. (Mr. Den, member of the Study Group)

- The Chinese movie industry is rapidly developing. Its IT industry will also grow. The network of ethnic Chinese living overseas and other networks China has formed around the world will be effective to support the growth. It is a threat. China also has a great treasury of stories. It has a large number of historic episodes well-known all around the world, and it is only a part of the repository. If, or when, its controls on speech is abolished, China may be the business center of Asia. We must prepare strategies on such assumptions. (An expert)

- Hong Kong is also putting a great deal of effort into contents. The special administrative region is trying to demonstrate that it is the Asian center of contents, and holds a range of events where people working in Asian movie industries meet together. A source says it has a plan of a event for multi-contents. The Japanese contents industry must be more internationalized rapidly. (Mr. Yoda, member of the Study Group)
Examples of restrictions imposed in China on types of contents

| Movie                                    |                                                                                           |
|                                         | • The number of foreign films that can be shown in one theater is limited to 20 titles in one year. (for films shown under a profits-sharing contract) |
|                                         | • Foreign capitals are prohibited from participating in the business of distributing or showing foreign films. |
|                                         | • Foreign companies are allowed to have a stake of 49% or less in companies that construct or remodel theaters. |
| Television                              | • The length of time in which each channel is allowed to broadcast foreign programs is limited to 15% of its total broadcast hours. |
|                                         | • The number of foreign programs TV stations can import is restricted by a quota system. |
| Animation                               | • Broadcasting of foreign animations is prohibited during the prime time. |
|                                         | • Among broadcasting time used for domestic or foreign animations, 60% or more must be spared for domestic products (70% for some channels). |
| Music                                   | • Foreign capitals are prohibited from participating in websites that distribute music on the internet. |

### Consistency with the WTO agreement

- The WTO Service Agreement specifies that member states shall make commitments concerning restrictions they impose on participation of foreign capitals in domestic markets and discriminatory treatment to foreigners, and that they shall not impose restrictions severer than the commitments.

- In commitments China made when admitted by WTO, it agreed to allow theaters to import in a year 20 titles of foreign films under a profits-sharing contract. It also agreed to allow foreign capitals to form a joint venture with Chinese capitals to engage in the business of distributing audio-visual products (except movies).

- China made no commitment concerning broadcasting service and TV program service.

(5) South Korea

South Korea is working, as a national project, to expand its contents industries, such as TV dramas, movies, and online games, to the entire region of Asia. (Between 1996 and 2005, exports of Korean movies rapidly grew from $400,000 to $76,000,000. But those in 2006 decreased sharply by 68% from the preceding year to $24,500,000.)

The country is also eager to form partnership with Hollywood in the film industry, and active in nurturing and internationalizing its comics and animation industries.

South Korea had forbidden importing and publishing Japanese popular culture in principle mainly due to the national sentiment to Japan. Between the 1998 autumn and 2004, the
restrictions were relaxed through four steps. But there are a lot of restrictions left. For example, terrestrial TV stations, which have larger influence, are still forbidden to broadcast Japanese dramas.

Some types of programs, such as variety show and comedy, cannot broadcast on any channel. There are still some restrictions left, such as the screen quota system for theaters.

Comments of experts

- Since the turn of the 21st century, Koreans has been making remarkable progress in Asian markets, and Japanese are on the defensive. (Mr. Den, member of the Study Group)

- Korean TV dramas were very popular in Asian markets, but the popularity is on the wane. In China, the largest market, import of Korean TV dramas is virtually banned partly due to the dispute about the Goguryeo dynasty. (Mr. Den, member of the Study Group)

- Korean contents made a large growth in Asian markets, but Japanese TV dramas are popular in, for example, Taiwan, and their presence is not smaller than Korean dramas. (Mr. Den, member of the Study Group)

(Figure I-8) Relations between world contents industries
II. Direction Japanese contents industries should take

1. Current conditions of Japanese contents industries

(1) Current conditions of markets

Japan has the second largest domestic market for contents industries in the world after the United States. The growth, however, has been slow for years. (Figure II-1)

Japanese contents industries’ degree of dependence on foreign markets* is 1.9%, far smaller than that of the United States, 17.8%. (Figure II-2) As Japanese contents industries have been supported by domestic demand, they have not expanded enough to foreign markets. They have not fully exploited potential high value of Japanese contents to expand their business in foreign markets. (*Exports of contents divided by sales in the domestic market)

It is also pointed out that some of the Japanese contents that have been believed to be competitive is losing advantages they use to have. In such conditions, they must share the sense of crisis.

Source: 2006 Digital Contents White Paper

Figure II-1 Market sizes of world contents industries (2005)

Figure II-2 Market sizes of Japanese contents industries (2005)
Changes of Japanese contents market shares by segment

<table>
<thead>
<tr>
<th>Year</th>
<th>Visual</th>
<th>Music &amp; Audio</th>
<th>Video game</th>
<th>Book &amp; Newspaper / Image &amp; Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>33.3</td>
<td>15.8</td>
<td>7.7</td>
<td>3.2</td>
</tr>
<tr>
<td>2002</td>
<td>34.6</td>
<td>15.2</td>
<td>7.8</td>
<td>3.2</td>
</tr>
<tr>
<td>2003</td>
<td>35.2</td>
<td>14.5</td>
<td>7.9</td>
<td>3.2</td>
</tr>
<tr>
<td>2004</td>
<td>35.6</td>
<td>14.0</td>
<td>8.2</td>
<td>3.2</td>
</tr>
<tr>
<td>2005</td>
<td>35.3</td>
<td>14.0</td>
<td>8.4</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: 2006 Digital Contents White Paper

Japanese digital contents by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visual</td>
<td>2,865</td>
<td>8,082</td>
<td>8,082</td>
<td>4,352</td>
<td>4,457</td>
</tr>
<tr>
<td>Music</td>
<td>3,566</td>
<td>7,410</td>
<td>7,410</td>
<td>4,291</td>
<td>4,463</td>
</tr>
<tr>
<td>Video game</td>
<td>4,483</td>
<td>7,394</td>
<td>4,197</td>
<td>4,864</td>
<td></td>
</tr>
<tr>
<td>Book, Image &amp; Text</td>
<td>8,018</td>
<td>9,133</td>
<td>5,243</td>
<td>6,499</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2006 Digital Contents White Paper

Changes of Japanese contents market shares by segment

<table>
<thead>
<tr>
<th>Year</th>
<th>Visual</th>
<th>Music &amp; Audio</th>
<th>Video game</th>
<th>Book &amp; Newspaper / Image &amp; Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>33.2</td>
<td>15.8</td>
<td>7.7</td>
<td>3.2</td>
</tr>
<tr>
<td>2002</td>
<td>34.6</td>
<td>15.2</td>
<td>7.8</td>
<td>3.2</td>
</tr>
<tr>
<td>2003</td>
<td>35.2</td>
<td>14.5</td>
<td>7.9</td>
<td>3.2</td>
</tr>
<tr>
<td>2004</td>
<td>35.6</td>
<td>14.0</td>
<td>8.2</td>
<td>3.2</td>
</tr>
<tr>
<td>2005</td>
<td>35.3</td>
<td>14.0</td>
<td>8.4</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: 2006 Digital Contents White Paper

Trend of the domestic market size of the Japanese contents industry

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trillion yen</td>
<td>13.3</td>
<td>13.3</td>
<td>13.2</td>
<td>13.5</td>
<td>13.7</td>
</tr>
</tbody>
</table>

Source: 2006 Digital Contents White Paper

Comparison of market sizes of Japanese and world contents industries

<table>
<thead>
<tr>
<th>Year</th>
<th>Contents/ GDP ($ trillion)</th>
<th>GDP ($ trillion)</th>
<th>Contents/ GDP</th>
<th>Foreign sales/ Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>0.1</td>
<td>4.6</td>
<td>2.2 %</td>
<td>1.9 %</td>
</tr>
<tr>
<td>Japan</td>
<td>0.6</td>
<td>11.7</td>
<td>5.1 %</td>
<td>17.8 %</td>
</tr>
<tr>
<td>World</td>
<td>1.3</td>
<td>40.9</td>
<td>3.2 %</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted by Contents Department from date on World Bank’s website, 2006 DCAJ White Paper, and DCAJ surveys.
Comments of experts

- If Japanese contents industries intend to grow in the future, the only source of growth lies in overseas markets. (An expert)

- The growth of domestic markets is leveling off. We must advance overseas. (An expert)

- In 2006, the market share of Japanese films surpassed that of Western films, but we must not be too optimistic. The number of audience per screen declined. (Mr. Lee, member of the Study Group)

- Last year, as many as 700 movies were produced in Japan. But in average, a person went to see only 1.2 titles that year. There is obvious oversupply of domestic movies. (Mr. Lee, member of the Study Group)

- Japanese contents were believed to be competitive in the global market, but in some segments, such as animations and video games, we are beginning to lose. It is the reality. (Mr. Murakami, member of the Study Group)

(2) Strengths of Japan

(i) Power of multi-contents

Japan produce various genres of contents, and their levels are high on average. As value chains are restructured, and various genres of contents are integrated, Japanese contents may generate larger synergistic effects than those of other countries.

(ii) Power of the market

The Japanese market, “100 million population” market, has the second largest size in the world. Entry to the market and partnership with Japanese industries are attractive to people in foreign contents industries.

(iii) Power of technologies and infrastructure

Japan has high potential of techniques of contents production, as well as related technologies, such as technologies for handsets, consoles, and other hardware, and imaging techniques. Broadband environments and sophisticated mobile communication are widely available in the country.

(iv) Power of fund

There is a plenty of investment money in Japan. Financial institutions and other ordinary investors have a large amount of potential money they can invest in contents. There are environments in place which are favorable to mega-contents business, as well as long-tail business,
### Case of multi-contents project

Ishimori Entertainment, Comic Book Movies, a US company, ITOCHU Corporation, and other partners reached a basic agreement that they would jointly produce a live-action movie based on originals of Shotaro Ishinomori, a Japanese cartoonist. They intend to show the movie, release DVDs, sell the broadcasting right to TV stations, and merchandize goods in the United States and other markets all round the world.

### Case of major Hollywood movie produced in consideration of the market of Japan

Mr. Avi Arad, producer of “Spider-Man 3,” said at an interview with the press that he had taken into consideration the movie market in Japan when producing the film. He also said Japan was an important market to test a new film. On his opinion, Japanese animations and manga comics are expression of a variety of themes described from interesting points of view and are forecasts of the future. He mentioned that he was working to produce a movie base on Japanese manga comics.

### Comments of experts

- For US major studios, Japan is the largest consumer. Now they pay attention to Japan, and we have a very favorable opportunity. We can be their business partners because we have ideas and plans for them. (Mr. Ishii, member of the Study Group)

- Behind the competitiveness of Japanese animations lie a large number of manga comics, which can be used as originals for animation movies. They greatly help maintain quality of animations. (An expert)

- The Japanese animation industry has creativity to produce “mega-contents” which have influence on not only animations, but also live-action movies, video games, music and other global entertainment industries. But the entire industry retains the strong culture of subcontractor, who make products for contents for the Japanese market in the existing framework. The culture of producing large-scale “mega-hits” remains in the experimental stage. (An expert)

- An important point is how we can grow animations to be global mega-contents. “Otaku contents” have the potential. Standardization of digital distribution, distribution rates of copyright and standardization of systems will make it quite possible. Rather than head contents, contents with a long-tail, uniqueness and good quality will last long. They both are world trends. A tail has different thickness, from the widest part to the narrowest tip. To launch a good product at a good time is another strategy. (Mr. Tokoro, in place of a Study Group member)

- Many foreign filmmakers hope to produce movies jointly with Japanese partners. The fact demonstrates how large the Japanese market is. But Japanese contents producers have only poor financial resources. In the Arab world, there are many investors who finance an entire Hollywood movie. In Japan it is quite difficult to raise money for filmmaking. (Mr. Ishii, member of the Study Group)
• Five years ago, Japanese video game contents were strong. But now they were less competitive as US contents are emerging mainly due to the language and cultural context. We will have to take advantage of synergies between video games and other contents, instead of selling games alone, in order to advance into foreign markets. (Mr. Ishizuka, member of the Study Group)

• We have no star director, such as Akira Kurosawa or Yasujiro Ozu, or star players or actors. There are Japanese movies in the world market, but there have been no Japanese movie culture for decades. In order to establish Japanese movie culture, as well as to promote the movie industry, we must grow star players, star directors, and star actors. (Mr. Lee, member of the Study Group)

• We should make better use of rights of Akira Kurosawa’s films as Japanese movie culture. (Mr. Lee, member of the Study Group)

• Contents in different genres will be linked. Movies will be linked with broadcasting, publishing and music. Animations will be linked with broadcasting, movies, publishing, and character business. Manga comics will be linked with publishing, broadcasting, movies, and character business. Broadcasting will be linked with all types of media. Japan is good at such linkage. (Mr. Shigenobu, Chairman of TV MAN UNION)

2. Reasons behind globalizing (three risks)

- Rapid changes, such as globalization of world contents industries and transformation of value chains, seem to bring Japanese contents industries three risks.

- But if Japanese contents industries are flexible enough to combine strengths of Japan, especially power of multi-contents, and develop their business overseas, such risks can be overcome. Backed by “power of the market,” Japanese contents industries are expected to go global, as well as to expand the domestic market, by making the most of potential of Japanese contents.

(Risk 1) Slowing growth of the domestic market of Japanese contents industries (Figure II-7)

Between 2001 to 2005, the domestic contents market grew annually around 0.7%. The digital contents market, especially visual contents, such as DVD and internet distribution, grew fast. But its share among the entire contents market stayed around 18%, too small to drive the entire market.

On the other hand, the growth of the conventional market of analogue contents, such as TV broadcasting, movies, magazines and newspapers, stayed almost flat as demand shifted to digital contents. As a result, the entire contents market grew only slightly. Japan’s aging and shrinking population is another, absolute restriction on growth. Growth will be limited if Japanese contents industries rely solely on domestic demand.
The world contents market grew around 5.8%, and the US market grew 5.6%. Both grew much faster than growth of the Japanese market.

(Figure II-7)

Trend of scales of domestic markets of Japanese contents industries

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Unit: ¥100 million</th>
<th>Unit: % 05/01 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Visual</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visual software sales</td>
<td>7,256</td>
<td>8,661</td>
<td>8,183</td>
<td>8,118</td>
<td>8,205</td>
<td></td>
<td>113.1%</td>
</tr>
<tr>
<td>Internet distribution</td>
<td>10</td>
<td>39</td>
<td>147</td>
<td>173</td>
<td>292</td>
<td></td>
<td>2,920.0%</td>
</tr>
<tr>
<td>Mobile phone distribution</td>
<td>171</td>
<td>266</td>
<td>274</td>
<td>314</td>
<td>589</td>
<td></td>
<td>344.4%</td>
</tr>
<tr>
<td>Movie box office revenues</td>
<td>2,002</td>
<td>1,968</td>
<td>2,033</td>
<td>2,109</td>
<td>1,982</td>
<td></td>
<td>99.0%</td>
</tr>
<tr>
<td>Japanese movies</td>
<td>781</td>
<td>533</td>
<td>671</td>
<td>791</td>
<td>818</td>
<td></td>
<td>104.7%</td>
</tr>
<tr>
<td>Western movies</td>
<td>1,220</td>
<td>1,435</td>
<td>1,361</td>
<td>1,319</td>
<td>1,164</td>
<td></td>
<td>95.4%</td>
</tr>
<tr>
<td>Revenues from TV broadcasting and related services</td>
<td>34,712</td>
<td>34,935</td>
<td>35,874</td>
<td>37,376</td>
<td>37,270</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>44,151</td>
<td>45,869</td>
<td>46,511</td>
<td>48,090</td>
<td>48,338</td>
<td></td>
<td>109.5%</td>
</tr>
<tr>
<td><strong>Music &amp; audio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Music software sales</td>
<td>7,674</td>
<td>6,988</td>
<td>6,456</td>
<td>6,352</td>
<td>6,141</td>
<td></td>
<td>80.0%</td>
</tr>
<tr>
<td>Internet distribution</td>
<td>16</td>
<td>25</td>
<td>32</td>
<td>50</td>
<td>233</td>
<td></td>
<td>1,456.3%</td>
</tr>
<tr>
<td>Mobile phone distribution</td>
<td>736</td>
<td>958</td>
<td>1,129</td>
<td>1,368</td>
<td>1,610</td>
<td></td>
<td>218.8%</td>
</tr>
<tr>
<td>Karaoke sales</td>
<td>8,729</td>
<td>8,646</td>
<td>7,851</td>
<td>7,466</td>
<td>7,466</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concert ticket sales</td>
<td>1,232</td>
<td>1,284</td>
<td>1,329</td>
<td>1,364</td>
<td>1,429</td>
<td></td>
<td>114.1%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>18,407</td>
<td>17,901</td>
<td>16,797</td>
<td>16,600</td>
<td>16,879</td>
<td></td>
<td>91.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,943</td>
<td>20,218</td>
<td>19,076</td>
<td>18,862</td>
<td>19,141</td>
<td></td>
<td>91.4%</td>
</tr>
<tr>
<td><strong>Video game</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Game software sales</td>
<td>4,248</td>
<td>4,030</td>
<td>3,698</td>
<td>3,771</td>
<td>3,765</td>
<td></td>
<td>88.6%</td>
</tr>
<tr>
<td>Online game sales</td>
<td>14</td>
<td>60</td>
<td>129</td>
<td>367</td>
<td>596</td>
<td></td>
<td>4,257.1%</td>
</tr>
<tr>
<td>Mobile phone game sales</td>
<td>90</td>
<td>201</td>
<td>270</td>
<td>412</td>
<td>589</td>
<td></td>
<td>654.4%</td>
</tr>
<tr>
<td>Revenues from arcade game operation</td>
<td>5,903</td>
<td>6,055</td>
<td>6,377</td>
<td>6,492</td>
<td>6,492</td>
<td><strong>Subtotal</strong></td>
<td>114.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,255</td>
<td>10,346</td>
<td>10,474</td>
<td>11,042</td>
<td>11,442</td>
<td></td>
<td>111.6%</td>
</tr>
<tr>
<td><strong>Book &amp; Newspaper/ Image &amp; Text</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book sales</td>
<td>9,456</td>
<td>9,490</td>
<td>9,056</td>
<td>9,429</td>
<td>9,197</td>
<td></td>
<td>97.3%</td>
</tr>
<tr>
<td>Magazine revenues</td>
<td>17,974</td>
<td>17,667</td>
<td>17,257</td>
<td>16,968</td>
<td>16,712</td>
<td></td>
<td>93.0%</td>
</tr>
<tr>
<td>Total revenues of newspaper publishing companies</td>
<td>24,890</td>
<td>23,721</td>
<td>23,576</td>
<td>23,809</td>
<td>23,800</td>
<td><strong>Total</strong></td>
<td>93.0%</td>
</tr>
<tr>
<td>Package software sales</td>
<td>2,403</td>
<td>2,371</td>
<td>2,321</td>
<td>2,163</td>
<td>2,124</td>
<td></td>
<td>88.4%</td>
</tr>
<tr>
<td>Internet distribution revenues</td>
<td>1,299</td>
<td>1,141</td>
<td>1,649</td>
<td>1,965</td>
<td>2,340</td>
<td><strong>Total</strong></td>
<td>180.1%</td>
</tr>
<tr>
<td>Internet advertisements</td>
<td>735</td>
<td>845</td>
<td>1,083</td>
<td>1,634</td>
<td>2,520</td>
<td></td>
<td>342.9%</td>
</tr>
<tr>
<td>Mobile phone distribution revenues</td>
<td>755</td>
<td>951</td>
<td>893</td>
<td>875</td>
<td>909</td>
<td><strong>Total</strong></td>
<td>120.4%</td>
</tr>
<tr>
<td>Mobile phone advertisements</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>180</td>
<td>288</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>57,512</td>
<td>56,186</td>
<td>55,935</td>
<td>57,014</td>
<td>57,890</td>
<td></td>
<td>101.5%</td>
</tr>
<tr>
<td><strong>Year-by-year growth rate (Unit: %)</strong></td>
<td>99.8%</td>
<td>99.5%</td>
<td>102.3%</td>
<td>101.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: 2006 Digital Contents White Paper

Comments of experts

- The growth of domestic markets is leveling off. Sources for future growth lie in foreign markets. We must advance overseas. (Mr. Murakami, member of the Study Group)

- The number of people who get a job at TV programs production companies is sharply decreasing. The market may shrink rapidly in ten years. (Mr. Hori, member of the Study Group)

- To maintain growth, TV programs must be exported. We must develop foreign markets, especially Asian markets. (Mr. Den, member of the Study Group)
• At any TV station, sales of programs in foreign countries account for less than 1% of the total sales of the operating department. It seems impossible for any company in any industry to give companywide support to a segment that makes such a low level of sales. (Mr. Den, member of the Study Group)

• Japanese TV drama does not sell as well as Korean ones in foreign markets. This is not because Japanese TV stations do not make sufficient efforts to sell their contents though they have good contents. Rather Japanese programs are less competitive because they do not fit customs of Asian audience. For example, there are restrictions on how many times a program can broadcast or on the price. Japanese TV dramas have only 11 stories in a series on average. (Mr. Den, member of the Study Group)

• Especially in South Korea, France, UK, and Germany, the number of audience has been growing for these ten years with the increase of multiplex theaters. In Japan, however, the number of audience per screen has decreased, and the total number audience has leveled off. That may have resulted from failure to produce diverse types of software or movies. The background is that there is few opportunities for new filmmakers and new types of movies to enter the market. (Mr. Lee, member of the Study Group)

• Major movie companies produce successful titles in series. Theaters are occupied with the same titles of animations or dramas series in most of the weeks in a year. As a result, any multiplex theater in any city in Japan shows the same movie. That could be called “phenomenon of movie convenience store.” It is one of the reasons the number of audience is declining. (Mr. Lee, member of the Study Group)

• We should naturally have a sense of crisis as competition is increasing worldwide. But I don’t think TV stations or publishing companies decide to go global immediately because overseas business is not yet profitable. In Japan, population is decreasing and the domestic market is shrinking, but it takes a little more time for the danger to be really felt. They do not take action before they find some benefits or feel a sense of crisis. (Mr. Den, member of the Study Group)

• Strong, persuasive messages must be sent to contents holders, so that they will be convinced that they must go global soon. Now they won’t take action because they have sufficient bases in Japan. We should not take globalization for granted. Rather we must tell them more carefully why they must go global. (Mr. Den, member of the Study Group)

(Risk 2) Risk of one-way human resource drain

As the whole pie of the domestic industries shows little growth, good producers and excellent creators (designers and artists, etc.) may leave Japan and built in overseas platforms. If Japanese contents companies fails to go global so that they will get the most out of people who have left Japan to work overseas and have them serve as connector for joint business, they run the risk of draining human resources one-way.
Comments of experts

- Just as baseball players, some Japanese movie directors who are highly regarded in the United States began to shoot movies there and earn dozens of times than in Japan. It is certain that excellent talent will soon begin to drain from Japan to foreign courtiers. (Mr. Ichise, member of the Study Group)

- It is certain that excellent Japanese movie directors will begin to leave the country. We must take action right now to prevent the drain. (Mr. Ichise, member of the Study Group)

- I’m afraid that as more of the contents production is outsourced overseas, know-how of Japanese producers is hollowing out. In a few years, Japan will lose the edge over outsourcee countries in quality of contents. We must think carefully what we can do then to make a difference. (Mr. Shiokawa, member of the Study Group)

- The number of people who hope to work at TV programs production companies is rapidly decreasing. People working for such companies must have a rough ride for small salaries. The work is hard. Working there offers them no dream. More of them think that if hard work in Japan does not make them rich, they should go abroad to work. (Mr. Takamura, member of the Study Group)

Case of globalization of human resources that added new value

The director of “Vulture,” TV drama produced by NHK, studied drama making in Hollywood before he came back to Japan and produced the TV program. The dram was very highly praised for its “new visual expression.”

(Risk 3) Risk of the whole industry being swallowed by global developments (of US and Europe, as well as China and India) in a middle and long term.

As European countries and the United States promote investment in Asian contents business and use new channels and hardware for business, the Japanese contents industry and market might be swallowed by them. Especially, larger-scale, “head” business is managed mainly by Europe and the United States. Long-tail business will be left for Japan, but larger-scale, “head” business might be managed mainly by Europe and the United States. Hong Kong and Singapore are also developing their functions as a hub of contents business. Some experts point out there might be the risk that “winner takes all” and that Japan might be excluded.
Comments of experts

• We should not mind whether it is produced in Japan or by a Japanese. We rather work together with foreign companies and people. What is important is how we can make a system that allows Japan to reap benefits from international collaboration. We need to commit ourselves to strategic international cooperation, rather than forming a armed convoy of Japanese companies, to promote beneficial international partnership with foreign companies. (Mr. Tokoro, in place of a Study Group member)

• In the United States, key players who completed vertical integration of two or three trillion yen are sweeping over the world. On the other hand, Japanese companies have not yet completed such a scale of vertical integration, and they are still less competitive. (Mr. Kondo, member of the Study Group)

• In the United States, portal service on the internet has left the others far behind. In the conventional type of giant capitals, production departments were the mainstream. A different type of integration is emerging. To respond to such a trend, a Japanese-style integration model must be found. (An expert)

• In the future, foreign companies will probably try to merge with or acquire Japanese contents companies. We must think what we should do when they advance to the Japanese market. Rather, we should move first and go actively abroad. (An expert)

• The Japanese search engine market has been invaded by US systems. In South Korea, NHN, which operates NAVER, is said to keep a more than 70 percent share of the market. In China, Baidu is preventing Google from advancing to China. If Japan fails to get back the search engine market from the United States, its contents industries may be subordinate to its contents system. (Mr. Shigenobu, Chairman of TV MAN UNION)

• We must examine carefully whether the American-style media conglomerate is the model of future industry that Japan should follow, so that it will compete with mega-contents industries all over the world. Japan should pursue its own media economy strategies. We do not need a giant industry. Rather, we should choose a way to long-term, long-lasting success. (Mr. Shigenobu, Chairman of TV MAN UNION)

• Japan has a diversity of contents. But its contents industry is isolated from the outside world, going to be a “Madagascar” or a “Galapagos.” (Mr. Murakami, member of the Study Group)
3. **Direction Japanese contents industries should take**

**Basic viewpoints**

The Japanese contents market do not necessarily grow fast. Especially the market of conventional analogue contents is remarkably shrinking, though digital contents, which encourages globalization, are steadily growing. Under such conditions, Japan must make the most of its strengths, such as “power of multi-contents” and “Power of the market,” and globalize its contents industries quickly.

As contents industries all around the world are globalizing, human resources are getting more mobile and more people go abroad to work. Japan should make efforts to invite people from abroad to offset the outflow of talent from Japan to abroad.

Along with the development of digitalization and networks, long-tail contents are getting more important for business. On the other hand, it is expected that mega-contents produced by US and European media conglomerates will continue to sweep over world contents markets and that the trend will be accelerated. Japanese contents industries should, while making the best of its strengths of multi-contents, develop environments where they can produce mega-contents that compete with US and European products.

With such basic viewpoints taken into consideration, Japanese contents industries should move to the four directions as stated below.

(1) **Globalization of contents industries themselves**

- Contents industries cannot stand out of global competition. As other global industries, Japanese contents industries should develop their business internationally according to the logics of “capital” and “business,” while keeping their strengths, creativity and power to create sensitivity value, as their core.

- Japanese contents industries should strengthen their own fundamentals and competitiveness by doing business jointly with foreign partners.

- Japanese contents industries should promote globalization through piling up small localization. (Localization and globalization are two sides of the same coin.)

**Comments of experts**

- Persistency in the idea of “Made in Japan” leads a dead end. To produce global products, we must expand our viewpoint to “Made by Japan,” instead of limiting it to “Made in Japan.”(Mr. Murakami, member of the Study Group)

- In terms of contents to be produced from now on, we should not mind whether it is produced in Japan or by a Japanese. We rather work together with foreign companies and people. What is important is how we can make a system that allows Japan to reap benefits from international collaboration. We need to commit ourselves to strategic international cooperation, rather than forming a armed convoy of Japanese companies, to promote beneficial international partnership with foreign companies. (Mr. Tokoro, in place of a Study Group member)
• Some contents were sold at a higher price by presale in the United States before they were sold in Japan. We take it for granted that Japanese contents are sold in Japan to make profits. The belief should be changed. (Mr. Ishikawa, member of the Study Group)

• Instead of being tied to the framework of Japan and seeing things from the viewpoint of international championship game, we should consider how we can make more profits through international partnership. That would be more important. (Mr. Tokoro, in place of a Study Group member)

• It is quite necessary to promote ambitious production of contents for the global market. We should support and promote systems that promote projects that help develop business globally. Now Japan has few such systems. (Example: joint production, presale, project financing, education and training for producers to be able to manage projects targeting at foreign markets (especially Hollywood and US TV market), based on Japanese contents) (Mr. Mori, member of the Study Group)

• Innovations are improving environments of contents business. We must work to globalize our contents as hard as we can as if this were the last chance. (Mr. Murakami, member of the Study Group)

• Interactions with foreign contents makers inspire us to create new visual work. As for joint production, we have found it difficult to work with Western contents makers as Japanese consumers and contents makers have unique taste. If we can find a original way of joint production that helps us overcome such setbacks, that would be a revolutionary way of interactions. Chance of success might be found among Asian people, who have the same sense as Japanese. (Mr. Shigenobu, Chairman of TV MAN UNION)

• We should have more experience in business of joint planning, joint development, joint production, and joint distribution. We need executive-level planners, producers and promoters tough enough to do the business. (Mr. Shigenobu, Chairman of TV MAN UNION)

• We should from now on engage ourselves directly in world top-class contents business, and have such a large scale of ideas of contents business. We should work to create good products together with top business persons and top creators (designers and artists, etc.) overseas. Now we have an marvelous opportunity to move foreign media and capital with our ideas. (Mr. Shigenobu, Chairman of TV MAN UNION)

(2) “Accumulation” of “resources” for contents business, such as people, skills, and funds

• Japan must have a world-class “accumulation” of people, skills and funds

• Japan must not only develop its own human resources, but also accumulate wide networks of foreign people as its resources.

• As for financing, Japan must use a diversity of domestic and foreign financial sources as its resources. It must its domestic environments so that sufficient investment money will be put to contents industries.
Comments of experts

- We must need systems to attract and accumulate talent in Japan. Silicon Valley and Hollywood continue developing because people are attracted there. Similarly, it is very significant to prepare programs to make Japan the center of the world for the videogame business or the animation industry. (Mr. Takada, member of the Study Group)

- What is most important is human resource development. To train artisans, creators (designers and artists, etc.), and maestros, we should, for example, establish a vocational college in addition to higher education courses at graduate schools and technical colleges in association with American Film Institute (AFI). The Japanese-version AFI, as it were, could be used to develop human resources. (Mr. Yoda, member of the Study Group)

- It is certain that excellent Japanese movie directors will begin to leave the country. We must take action right now to prevent the drain. (Mr. Ichise, member of the Study Group)

- A foreign producer is raising billions of dollar in Hollywood to produce a movie based on Japanese video game. If Japanese producers could raise the same level of money, several titles would form a project of ten billion dollar, larger than the current level of Japanese contents exports. What is important is how we can acquire an opportunity to produce global mega-contents. (Mr. Ishikawa, member of the Study Group)

- We have enough money to produce contents. What we do not have is a system to circulate the money. Investors do not know what they should invest in. (Mr. Matsuda, member of the Study Group)

- A large-scale joint production title requires a huge amount of money. Commitment of financial institutions is essential. (Mr. Ishii, member of the Study Group)

- To produce high-quality programs that can aim for prizes at international TV program festivals, we will have to support joint production with movies or raise funds from overseas, for instance. (Mr. Kondo, member of the Study Group)

- We need professionals who are trusted by foreign film distributors, video game distributors, music distributors, event promoters, publishers, broadcasting stations, and performers and negotiate with them. (Mr. Shigenobu, Chairman of TV MAN UNION)

- Some Japanese contents companies do not have enough knowledge about fair prices in foreign countries, negotiation skills, or experience of making contracts to complete business. Contents companies in Japan should cooperate to share as much experience as possible. They may need to hold seminars and workshops and study. Experience of failures must be widely shared. (Mr. Shigenobu, Chairman of TV MAN UNION)

- For Japanese contents industries to advance overseas, they must acquire foreign partners who have sympathy with the advancement and act in earnest for it. Such partnership must be not only formed for sharing profits but also based on personality and abilities with which they have sympathy. Trust is the foundation of any business. It is important to nurture people who work with excellent foreign business persons and producers in sympathy with them. (Mr. Shigenobu, Chairman of TV MAN UNION)
• Producers must be held in higher regard. In Japan, producers are not regarded so important or paid so much. Without successful producers, contents cannot be distributed appropriately or continuously. Without respect and estimation for producers, next-generation producers do not grow. (Mr. Shigenobu, Chairman of TV MAN UNION)

(3) Construction of the Japanese market as a “marketplace” serving as a hub for business

- Japan should construct a “market place” where not only international transactions of contents as finished products take place, but also information about joint-production, planning, scenarios, locations, people, financing, and anything related to contents are collected and traded.

- Japan should aim at constructing a market that “supports Japanese contents in advancing globally” and at the same time makes “being traded in the market itself valuable” for foreign contents.

Comments of experts

• Japanese consumers are known worldwide to have a sharp eye. So foreign contents could be brought to Japan to be added value there and be exported again. It is a change in thinking. In contents business mere high-pressure salesmanship would be highly likely to generate cultural friction. (Mr. Mori, member of the Study Group)

• Japan can achieve leadership in the globalizing industry by efficiently organizing overseas work bases and skillfully linking markets in countries. It is especially important how China and South Korea can be incorporated in the industry. (An expert)

• Japan should try to be a distribution hum of contents. Japanese consumers have a sharp eye. We should work to establish a system where the fact of something being traded at Tokyo itself adds value to it. (Mr. Mori, member of the Study Group)

• Seen from a long-term perspective, a strategy of selling contents one-way might narrow the world of distribution. It is important to create a two-way interactions between sale and purchase to make the international market more active. Benefits both for buyers and sellers are important. (Mr. Shigenobu, Chairman of TV MAN UNION)

(4) Restructuring of “value chains” and development of new business by participation of and cooperation with a diversity of players

- Restructuring of new value chains are expected through participation of and cooperation with a wide range of players, such as shoshas, hardware makers, telecommunicating carriers, IT companies, and financial institutions, as well as conventional players.
• It is necessary to expand value chains both vertically and horizontally through, for example, expanding an original to multi-contents, producing mega-contents with a view to marketing abroad, conducting long-contents business through new channels, including internet distribution, carrying out business by use of new types of hardware.

• It is also necessary to catch up with the “trend toward service economy” of world contents business by reviewing business and systems.

• Construction of a new marketplace in a rich market and sophisticated infrastructure (broadband and mobile environments) is expected to help create rich and innovative contents.

Comments of experts

• Simple investment in visual contents offers only a limited number of options of ways to earn returns. Merchandising and character business, for instance, bring more wider options. As such types of business are widely accepted overseas, Japanese contents industries have more prospects for successfully advancing overseas. (Mr. Nemoto, member of the Study Group)

• Behind global competitiveness of Japanese animations are a great stock of manga comics that can be used as original and secure quality of products. That makes a big difference. (An expert)

• Contents should not be treated as consumables. You should find partners who understand contents, develop them a long-term, and conduct business suitable for contents, or develop such partners. You should not measure important contents with temporary advance payments and give a freehand over them to US major firms, but give priority to partners to whom you can give license for the contents in an effective way. (Mr. Nemoto, member of the Study Group)

• In Hollywood, division of business is developing. After producing contents, rights of the contents are sold. But business has been divided into more small segments, and they are thinking how more value can be added. For example, they have a special organization to study what value should be added to a title of movie to use it as the original for many other products. (Mr. Tsuga, member of the Study Group)

• The point is what the animation industry should do to take the leadership and establish a system to produce mega-contents. An important key might be whether they can build an entrepreneurial human network not only in Japan but also overseas. (Mr. Ishikaw, member of the Study Group)

• Five years ago, Japanese video game contents were strong. But now they were less competitive as US contents are emerging mainly due to the language and cultural context. We will have to take advantage of synergies between video games and other contents, instead of selling games alone, in order to advance into foreign markets. (Mr. Ishizuka, member of the Study Group)
• In order to be more competitive in the global market, Japan needs stories that are based on Japanese culture and meet needs of audience in the world. Such contents might be supplied not by major produce companies but by independent producers. (An expert)

• The day comes soon when broadcasting, movies, telecommunication, and telephone jointly look for contents. We must quickly change our mind-set, or we cannot respond to international trends. (Mr. Shigenobu, Chairman of TV MAN UNION)

• It is likely that CGM (Consumer Generated Media), UGC (User Generated Content), and other structures that help consumers themselves create and disseminate contents on the internet will develop and combine with new models of advertisement and e-commerce to make profits. New contents created on such structures will spread through video-sharing sites, SNSs, blogs, and mail magazines. We must expect they will bring about revolution of contents. (Mr. Shigenobu, Chairman of TV MAN UNION)
III. Specific challenges and policies to respond to them

1. Globalization of business

(1) Basic recognition

Contents industries and markets are fast growing all over the world, including emerging economies. In order to enter such growing markets efficiently, contents makers are shifting their attitudes toward detecting local needs accurately, and adopting actively stories and scenarios from foreign countries and introducing local tastes. Such trends make it further important, for instance, to promote international joint production and make transactions of remaking rights more active.

Challenges to be addressed

(i) Promotion of production of global contents

Comments of experts

- To sell contents in the global market, we must make products that satisfy needs in individual regions. We must keep essence of an original, but add some factors uses like. (Mr. Takamura, member of the Study Group)

- Remakes account for more than 60% of contents produced in the United States, and a third of Korean contents are remakes of Japanese originals. No other country supplies so many scenarios. Why don’t we establish a “Scenario Bank,” an archive of scenarios. (Mr. Lee, member of the Study Group)

- Behind video games lies culture. Not every game can be accepted everywhere in the world. It is necessary for Japanese companies to settle down in local communities and transform Japanese technologies, ways of thinking, and sources of contents to adapt to local languages and customs in order to make their products accepted by more communities. (Mr. Kawasaki, in place of a Study Group member)

- Japanese education contents have world-class competitiveness. We must offer strong support to contents for environment education and other education contents so that more of them will be exported. (Mr. Takamura, member of the Study Group)

(ii) Better access to overseas distribution channels

Comments of experts

- Essence of strengths of Hollywood lies in its system of overseas distribution. It has especially sophisticated networks for overseas marketing. It is a great challenge for Japanese contents makers when they sell their products overseas. (Mr. Ozuka, in place of a Study Group member)
• Japan should establish its own agencies which will work to export Japanese products to
the United States. They should serve as antenna shop and provide customer service.
Completely dependent on US syndicates, we would give them free hand, and let them
beat down prices. (Mr. Matsuda, member of the Study Group)

• We need a system that regards a library itself as a piece of goods and promotes its
distribution. (Mr. Ishikawa, member of the Study Group)

• The Japanese animation industry has creativity to produce “mega-contents” which have
influence on not only animations, but also live-action movies, video games, music and
other global entertainment industries. But the entire industry retains the strong culture of
subcontractor, who make products for contents for the Japanese market in the existing
framework. The culture of producing large-scale “mega-hits” remains in the
experimental stage. (An expert)

• Japan has head contents, such as animations. What matters is not quality of contents but
how they should be distributed through channels, which are now controlled by
Hollywood. (Mr. Ozuka, in place of a Study Group member)

(2) Direction of policies

It is necessary to develop infrastructure which helps Japanese contents industries
globalize and conduct business worldwide. Japan will (1) offer opportunities in Japan
and overseas to promote joint-production; (2) develop such a multi-functional market
(trading market) unique to Japan as satisfy a variety of needs for in addition to sale of
contents, plans, scenarios, and locations; and (3) develop a contents portal site which
serves as infrastructure for accelerating international transactions and promote
dissemination of more information to foreign markets in collaboration of the portal site;
and, with such programs in place as core policies, prepare a more comprehensive package
of policies targeting Asia, the region with future priority.

(3) Specific actions

(i) Promotion of international joint-production and joint-business

In order to promote international joint-production, it is necessary to offer people
around the world opportunities to meet together, bring their plans with them. For that
purpose, the government will take measures as mentioned below:

○ Establish the largest international joint-production market in the world at “Japan
  International Contents Festival”; and

○ Hold joint-production workshops (J-Pitch Program) at major film festivals in Cannes,
  Berlin, and others.
As there are few agreements concluded which guarantee benefits of international joint-production, the government will take measures as mentioned below:

- **Promote conclusion of government- and private-level bilateral cooperation agreements**

As information on, for example, foreign systems and regulations is not shared in an effective way to conduct business jointly with foreign partners, the government will take measures as mentioned below. JETRO engages itself, when necessary:

- **JETRO studies trends of foreign markets, systems and regulations of foreign countries, and successful cases of joint business, and offers the results**

(2) **Development and internationalization of contents transaction markets**

In order to develop multi-functional markets that respond to the trend of contents integration before any other country in the world, the government will take measures as mentioned below:

- **Expand TIFFCOM (contents market) and add more functions to it (review for turning it to a multi-market covering scenarios for remakes, manga, human resources, locations)**

As there is no one-stop system in place that offers information about who has rights of contents and because it is necessary to accelerate use of the internet, an effective channel for contents production and distribution, the government will take measures as mentioned below:

- **Develop international transaction markets and send information abroad in corporation with contents portal sites;**
- **Construct markets for producing net contents and promote investments**

There are many companies, especially small and medium-sized enterprises, which have difficulty in advancing overseas by themselves, the government will take measures as mentioned below:

- **JETRO support companies in participating in trade fairs overseas**

(3) **Acceleration of Asia shifting**

As there is only limited cooperation within Asia both at government and private-level, in order for Japan to take initiative in developing cooperation within the region, and to serve as the leader of the markets and industries there, the government will take measures as mentioned below:
Hold “Asia Contents Industry Seminar” under the initiative of Japan to form closer cooperation of contents industries in Asia and promote their development;

Enhance events featuring Asia at the “Tokyo International Film Festival”;

Establish “Asia CG Creator Summit” (ASIAGRAPH) to nurture young computer graphics artists through cooperation between business and academics; and

Prepare a package of policies concerning Asia for the coming three years or so (Asia Contents Initiative), and implement it.

Comments of experts

(Joint-production, remaking, and localization)

- Genuine Japanese contents sell well in Asia, but international joint-production should target at the global market, instead of Asia. The Asian market is marginally larger than the Japanese market, but the world market has 10 times the size of that market. (Mr. Ishii, member of the Study Group)

- It is important to see foreign countries not merely as a market but as a partner who produce something together. That should not be relationship between outsourcers and outsourcees. You should collaborate with them for production. That is challenging. (Mr. Mori, member of the Study Group)

- Western movie studios or TV stations do not buy a drama when all the actors are Japanese. So we sell its scenario, together with its know-how, such as lighting and cutting, as a commodity of remaking right. (Mr. Den, member of the Study Group)

- Localization costs a lot. We can only localize something that may sell long in many regions or something that may produce a large amount of earnings in quite a short period. Balance of costs for translating something in several languages and earnings that produces is a difficult problem. (Mr. Kondo, member of the Study Group)

- Taxes should be reviewed and improved especially for international business. When we do joint-production with a foreign partner, it cannot be regarded as international joint-production by the partner’s country if Japan lacks a matching system for taxation corresponding to that of a partner’s country. We would be asked why Japan does not have the system in place. (Mr. Yoda, member of the Study Group)

- In Europe and the United States it is difficult to sell Japanese contents, but high prices are paid once sold. In Asia, in contrast, demand is high but prices are low. Selling Japanese TV programs overseas is an unprofitable business. (Mr. Den, member of the Study Group)

- New types of projects are under way. Some Japanese companies work together with US companies from the planning stage of joint-production and employ foreigners as co-producer in order to produce contents targeting at specific countries and regions as their markets from the beginning and to sell copyrights there. (Mr. Ishikawa, member of the Study Group)
• It is necessary to design a system that helps promote international joint-production in an amicable manner, so that it will fit to conditions of the partner’s country. JETRO’s active involvement is expected. (An expert)

• In order to expand the contents market, attention must be paid not only to makers and sellers, but also to how buyers and customers respond. Customers are the starting point from which a market is formed. It is important to see where they are going. (Mr. Shigenobu, Chairman of TV MAN UNION)

**Human resources development**

• International production is impossible if you do not know much about how a movie is produced, for example what “gaffers” and “best boys” do. More efforts should be made to form a universal framework of production. (Mr. Kaneko, member of the Study Group)

**Presale**

• When presales is adopted for contents production, overseas sales are intended from the beginning. The contents are produced so that they will fit overseas markets. Japanese contents makers sell something that has been completed. They have to modify it when they are requested to later. Before the modification is completed, pirated editions often appear. (Mr. Takada, member of the Study Group)

**Others**

• Yubari International Film Festival was attractive because we could see there decision-makers. Nobody takes the trouble to visit a market if there is none who have the power to decide. (Mr. Hori, member of the Study Group)

• Japan is one of the leading countries in the field of the internet. But the advantage is not fully exploited because most of the information is offered only in Japanese. It must be also available in English at least. (Mr. Hori, member of the Study Group)
2. Accumulation and internationalization of human resources

(1) Basic recognition

Along with the globalization of contents industries, methods used to produce contents are getting more internationalized and complicated as seen in increase of international joint-production and diversification of fund raising. The business is also more specialized, mainly among producers. For producing contents, necessity for and importance of people familiar with overseas business is rapidly increasing. It is also getting more important to promote interactions between excellent people in Japan and abroad and accumulate talent.

Challenges to be addressed

(i) Development and acquisition of human resources for international business

Comments of experts

- Japanese movie producers are extremely creative, but they do not have enough knowledge of business. International joint production belongs to a different sphere from simple procurement in its much more complicated contracts and structures. We need business producers who understand all of such differences and negotiate with foreign contents makers. (Mr. Ishii, member of the Study Group)

- In terms of international business, different industries have the same difficulties. The root of the problems might lie in the lack of people who can work for international business. We do not have enough people who carry out the business skillfully. Shortage is severer of producers and lawyers rather than of creators (designers and artists, etc.). And few of the Japanese directors can lead staff from the United States. (Mr. Yoda, member of the Study Group)

- Not only people who work for production but also professional sales persons, especially a network of people who work to negotiate with foreign counterparts, are important. (Mr. Kobayashi, member of the Study Group)

- We need a neutral studio backed up by the government. It would serve as an effective facility, and work as a place for education. (Mr. Ichise, member of the Study Group)

- Although developing producers, creators and lawyers is important, other than these types of human resources should also be considered from the viewpoint of an international distribution. For example, international agents may not only have sufficient knowledge of specific business fields but also legal and financial backgrounds. Are there any cross-sectoral functions to contribute the international distribution? (Mr. Murakami, member of the Study Group)
(ii) Construction of networks of foreign talent

Comments of experts

- An important key might be whether they can build an entrepreneurial human network not only in Japan but also overseas. (Mr. Ishikawa, member of the Study Group)

- It would be good to introduce internship of students and exchange of personnel to help broaden their horizon. Contents are produced by a network of people. Nothing can be made without the resources. (Mr. Sakamoto, member of the Study Group)

- In European TV animation business community, producers of TV stations and those of production companies from countries have an opportunity to camp together for about a week, and start projects there. Why don’t we offer such an opportunity in Japan. (Mr. Ishikawa, member of the Study Group)

- Music and characters that are regarded as subculture in Japan often become popular in the United States. We have few people who help bring about the boom there. (Mr. Mori, member of the Study Group)

(2) Direction of policies

In order to accumulate excellent talent for Japanese contents business, it is necessary to attract talented people from abroad, as well as to improve abilities of Japanese people working in the contents industries.

In order to improve power of human resources, Japan will develop its human resources by (1) in terms of creators (designers and artists, etc.), offering effective opportunities to find talented people and promote interactions with or among them, and preparing standards of skills; (2) in terms of producers, establishing such educational institutions to develop human resources as similar to those in the United States; and (3) in terms of people for business management, promoting actual business, such as international joint-production.

In order to attract talent from abroad, Japan will offer in the country opportunities to construct worldwide networks of human resources, and work in a more effective way with Japanese people who have advanced overseas.
(3) Specific actions

(i) Human resource development

- Expand internship programs for developing human resources for producers;
- Review possibilities to construct new systems for human resource development through cooperation among contents-related departments at universities in Japan;
- Establish accreditation to curriculums at universities;
- Enhance human resource development in cooperating with foreign universities and other institutions;
- Review possibilities to establish standards of skills of game creators (designers and artists, etc.), and systems for the certification;
- Review possibilities to commend people who have successfully advanced overseas; and
- Provide training for designers, artists, producers and people dealing with intellectual property right in Asia

(ii) Enhancement of interactions of people and networks of human resources

- Hold seminars and symposiums on human resource development and interactions of people at “Japan International Contents Festival”;
- Establish “Asia CG Creator Summit” (ASIAGRAPH) to nurture young computer graphics artists through cooperation between business and academics; and
- Establish international networks of producers through “J-Pitch Program,” which promote matching with foreign contents producers and support planning and development of contents that will be accepted in the world market
Comments of experts

Business producer

- It is difficult to conduct business if producers do not grow to work as a bridge between Japan and foreign countries and carry out projects. (Mr. Ishikawa, member of the Study Group)

- Japanese movies and plans should sell at higher prices. The problem is that there are few business producers who have enough bargaining power for pricing. (Mr. Fujimura, Filosophia Entertainment Alliance)

- There are few people who work to sell Japanese movies. Now we employ sales agents in foreign countries. (Mr. Lee, member of the Study Group)

- We desperately need business producers who understand well structures of joint-production, which is much more complicated than conventional procurement and much more difficult to carry out. But there are very few such people. Nor can we find layers who understand the business well enough to support us. (Mr. Ishii, member of the Study Group)

(Designers, artists, and production site)

- What is most important is human resource development. To train artisans, creators (designers and artists, etc.), and maestros, we should, for example, establish a vocational college in addition to higher education courses at graduate schools and technical collages in association with American Film Institute (AFI). The Japanese-version AFI, as it were, could be used to develop human resources. (Mr. Yoda, member of the Study Group)

- We should elaborate such a system for human resource development as offers tailored support to scenshifters, property men, animators, original writers, and drawers and helps them achieve self-realization in the society. (Mr. Yoda, member of the Study Group)

- Now at universities, students learn mainly about analysis and critics of famous works. Universities do not have curriculums to give sufficient engineering education, such as architecture, photography, and science of color. As a result, students lack basic knowledge and skills. Quality of photographers, sound engineers, and artists is rapidly deteriorating. (Mr. Takamura, member of the Study Group)

- South Korea resolutely introduced a program to send students to the United States to learn there, who should come back home to produce contents. The program has turned out to be successful. China has adopted a similar program. If Japan also takes appropriate actions, that would bear positive results in five or six years. (Mr. Kaneko, member of the Study Group)
Business-academia collaboration

- We need to develop business-academia collaboration, so that Japan will play a central role in the world video game industry. Arrangements should be made, mainly by academics, to help foreign people come to Japan to learn video games and go back home to spread Japanese culture there. That would be a useful method to raise the level of the world video game industry. (Mr. Ishizuka, member of the Study Group)

Directors, actors, and producers

- To promote movies, we should first pushing a lot of actors, and then directors and producers. (Mr. Lee, member of the Study Group)

Others

- When Japanese students attend an extension of UCLA, they feel frustrated because they cannot find any school in Japan that have a similar curriculum. Japanese schools do not have sufficient education programs for movies. (Ms. Iris Yamashita, screenwriter)
<table>
<thead>
<tr>
<th>Segment</th>
<th>Type of job for contents business</th>
<th>Challenges</th>
<th>Current conditions (arrangements)</th>
<th>Direction of arrangements to be made</th>
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</thead>
<tbody>
<tr>
<td>Producer</td>
<td>Movie producer</td>
<td>Lack of international business producers skilful enough to secure rights and negotiate with foreign counterparts;</td>
<td>• J-Pitch Program (2006 - ) • Internship Pilot Program (2005 - )</td>
<td>• Construction of international networks of producers through “J-Pitch Program” and other initiatives, which promote matching with foreign contents producers and support planning and development of contents that will be accepted in international markets (2007); • Implementation of several programs of internship to nurture producers (2007); • Programs to enhance human resource development in cooperation with foreign universities, etc. (2007);</td>
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<td></td>
<td>TV program producer</td>
<td>Lack of business plans for marketing, etc. that covers the whole value chain;</td>
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<td></td>
<td>Music producer</td>
<td>Lack of universal skills in the industry caused by training programs limited to company OJT.</td>
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<td>Video producer</td>
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<td>Animation producer</td>
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<td>Manga comics editor</td>
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<tr>
<td>People working for arrangement</td>
<td>Financing for contents business</td>
<td>Training and education for people who can raise funds globally and deal with accounting properly according to internationally accepted standards</td>
<td>-</td>
<td>• Construction of new systems for human resource development through cooperation among contents-related departments at universities in Japan; and • Holding of seminars and symposiums on human resource development and interactions of people at “Japan International Contents Festival”</td>
</tr>
<tr>
<td>People supporting contents business</td>
<td>Entertainment business lawyer</td>
<td>Training and education for people who have effective bargaining skills for global business</td>
<td>(Name of support for symposiums, etc.)</td>
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<td>*Including in-house producers</td>
<td>Animator (drawing original pictures)</td>
<td>Hollowing of animation production in Japan • Aversion of young people from animation production</td>
<td>• Animator Training Project (2006)</td>
<td>• Reviewing of possibilities to establish standards of skills of game creators (designers and artists, etc.), and systems for the certification (2007); • Holding of conferences, etc. for developers at Japan International Contents Festival (2007); • Support for industries at animation festivals, etc. (2007); • Establishing of “Asia CG Creator Summit” (ASIAGRAPH) to nurture young computer graphics artists through cooperation between business and academics; • Holding of seminars and symposiums on human resource development and interactions of people at “Japan International Contents Festival”; • Participation in and attraction of producer training programs, etc. and (Net Market Program (2007))</td>
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<td></td>
<td>Animator (drawing motion pictures)</td>
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<td>Animation, publishing, etc.</td>
<td>Video game programmer</td>
<td>Training of programmers for advanced skills</td>
<td>• Program for study of skills for video game programmers (2006)</td>
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<td></td>
<td>Graphic designer (drawing original pictures)</td>
<td>Education and training of designers and artists for developing international viewpoints, creativity and styles of expression; and Education and training of fusion-type people with creativity and skills who are familiar with digital technologies</td>
<td>• Program for establishing standards of CG skills, and disseminating the standards (2003, 2004 and 2005); • Step-up program for participants in Digital Creators Competition (2004)</td>
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<td>VFX operator (CG)</td>
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<td>Graphic designer</td>
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<td>Advertising, publishing, etc.</td>
<td>Movie</td>
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<td></td>
<td>Director &amp; cameraman</td>
<td>Production of stars who work worldwide</td>
<td>• Respecting independent activities of creators (designers and artists, etc.)</td>
<td>• Offering opportunities for international interactions of people at “Japan International Contents Festival” (2007); • Offering opportunities to show old movies to directors; and • Review of possibilities to commend people who have successfully advanced overseas;</td>
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<td>Actor, actress, etc.</td>
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<td>Voice actors</td>
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<td>Planner</td>
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<td></td>
<td>Music</td>
<td>Deterioration of abilities to create stories and plans; and Discovery of new talents through early education</td>
<td>-</td>
<td>• Tokyo Asia Music Market (2007)</td>
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<tr>
<td></td>
<td>Songwriter &amp; composer</td>
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<td>Performer</td>
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<td>Manga comics</td>
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<td>Cartoonist</td>
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**Note:** *Figure III-1* Challenges by type of job for contents business, and arrangements to be made.
3. Expansion and internationalization of source of financing

(1) Basic recognition

Rising performance fees and continuing sophistication of development environments are pushing up costs of contents production. As a result, scales of financing are growing. Funds are being raised from more diverse sources: not only insiders, who are directly engaged in production, but also financial institutions, institutional investors and retail investors. More divers methods are also being introduced for financing, and funds are being more often raised overseas.

Challenges to be addressed

(i) Expansion of source of financing, including overseas investors

Comments of experts

- A foreign producer is raising billions of dollar in Hollywood to produce a movie based on Japanese video game. If Japanese producers could raise the same level of money, several titles would form a project of ten billion dollar, larger than the current level of Japanese contents exports. What is important is how we can acquire an opportunity to produce global mega-contents. (Mr. Ishikawa, member of the Study Group)

- Foreign contents makers quite often adopt external financial sources for their business. If any arrangements are made so that Japanese contents makers can raise money more freely, the money might be invested to produce contents more palatable to foreign consumers. (Mr. Mori, member of the Study Group)

- When a TV station produces a documentary program, it prepares an ordinary-size budget if the program is broadcasted only in its own country, but makes a larger-scale budget if it is to be sold in the world market. That is the trend of the world TV industry. So if you produce a program and sell it in the world market, a big challenge is how you can raise such a large sum of money. (Mr. Kondo, member of the Study Group)

(ii) Expansion of domestic sources of financing

Comments of experts

- In Japan, it is quite tough to raise more than 20 million dollar for production even if, for example, a fund is formed. To raise such a large amount of money, commitment of mega banks and other major financial institutions is needed. (Mr. Ishii, member of the Study Group)

- I would like to, with the support of the government, form a global business scheme, and, backed by the success, raise funds from investors in Japan. For achieving a breakthrough, we need financial support from the government. (Mr. Ichise, member of the Study Group)
• As for financing, without some efforts for transparency, it is difficult to raise money from outer sources, I guess. The government should make efforts, and industry associations should have some schemes and guidelines in place. (Mr. Mori, member of the Study Group)

• To encourage more individuals and industrial companies to invest, tax incentives, like those in the United Kingdom, might be effective. For instance, if investments to funds are recognized as loss, some taxes can be saved, and more money will flow into funds. (Mr. Ishikawa, member of the Study Group)

(2) Direction of policies

In terms of financing, it is necessary to promote more parent methods of financing, by use of trust of intellectual property rights and limited liability partnership (LLP), for instance. In order to promote globalization, it is also necessary to establish schemes that promote investments and loans that support international joint production. In addition, environments should be developed to lead a large amount of potential investment money Japan has, as well as funds from overseas, to investment in contents.

(3) Specific actions

As contents makers, especially independent producers, do not have sufficient access to funds they need to conduct international joint production (production expenses, etc.), the government will take measures as mentioned below:

○ Expand programs of investments and loans for international joint production (expansion of support by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) for forming international joint production funds, and expansion of loans by the Japan Finance Corporation for Small and Medium Enterprise (JASME), etc.

To secure transparency needed to raise funds from foreign and retail investors, the government will take measures as mentioned below:

○ Work to promote the LLP system to encourage active use of the system;
○ Develop infrastructure to promote contents financing (establish methods of assessment, review for more transparent business); and
○ Develop accounting software suitable to contents business in Japan.
Cases of contents-related funds formed with the support of SMRJ’s “More Power to You! Small and Medium Enterprise Fund” financing program

- Independent Film Fund (¥1,940 million in total)
- TMF Tree Investment Projects LLP SMEs Contents Production Support Fund (¥1,000 million)
- Osaka JSEED Digital Contents Development Investment Project LLP (¥600 million)
- Japan Entertainment Investment LLP (¥1,000 million)

Case of overseas presales (1)

When Cinema Investment Corporation takes part in an international joint production project, it combines overseas equity and overseas presales to lower the recoup line (break-even point). When the method of presales is adopted, the company limits the amount of money it raises less than ten or 20 percent of the budget.

The method of presales has an advantage in that rights can be reserved when raising funds, but that of overseas equity is more likely to attract active partners from overseas. The company chooses either of the methods for a project, depending on its progress or status.

Case of overseas presales (2)

When GDH produced AFRO SAMURAI, it sold the broadcasting right to Spike TV, based in the United States, and the right of DVD sales to FUNimation, also US company, before the animation film was completed. The money raised by the presales accounted for 40% of the budget.

Comments of experts

Financing and fund

- Anything that hinders inflow of investments from the private sector should be eliminated, unless it is really indispensable, to promote contents funds. (Mr. Mori, member of the Study Group)

- It is not so long ago when managers of movie funds started the business, so they cannot show their track records as a fund manager. That makes it more difficult for them to raise money. From a viewpoint of policy, government-affiliated financial institutions should be more active in making investments in such funds. (Mr. Ishii, member of the Study Group)
• Most of the Japanese movies are produced on the assumption that the entire revenues are made in Japan. If movie makers can rely on revenues from overseas markets as a rather steady source of income, they factor the revenues in the budget for a film. The increased budget makes it more easy to produce global-scale mega contents. (Mr. Ishii, member of the Study Group)

• It takes a long time, five to ten year, before movie funds show the final results. In Japan, most of the funds are not so old enough yet, so they cannot show the past performance before they raise money. Investment in movie funds should be promoted, and government-affiliated financial institutions should be more active in making investments in such funds. (Mr. Ishii, member of the Study Group)

• Unless flexible business models are secured and diversification is achieved through stronger abilities of development, in addition to diversified methods of financing, active demand for use of funds will not take place. Risks must be diversified by, for example, establishing a secondary market. (Mr. Mori, member of the Study Group)

• Management fees for financial trust by banks and others is so high that small production business for contents cannot afford it. Rather than trust used to raise money for production, they might need trust that can be used to improve value of libraries by, for example, excavating products that have been left unused due to difficulty in licensing. (Mr. Mori, member of the Study Group)

Accounting and tax

• LLP is a good system, but accounting standards require LLPs to be reported on consolidated financial statements. Companies have only limited liability for that type of partnerships, but they must be reported on their consolidated financial statements. The contradiction makes difficult business of the contents industry, which needs to diversify risks. Small and medium enterprises feel it difficult to enter the business. (Mr. Mori, member of the Study Group)

• The government should review taxes concerning contents, especially it should consider whether favorable tax treatment for international joint production should be introduced. (Mr. Ishii, member of the Study Group)

Evaluation of contents

• When we evaluate contents, we might not have to assess contents itself. It would be enough to evaluate the business model. It is an urgent task to develop a framework to analyze the size and structure of the industry from the viewpoint of management and economy and to prepare statistics and other basic data. (Mr. Ishii, member of the Study Group)

• Japan should establish an institution that analyzes and evaluates scenarios like the evaluation center the United States has in place. Such an institution is necessary, so that visual contents producers can receive opinions from a third party at as early stage of production as possible, and use the opinion to improve quality of their products and reduce risks of investment. (Mr. Kaneko, member of the Study Group)
4. **Stronger cooperating for innovation**

(1) **Basic recognition**

As digitalization and networking are developing in every segment in the contents industry, from production to distribution, technologies, platforms, and channels are being integrated more rapidly. Along with appearance of new technologies and contents, computer graphics and other techniques are getting more important.

To keep up with such fast progress of technologies, cooperation between business and academics, partnerships among companies, and interactions between engineers are needed. But there are few such partnerships or interactions.

**Challenges to be addressed**

(i) Promotion of technology development

**Comments of experts**

- Contents and new technologies are more closely related with each other than ever. (An expert)

- Hi-Vision technologies and advanced Hi-Vision software should be applied by the Japanese television industry and the entire household appliance industry. Three-D visual processing technologies developed by NHK’s Science & Technical Research Laboratories and other diverse software technologies could be used to develop new methods of production. (Mr. Kondo, member of the Study Group)

- Contents management techniques are needed to produce and distribute contents safely and efficiently. (Mr. Kaneko, member of the Study Group)

- In the music industry, technological advancement has given artists tools to deliver their works directly to consumers. Such technologies will also appear in the visual industry. (Mr. Matsuda, member of the Study Group)

- Standardization of basic contents technologies is crucial. Especially for BRICs, promising markets, basic billing systems for broadband distribution and digital rights management (DRM) should be standardized. (Mr. Ozuka, in place of a Study Group member)
(ii) Promotion of net distribution

Comments of experts

- Search engines are important for contents. Now it is very difficult to find contents you need. If you do not offer information about contents you made, consumers do not watch them in a limited period of time, however good they are. (Mr. Takamura, member of the Study Group)

- Networking seems to have impact not only on delivery of contents but also production of contents. Production process can be divided into pieces of work on a network. (An expert)

- We should use new types of media, internet and mobile communication, to produce and launch new types of TV programs and expand our business in Japan and overseas. We need to change our way of thinking. (Mr. Takamura, member of the Study Group)

- Development of networking is closing the distance between contents and hardware. The flow from contents, the upstream, to hardware, the downstream, is more closely linked. Contents to hardware is being more closely integrated. (Mr. Tokoro, in place of a Study Group member)

- It is necessary to consider what contents will be effective in growing broadband networks and new technologies. Without contents, development of hardware should make no sense. (Mr. Shigenobu, Chairman of TV MAN UNION)

- Contents distribution service providers are endeavoring to maintain contact with consumers. Focus will be placed on IT infrastructure for interactive communication (SNS, etc.), which adopts Web2.0 techniques. (Mr. Shiokawa, member of the Study Group)

(iii) Effective use of new channels

Comments of experts

- YouTube has 100 million accesses every day. A third of the accesses come from Japan. Japanese contents, once they are released, are translated into English, so they can be watched everywhere in the world. I’m not saying that’s nice, but it is certain that there is a new market emerging. (Mr. Matsuda, member of the Study Group)

- Foreign contents makers recognize negative aspects of BitTorrent and YouTube, such problem of piracy, while their positive aspects, such as fast download on BitTorrent and power of YouTube for disseminating information, are appreciated. It is necessary to consider how new types of media and contents should be linked to expand business overseas. (An expert)
P2P systems work best on optical fiber lines. Broadband service is widely available in Japan, so business models based on P2P technologies have great potential there. (Mr. Kondo, member of the Study Group)

My Space, YouTube and other tools that link us directly to users are essential to expand our music business overseas. (Mr. Tsuchiya, member of the Study Group)

(2) Direction of policies

For Japan to respond appropriately to innovations related to contents industries and lead new technologies, Japan will (i) promote partnership and cooperation between engineers in industry, government, and academic sectors; (ii) develop opportunities for engineers to interact internationally; and (iii) consider standardization of infrastructure of software development to promote multi-development of contents and respond to increasing costs.

In order to realize possibilities of variety types of new business backed by digitalization and networking, Japan will (i) review what opportunities should be offered and what systems should be in place to help divers types of players, including communication industry, work in cooperation; (ii) develop environments to promote business based on long-tail type contents delivered through networks; (iii) promote trial of new channels overseas.

(3) Specific actions

As there are only few interactions between engineers, and it is necessary to select important technologies in cooperation between government and business and develop technologies strategically on the basis of world trend of technologies, the government will take measures as mentioned below:

- Consider offering opportunities for cooperation between industry, government, and academics and interactions of engineers (from private sector, universities, and the National Institute of Advanced Industrial Science and Technology (AIST), etc.);
- Prepare a roadmap for development of contents-related technologies, and distribute research and development budget intensively to the technologies; and
- Study systems to spread and promote best practices.

In order to apply hardware technologies, strengths of Japan, and other techniques and promote contents industries, the government will take measures as mentioned below:

- Hold new events at “Japan International Contents Festival” by linking hardware and software careers

To develop CG techniques that will match those of Hollywood and respond to rising costs of development of any contents, the government will take measures as mentioned below:
Establish ASIAGRAPH to enhance CG techniques; and
Consider development of infrastructure for development of software available for several types of contents.

To find new business models based on the internet, the government will take measures as mentioned below:

Establish markets to produce net contents and promote investments in such contents.

To help foreign users to find right holders of Japanese contents and promote use of Japanese contents overseas, the government will take measures as mentioned below:

Disseminate information overseas in conjunction with contents portal sites.

To pursue possibilities of new business by linking hardware and software, the government will take measures as mentioned below:

Hold new events at “Japan International Contents Festival” by linking hardware and software careers.

To conduct effective countermeasures against piracy mainly by using the internet, the government will take measures as mentioned below:

Study pilot cases of use of new channels overseas (example: study of relation between simultaneous distribution of Japanese TV animations on the internet and decrease of piracy).

Comments of experts

- Visual contents are bipolarized between high quality contents and low-quality, portable contents, which can be distributed by podcasting. “High quality” and “mobile” are the keywords. It is necessary to observe which technologies will survive. (An expert)

- The sphere of CGM is rapidly growing. More than 30 percent of the blogs in the world are written in Japanese. Some say the share is larger than blogs in English. I wonder if global contents are limited to those produced by professionals. (Mr. Mori, member of the Study Group)

- Isn’t “standardization” useful to gain the supremacy in the contents industry? Especially standardization of processes of contents production seems worth considering. Most of the Japanese people give importance to knowledge based on experience, but a certain level of standardization is necessary. (Mr. Kondo, member of the Study Group)
As is the case for acTVila, television and other home electric appliances are getting more features of computers. On the other hand some types of computers can be used to watch TV programs. More features are shared by home appliances and computers. (Mr. Shiokawa, member of the Study Group)

It is necessary to develop infrastructure for contents management in order to manage contents materials for multi-distribution and manage workflow from collecting contents to distribution of them. (Mr. Shiokawa, member of the Study Group)

5. Action to be taken to globalization of intellectual properties

(1) Basic recognition

Along with digitalization of contents, they can be copied easily without loss of quality. Development of networks is increasing the risk that high-quality copies can be easily distributed around the world. With the progress of globalization, the day is coming when contents are produced on the assumption that they are also used secondarily overseas or on channels, including the internet. It is getting more necessary to consider how licensing should be in order to respond to such changes of the times.

Challenges to be addressed

(i) Promotion of licensing

Comments of experts

- It is necessary to study and develop legislation based on techniques to manage intellectual properties and rights on the internet. For the purpose, it is also necessary to promote use of contents in Japan and abroad, and to develop legislation and technologies for the promotion. (Mr. Kobayashi, member of the Study Group)

- I expect the government to work to “develop intellectual property infrastructure and market Asian countries share.” It would be nice if conditions, such as copyright law common in the region of Asia, are developed, so that companies can develop business overseas. (Mr. Kadokawa, member of the Study Group)

- Japan is lagging behind in the field of distribution of TV programs on the internet and mobile communication networks, new players in the media industry. There is no clear prospect for adjustment of rights of performers in terms of distribution on the internet and mobile networks. We cannot expand our business before such issues are solved. (Mr. Takamura, member of the Study Group)
• Issues of licensing of copyright for international sales should be resolved before production of contents starts. But in Japan production starts with no arrangements for performers, musicians, or neighboring rights holders. International interests, as well as domestic interests should be pursued. (Mr. Hiroshi Shigenobu, Chairman of TV MAN UNION)

• When contents are distributed internationally, the problem of how copyright is dealt with soon arises. Parties to a contract assume all the responsibility. We must solve problems of rights concerning international distribution in advance. (Mr. Hiroshi Shigenobu, Chairman of TV MAN UNION)

• People are beginning to see copyright for new media from different viewpoints. Some copyright holders are willing to offer their works for free on media or have them distributed at lower prices. Others adopt another type of strategy, and restrict distribution of contents to preserve high value of the contents. Now copyright should be considered from diverse viewpoints according to what strategy is adopted by right holders and distributors. It would be desirable that right holders decide as early as possible what strategy they adopt and deal with their rights according to the strategy. (Mr. Hiroshi Shigenobu, Chairman of TV MAN UNION)

(ii) Countermeasures against piracy

Comments of experts

• In Asia, especially in China, and parts of Europe, pirated editions are openly sold. Not only disks are copied. Some online game servers were completely taken over by hackers. (Mr. Wada, member of the Study Group)

• The base of record companies are shaken by problems of “mass copying” and “mass downloading from illegal sites to mobile phones.” (Mr. Sato, member of the Study Group)

(iii) Review of copyright systems in the new age of IT

Comments of experts

• Hi-Vision technologies and advanced Hi-Vision software should be applied by the Japanese television industry and the entire household appliance industry. Three-D visual processing technologies developed by NHK’s Science & Technical Research Laboratories and other diverse software technologies could be used to develop new methods of production. (Mr. Kondo, member of the Study Group)
• As for contents management technologies, it is necessary to understand needs of users and creators (designers and artists, etc.) and consider how the copyright should be in the age of digitalization. The problem is not that technologies should be used. Rather, the most important point is how they should be used. (Mr. Tokoro, in place of a Study Group member)

• Contents management technologies are necessary to produce and distribute contents safely and efficiently. (Mr. Kaneko, member of the Study Group)

• In the music industry, technological advancement has given artists tools to deliver their works directly to consumers. Such technologies will also appear in the visual industry. (Mr. Matsuda, member of the Study Group)

• Standardization of basic contents technologies is crucial. Especially for BRICs, promising markets, basic billing systems for broadband distribution and digital rights management (DRM) should be standardized. (Mr. Ozuka, in place of a Study Group member)

(2) Direction of policies

Along with development of digitalization and networking, surroundings of the intellectual property are rapidly changing. Japan will consider how the intellectual property system should be in the new age.

The government will enhance its support to promote international joint production, for which contracts are complicated, especially in terms of how intellectual property rights are dealt with. Rules for contracts will be revised with overseas business and multi-use taken into consideration in a way distribution of new contents will be promoted for profits to be shared by all parties related.

In addition, stronger measures against piracy will be taken to develop intellectual property infrastructure shared by Asian countries.

(3) Specific actions

As survey must be conducted soon to find what systems and rules should be established so that we will not be left behind in development of digitalization and networking, the government will take measures as mentioned below:

○ Design systems to promote distribution of digital contents in a way relevant to the new age under the cooperation of government agencies

To develop environments to help companies conduct business safely in Asia, the government will take measures as mentioned below:
Provide support for developing infrastructure for intellectual properties in Asia (training for people dealing with intellectual property right, and development of systems for collecting copyright royalties.)

To develop environments to provide support in concluding complicated contracts for international joint production, the government will take measures as mentioned below:

Provide support for international joint production products through entertainment business lawyers

As few contracts have been concluded for overseas business or multi-use, the government will take measures as mentioned below:

Prepare guidelines and model contracts for promoting licensing with overseas business and multi-use taken into consideration

To conduct effective countermeasures against piracy mainly on the internet, the government will take measures as mentioned below:

Study pilot cases of use of new channels overseas (example: study of relation between simultaneous distribution of Japanese TV animations on the internet and decrease of piracy)

To conduct tougher countermeasures against piracy, the government will take measures as mentioned below:

Strengthen enforcement of piracy measures, and expand support for distribution of authorized products

Efforts made to prevent unauthorized recording in theaters

The Act for Prevention of Unauthorized Recording in Theaters was enacted at the 166th regular Diet session. The law gives legal grounds to banning unauthorized recording in theaters, and is expected to be very effective to prevent pirated versions from being shipped overseas from Japan.

Comments of experts

- Different countries have different practices for copyright and different regulations on culture. Knowledge of such practices and regulations are accumulated in individual persons, not in organizations. It might be necessary for the government to prepare a comprehensive database available for people as a part of its promotion policies. (Mr. Kondo, member of the Study Group)
Obstructions to overseas business are not limited to licensing. Some point out cultural factors, including customs, censorship, and quota systems. (Mr. Kobayashi, member of the Study Group)

Asia Contents Initiative

The key to expanding Japanese contents industries overseas is how they can enter markets in Asia, whose economy is expected to grow almost 10 percent annually, and how cooperation can be established with countries. It is necessary to shift the focus of policy to Asia and make investments in the region proactively. With such recognition, Asia Contents Initiative, a package of policies concerning Asia for the coming three years or so, will be prepared. A stronger framework for cooperation will be formed through the Asia Contents Industry Seminar Ministerial Meeting (November, Malaysia).

(i) Asia International Joint Production Acceleration Plan

☐ Hold international joint production workshop for visual contents at all major international movie and TV program festivals in Asia in three years;

☐ Establish the largest international joint-production market in the world at “Japan International Contents Festival”;

☐ Expand support for international joint production;

→ Provide support for forming joint production funds (SMRJ), expand loans (Development Bank of Japan (DBJ, JASME), and support for business, including contract and licensing;

☐ Promote conclusion of visual production cooperation agreements or international joint production agreements with China, Thailand and other major countries;

→ Agreements between governments or industry associations. In June, an agreement is due to be concluded between UniJapan and China Film Coproduction Corporation (OFCC).
(ii) Asia Human Resources Network Doubling Plan

- Make Tokyo the hub of the network of human resources in Asia;
  - Set targets of the number of participants in 2007 Japan International Contents Festival, such as key persons, producers, and buyers in Asian contents industries and government officials;

- Establish “Asia CG Creator Summit” (ASIAGRAPH);

- Hold symposiums and other events by inviting leaders in contents industries invited from Asian countries;
  - JETRO considers holding symposiums about TV programs in Japan and China, and other events;

- Conduct the Asia Young Talent Training Program;

(iii) Asia Contents Free Distribution Plan

- Strengthen enforcement of piracy measures, and expand support for distribution of authorized products;

- Transplant “intellectual property infrastructure” to Asian countries;
  - Export JASRAC and other common infrastructure to Asian countries mainly through technical cooperation;

- Use effectively FTAs and EPAs;
  - Consider concluding FTAs and EPAs with Asian countries to eliminate bilaterally cultural barriers (import control, TV broadcasting regulations, etc.) on the basis of the principle of reciprocity.
Japan International Contents Festival, new event scheduled in this September and October, embodies strengths of Japanese multi-contents. The festival is expected to be the largest exit to "realize" the "Contents Global Strategy."

(A series of events are scheduled from Tokyo Game Show (September 20 to 23) to Tokyo International Film Festival (October 20 to 28).)

Other events

- **GiGRA 2007 (September 24 to 28)**
  
  An international meeting of researchers of digital games. Digital game researchers come to meet from all over the world, and give presentations about the latest studies and development. The meeting is an opportunity for people working in industries, research institutions, and governments to interact with each other.

- **CEDEC 2007 (September 26 to 28)**

  Developers working in the front lines of video game development attend the conference to talk about the latest trends of the industry, development of technologies and products, business management, and market development.

- **CEATEC (October 2 to 4)**

  This event sends information about "creation of new contents as the latest results of digital convergence" which integrates contents, software and hardware, and conducts business matching.

- **JAM 2007 (October 4 to 7)**

  The meeting starts this autumn to help animation contents to grow into wide-ranging business. Animation business showcases, seminars, and other events are held in Akihabara, mecca of the animation industry.

- **ASIAGRAPH 2007 (October 12 to 14)**

  CG creators (designers and artists, etc.) researchers, engineers, students and companies meet together to hold symposiums, seminars, and workshops about CG of Japanese animations, movies, video games.

- **TAM – Tokyo and Asia Music Market (October 15 to 19)**

  Gathering all the related persons of music business, business seminars of the music market are to be held. This is to create a big international music market which represent the Asian music business scene.
TIFFCOM 2007 (October 22 to 24)
Business market for all genres of contents, held together with “Tokyo International Film Festival.” The market offers a stage where Japanese contents holders show their products, and opportunities of business matching for promoting international joint production.

NHK Japan Prize (October 23 to 29)
The international contest for educational TV programs was founded in 1965 by NHK. People working for broadcasting and education and TV program producers all over the world get together to help produce better educational TV programs and promote understanding and cooperation worldwide.

ATP Award TV Grand Prix (October 23)
Producers themselves serve as judge to select excellent programs. This is the only award given in such a style. The award has three genres, drama, documentary and information & variety sections, and grand prix, highest award, award, and other prizes are offered.

AKIHABARA ENTAMATSURI (October 24 to 28)
The entertainment festival is held in Akihabara, mecca of manga comic, animation, video game and other industries. The whole town participate in the event. “Comic Festival,” which features manga comics, center of Japanese contents, is held together.

Tokyo Contents Market (TCM) (October 25 to 26)
The market offers opportunities of business matching to Japanese small and medium enterprises, venture companies, and creators (designers and artists, etc.) that have excellent ideas or technologies but lack distribution channels or opportunities to raise money for production or to form technical cooperation partnership.

Japan Location Information
A location market, which sends information worldwide about attractive locations in Japan, symposiums for education and training of people who work for “location attraction” and “regional development,” and skill-up seminars are held.

Events to be held in Kansai
Some events are held to show new business models of contents industries supported by historical culture and advanced technologies to people in Japan and abroad, and to conduct programs as international film conference, market, and human resource development.

International seminar for contents human resources interactions and development
Symposiums and seminars are held to accelerate international interactions between people working in contents industries, develop young people who can be successful in the world contents business, and invite from foreign countries influential people working for contents industries at companies, academic institutions, or governments for international joint production.
IV. Direction of international development of business by segment

1. Movie

(1) Basic recognition

Hollywood has been dominant in the movie market, but some point out the dominance is being challenged now (cases of remakes based on foreign scenarios and production of films that respond to needs of regions). Such situations may give Japan opportunities. The movie industry community should take the initiative in reforming their own way of thinking, work to produce larger-scale movies through, for example, international joint production, and endeavor to expand their business internationally.

(2) Methods of globalization

(i) Export of finished Japanese movies (licensing)

Japanese movie companies have been engaged in business of licensing (exporting) their products to foreign companies through showing their works film festivals and film market held overseas. In Europe and the United States, however, audience do not always feel sympathy when seeing actors who look quite different from them, and they are not comfortable with subtitles on screens. Such restrictions has prevented the business from growing fast. To expand business worldwide, not only attractiveness of movies themselves, but also effective distribution is crucial. Most of the Japanese animations that succeeded in world markets were produced with financial support from major Hollywood studios to secure access to global distribution channels.

Asia is the most promising market. Japan should continue to enter markets in Asian countries actively by effective use of dubbing and expand such business.

(ii) Marketing of remaking rights

Major Hollywood studios and other film companies are active in buying rights of remaking films in countries around the world. Japanese filmmakers have also sold many remaking rights for “Ring,” “Shall We Dance?”

Remaking right sales themselves are not so profitable business. Japanese right holders often sell their rights at a low price. When a remade film achieves success, the profits are not always distributed to a filmmaker that sold the right because most of the remaking rights are sold outright. Remaking rights sales themselves are expected to grow, but right holders should refrain from bargaining away, as they have done. Rather, they should shift their business to joint production and make as many films as possible together with foreign studios.

(iii) International joint production

To produce movies accepted by foreign people, it is insufficient to export products produced for the Japanese market. To acquire markets overseas, Japanese film makers should work for large-scale joint production. For example, they should work
together with foreign producers from the planning stage to write scenarios, or cast actors both from Japan and the partner country. Such efforts would be the direction they should follow from now on.

Not a few movies have been produced jointly with foreign filmmakers, and they have been partly financed by Hollywood studios or foreign actors have been casted for such films. It will be necessary for Japanese filmmakers to expand their business overseas on a full scale to activities including planning, financing, distribution and performance, and packaging. Especially, Asian business has great potential for growth. Foreign producers have not little need for international joint production with Japan, especially for the purpose of obtaining access to the Japanese movie market, the second largest film market in the world. It seems possible to establish a scheme for international joint production which will bring benefits to both sides.

(iv) Remaking, plus international joint production

This method have been fully applied to, for example, “The Grudge 2,” which reported the largest weekly box-office record in the United States. This is regarded the most promising method for pursuing joint production with Hollywood. For some regions other than United States, especially Europe, the method has chance of success. It would be effective in countries where Japanese nobles and comics that might be used as original have already had popularity.

(3) Strategy by regional market

(i) US market

First, it is necessary to sell actively remaking rights and develop systems, such as scenario bank. Then, contracts which lead to advantage in business by use of the framework of international joint production should be pursued. At the time, it is necessary to make business more parent and disclose more information for financing.

(ii) Asian market

Japan should disseminate more information in the region of Asia at film festivals or others. At the same time, focus should be placed on joint production for the purpose of acquiring wider markets and avoid cultural regulations. As for distribution, tougher implementation of countermeasures against piracy is important.

(iii) European market

Efforts should be made to promote exports at, for instance, film festival markets, and international joint production should also be carried out. To Expand business into Europe through joint production with Hollywood studios would be an option.
2. Animation

(1) Basic recognition

Japanese animating is the symbolic contents of “Japan cool.” Japanese animations films make a certain level of box office revenues at theaters overseas, but they are not as successful as they use to be.

It is necessary to introduce more sophisticated methods for overseas business, and establish global business models.

(2) Methods of globalization

(i) Export of finished animations (licensing)

When Japanese animation makers do business overseas, they grant license to local agencies and outsource operations in the region to them. That has been the major style of their overseas business. Such a style of business helps hold down additional costs and risk to a relatively low level. But such animations are produced to be sold in the Japanese market, and few of them satisfy needs in foreign markets. Some say among such products there are only a few that achieve success worldwide.

Especially, some of the Japanese TV animations have trouble in foreign business. In foreign markets, the main target of TV animations is children. But in Japan, an increasing number of the animations are produced for older consumers. They are also produced on the basis of Japanese code of ethics for broadcasting, which is different in some points from those adopted in foreign countries. As a result, some of the Japanese TV animations cannot be broadcast without modification.

(ii) Marketing through local subsidiaries, etc.

These past few years several major Japanese TV animation makers and other companies established local subsidiaries in North America, Europe and other regions to expand their business overseas. Establishing local subsidiaries costs a lot, especially for seriating local stuff. But that also has an advantage. Local subsidiaries can finely configure business activities they conduct together with local distributors.

(iii) Presale

Nowadays some animations are produced by use of the method of presales. Producers of such animations do not always intend to release their products in the Japanese market. Rather they have intention from the earliest stage of planning to sell the animations in foreign markets, and they look for local production partners from whom they can receive support for marketing while making animations. As this method of production is carried out from the development stage together with major partners for markets they target at, producers can receive a large amount of support for marketing at markets they target at. That may bring by far larger profits than in domestic market, and raises the probability of success. On the other hand, that has some defects. Dependence on major partners in markets they target at raises uncertainty and communication costs for development, production and business activities.
(iv) Participation in projects led by foreign companies

Japanese companies may receive contract for parts of projects led by foreign major companies. For this type of business, contractors are given a comparably large amount of production revenues from foreign big companies. On the other hand, it is difficult to take the initiative, and it is also quite difficult to secure rights of the products. The products are produced to meet taste of foreign consumers, and they are often difficult to sell in Japan.

(3) Strategy by regional market

(i) US market

It is necessary to promote production which targets at the market of the United States from the beginning. It is also effective to use presale, standard project format in the market.

(ii) Asian market

In Asian markets, underdeveloped media and rampant piracy largely hinder business. It is necessary to configuration operations according to population, purchasing power and other factors of countries and religions concerned. For example, license contracts should be concluded for each country or region, not for the whole region of Asia.

(iii) European market

In the market of Europe, which gives importance to diverse culture, it is important to conduct full-fledged international joint production for harmonizing and integrating culture of Japan and Europe in order to expand business there.

3. Video game

(1) Basic recognition

Foreign video game makers are strengthening their power of business and abilities of development, and global competition is heating up. In North America and Europe, household game markets have been growing fast for years, but the Japanese game industry have failed to respond to such trends quickly.

Japanese videogames, however, are said to be the most excellent in the world. The Japanese game industry still has the potential to continue to lead the world game industry.

(2) Methods of globalization

(i) Marketing of game software by local subsidiaries, etc.

Japanese major video game makers have established local subsidiaries in North America and Europe (United Kingdom, etc.) to have sales bases for their game software, and worked hard to sell their products overseas. They have recently set up
local subsidiaries in Asia (China and South Korea). Establishing local subsidiaries costs a lot, especially for seriating local stuff. But that also has an advantage. Local subsidiaries can finely configure business activities they conduct together with local distributors.

When video game makers do business overseas, they must also modify specifications of video games to meet tastes of local consumers (localization). Today games are not only translated into other languages. Makers localize design and identity of characters, and levels of difficulty of games. Some have a department dedicated to localization. They also make other ambitious efforts.

(ii) Expansion of business by licensing

In countries and regions where they do not have local subsidiaries, Japanese video game makers do business there by giving license for their game software to indigenous game companies or local subsidiaries of Japanese peers. Such a style of business helps hold down additional costs and risk of overseas business to a relatively low level, but they must pay costs for localization anyway. To reduce such costs, some game makers avoid doing localization by themselves and instead give license to partners for their products, including rights of localization, depending on markets they target at, partners, and content of game titles.

(iii) Development of software at overseas development bases

Some Japanese game makers have established bases for development, in addition to sales bases. Most of them have development bases in countries and regions where labor expenses and other costs are low, such as China, to have computer graphics and other components produced there with the intention to reduce development costs. Some has established development bases in North America to develop original titles that satisfy needs of local consumers.

(iv) International outsourcing to foreign development companies

Some companies have adopted international outsourcing to existing development companies overseas, instead of establishing their own development bases in foreign countries. Now CG production and other processes are outsourced to development countries in countries and regions where labor expenses and other costs are low, such as China, Taiwan, East Europe, and Russia.

(3) Strategy by regional market

(i) US market

Japanese video game makers should supply products that meet tastes of local consumers by, for example, establishing local subsidiaries and localizing their products.
(ii) Asian market

As the market of online games, which use personal computers as platform, is emerging, game makers should consider expanding their business to online games, while observing how fast the game consoles spread to develop game software.

(iii) European market

The European market has been rapidly growing. But in the region, consumers in different countries have different languages and tastes. To supply games that meet tastes of local consumers, game makers should localize their product and work in cooperation with local partners.

4. TV programs

(1) Basic recognition

The business of TV programs, contents helpful to introduce Japanese culture and lifestyles overseas, is expected to grow internationally in the future.

The history of the international business of Japanese TV programs is still short. Only ten years or so has passed since full-scale overseas marketing started.

(2) Methods of globalization

(i) Drama

The immediate strategy is to conduct business mainly in Taiwan and, during that time, to expand business into other parts of Asia, including Hong Kong, China, and South Korea. (The number of Japanese TV programs that have been illegally uploaded on websites without license suggests there are many enthusiastic fans of Japanese dramas.)

In US and European markets, on the other hand, Japanese TV dramas are not popular. Some different strategies are needed for these markets. Efforts should be made to export programs that have higher possibilities of success in Western markets. SFX movies for children, such as “Power Rangers” series, might be a candidate.

Either for Asian markets or for Western markets, a certain level of localization is necessary. When TV stations produce programs that might be exported, they should do something from the production stage to make them more palatable to foreign TV stations. For example, they should be produced in a way they can be more easily divided.

As for dramas, Japanese TV stations have not experienced so many cases of remaking or joint production. But that should be tried as a method of expanding their business overseas. Few full-scale joint production projects have been carried out. Some programs, however, were produced with foreign actors (mainly Asian ones) and exported. Among them, there are not many successful programs that won explosive popularity. Anyway, Japanese TV stations stands now at a stage where they should accumulate more such experience.
(ii) Documentary

There seems to be demand for documentary programs in countries in the world, including Europe and the United States. Production of documentary programs is being polarized, however. An ordinary-size budget is prepared if the program is broadcasted only in its own country, while a larger-scale budget is made if it is to be sold in the world market. Many of such programs are produced by BBC and specialty channels, such as the Discovery Channel and National Geographic, jointly with media in countries. Now the Discovery Channel, for example, pay attention to Asian markets. one direction Japanese TV program producers should take is to promote joint production and cooperation with such foreign media that cover the whole world.

It is documentary programs about natural science and excavations that are accepted in the world market. Some of such types of programs require more than one billion budget. When Japanese TV stations take the initiative in production of such programs, it is necessary to promote actively investments from abroad.

As the number of channels is increasing along with the growth of the satellite broadcasting market, need for inexpensive and unique programs is expected to grow. Export of such types of programs, in addition to large-scale programs, should be tried in the future.

Many Japanese TV programs have teen entered for contest of documentaries and won awards. To help Japanese documentary programs acquire excellent reputation in the world, active participation in such international contests is one of the important strategies.

(iii) Education program

Japan has long history of production of educational contents, and their quality is high. Markets for educational TV programs might be found in many countries and regions, such as Europe, Asia, Middle East, and Russia.

One of the international contests for educational programs is NHK “JAPAN PRIZE.” This is an award for international educational TV programs. Such initiatives should be carried on, and some efforts should be made to link them with markets.

(iv) Variety

Japan produced quite a large number of variety TV programs. Variety programs, however are highly depend on charms of performers and their he art of storytelling. So it is difficult to export them as they are. An exception is Asian markets. For example, if Japanese TV stars popular in Asia appear in a variety program, the program may be exported as it is to Asian markets.

It is highly possible to sell formats of Japanese variety programs to Europe or the United States. Some point out that that might not be protected as license business by the copyright law. But that type of business has been relatively firmly established in Europe and the United States. It should be effectively used.
5. **Music**

(1) Basic recognition

The world music market is reaching a turning point: sales of music disks are declining while online distribution of music is growing. Behind the rapid growth of online distribution, there are some problems, such as unauthorized uploading and illegal file sharing, that hinder smooth expansion of the business.

The Japanese music industry should not be complacent about its market size, the second largest in the world. As digitalization and networking are growing, it must have a global viewpoint and ambition to advance overseas.

(2) Methods of globalization

(i) Expansion of exposure mainly through live performance

The most effective way to expand Japanese music business overseas is to tour and give live performance overseas and undertake promotion actively and regularly. It is important to perform with local artists and actively run tours of foreign countries. Japanese artists themselves should also take part in overseas markets, especially music fairs.

It would be also effective to broadcast TV programs which introduce Japanese music at local markets and use new types of tools based on the internet, such as SNS, for publicity for the purpose of exposing Japanese music at local markets and offering local consumers more opportunities to see and watch Japanese music contents. Especially, SNSs are getting popular at an explosive pace. There is a good chance that huge networks and communities might be constructed on SNSs in counters, which might create innovative marketing methods and offer channels to supply new music and visual contents.

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**Points of attention**

- Necessity of localization
- Building trust with foreign partners
- Effective use of film and TV festivals overseas
- Viewpoint of culture interactions
- Necessity of efforts made by the entire industry and academics communities
- Tying-up with sponsors (product placement)
- Flexible actions to developments of multi-channeling and networking
- Promotion of licensing for sales overseas
- Guidelines for promoting licensing
- Cooperation of right holder organizations
- Construction of cooperation between parties related in Japan
(ii) Use of cover versions

It is also effective to encourage local artists to cover Japanese music. That would help Japanese music to be exposed at local markets smoothly, and if local artists make a great hit with cover versions of Japanese music, that might lead to a hit of the originals. Effective use of cover versions help Japanese artists who sing original songs enter local markets overseas. At the same time the cover versions help foreign singers who sing them enter the Japanese market, giving both sides great benefits. That might more opportunities for business. For example, singers who sing originals and covers may give live performance together or produce and sell albums.

(iii) Linkage with other contents

Contents, either music or others, are related to each other and to various cultural factors, such as fashion and lifestyles. When music is exported, focus should not be paced only on music. Rather it is effective to link it to other factors, such as dramas, movies, animations, and fashion, to seek more opportunities to make a hit. For promotion, contents should be linked with each other to generate multiplier effects.

(iv) Crossing language barriers

Music, which contains verbal messages, faces a higher language barrier to entry to foreign markets than those against other contents. To cross the barrier, it is necessary to build patiently bases in oversea markets from a middle and long-term point of view. For example, efforts should be made to localize Japanese music to make it familiar to local consumers.

On the other hand, if Japanese musicians take advantage of the difference in language to differentiate themselves from foreign artists, and have strong individuality and charm enough to overcome the language barrier and attract consumers, they could make a hit.

(3) Strategy by regional market

(i) US market

In the United States, where a diversity of peoples live with diverse types of culture, language may not a genuine barrier. What is important is originality that cannot be find in music they have ever heard. It is important to “increase exposure” to Japanese music in order to have its “uniqueness and charms” felt by potential consumers of Japanese music and develop a “layer of people who want something different.”

(ii) Asian market

It is necessary to give performance with local artists and live performance by full use of adjacency to Japan and in addition, to carry out promotions by, for example, releasing cover versions in local languages.

As online music distribution is expected to be the mainstream of the music business, it is effective to promote distribution both on the internet and mobile networks.
(iii) European market

The market has a higher language barrier than other regions. It is necessary to expose Japanese music to consumers there more often by use of live performances and the internet for publicity and work patiently to make Japanese music recognized by more people in the region.

It is crucial to build networks of promotors who know well about conditions of local markets.

6. Manga comics

(1) Basic recognition

Many manga comics are used as source of other contents, such as movies, animations, and TV programs. Manga is located on the upstream of contents business. Japanese manga is popular worldwide, in regions such as North America, Europe, and Asia.

In Japan, on the other hand, sales of comics magazines have been declining for more than ten years. Most of manga comics have been published on magazines as primary use. The business model is required to change.

(2) Methods of globalization

(i) Effective use of power of stories

Manga comics are composed of not only pictures but also excellent stories. Many comics are used as original for live-action movies and TV programs. Stories of manga comics have excellent reputation, and there are many offers to produce live-action films and TV programs based on comics. It is effective to use such strengths for overseas business. For example, rights to scenarios could be sold separately. Japanese manga comics are usually produced only for Japanese readers. If manga comics targeting at readers overseas are made, there would be enough demand for such products.

(ii) Media mix

Manga is competitive itself as contents. In addition, manga can be easily combined with Movies and TV programs. It is highly favorable for media mix. In Japan, it has turned out that the method of media mix has synergetic effects through different types of contents. If the method of media mix is applied as in Japan when business is expanded overseas, the market of manga can be expanded effectively and efficiently.

(iii) Strategic use of rights

To enter foreign markets in full scale, Japanese publishers should sell their products actively, as well as concluding passively licensing agreements with foreign publishers. For that purpose, Japanese publishers may, as one of their options, establish local subsidiaries and establish business partnership with local publishers to acquire their own publishing channels.
(iv) Construction of new business models based on the internet, etc.

In addition to current business model, where comics are published first on magazines and then in the form of book before used for other media, it is necessary to build new business models. For example, comics could be released on the internet from the beginning to distribute them worldwide simultaneously. For that purpose, it is necessary to develop technologies for efficient translation systems and digital distribution that helps consumers read comics easily, to make arrangements with writers about color configuration, and to consider secure billing systems.

(v) Establishment of practices of agency contract with development of diverse products taken into consideration

Research and surveys are essential about how agency contracts should be with development of media mix taken into consideration from the beginning. Preparation of model contracts should be considered, if necessary.

(vi) Training and education of producers specializing in international business

In order to develop manga business in the global market, it is necessary to nature editors (producers) familiar with international business across several types of industries.

Producers who work to add more value to comics made by cartoonists (creators) before sending them to markets are not limited to editors of publishing companies. Nurturing lawyers good at copyright and sales agent would be helpful to expand dramatically Japanese manga business in the world.

(3) Strategy by regional market

(i) US market

It is said that Japanese manga comics have more than 50% market share in the whole graphic novel market. Manga comics are read by more diverse types of people, and the market is steadily growing. It is hoped that Japanese manga comics will advance overseas more actively by, for example, securing more effective distribution channels with differences between Japanese and foreign systems taken into consideration.

(ii) Asian market

In Asia, Japanese manga comics are published widely in South Korea and other countries, and popular among young people.

On the other hand, response to religious restrictions and censorship is strictly required. It is hoped that comics will be customized before exporting in a way that attention will be paid to diverse culture. It is also essential to take actions against piracy by developing internet environments and billing systems.
(iii) European market

In France, Germany and other European countries, recognition of Japanese manga comics is rapidly growing. Manga books are sold at very high prices, more than double in Japan. It is hoped that Japanese publishers establish local subsidiaries and establish business partnership with major publishers in Europe to produce a stable supply of manga titles.

7. Character business

(1) Basic recognition

The character goods markets covers a wider range of consumers than that of manga comics or animations, in which character goods have their origin. Some companies expand their business overseas actively. Their business is growing from developed markets to emerging markets.

On the other hand, the size of characters license business of Japanese companies seems to be much smaller than that of character goods business. Licensors should intend business that makes the most of their rights.

(2) Methods of globalization

(i) Localization

In order to sell character goods overseas, it is important to have the character recognized by more consumers. Characters do not have nationality. Even when an original version is a live-action version, the original image can be used for expose of the character itself, if it is localized in a proper way by, for example, replacing scenes played by Japanese actors with those played by local actors. If such localization is effective to have characters accepted in local markets, the characters will be recognized by much more consumers through TV broadcasting there and that will contribute a lot to sales of the character goods.

Some characters of animations and manga comics may require less localization.

(ii) Effective use of character shows

After a character acquires a certain level of recognition, it is effective to hold “character shows” to expand the market. That method was effective to make some Japanese characters very popular at foreign theme parks, such as Disney World in the United States.

(iii) Licensing

In order to develop character business overseas, it is important for licensors to make effective use of “licensing shows” and other fairs held in North America, Europe, and Asia.
New initiatives also started. Some licensors are working to diversify their business in foreign markets, such as Hollywood, in partnership with shoshas.

Such efforts help integrate various rights to characters. It is important to see carefully how such leading cases of overseas character business will go.

(3) Strategy by regional market

(i) US market

In the US market, oligopoly by major retailer has been developing in distribution of goods. To do character goods business, it is necessary to negotiate with such influential distributors and secure shelves at stores.

(ii) Asian market

In Asian markets, the risk of business is high. For example, some point out that in China counterfeits account for more than 90 percent of the goods in the market. It is necessary to take tough measures against counterfeits to develop infrastructure to distribute genuine products.

(iii) European market

The European market is not so large, and contains so many countries. It is inefficient to have bases in each of the countries. To do business there, to employ specialty agencies who are in charge of marketing in the entire Europe, is an option.

Case of effective use of localization for global expansion of business

“Mighty Morphin Power Rangers”, live-action television series, were localized to regions, and exported to North America, Europe, Central and South America and Asia. At Disney MGM studio, Florida, autograph sessions of the Rangers are most popular.
V. Concrete programs for contents global strategies

In order to achieve measures specified in Chapter IV, programs stated below will be conducted.

1. Globalization of business

- Establish the largest international joint-production market in the world at “Japan International Contents Festival.”

- Tokyo Project Gathering (TPG), market for international joint-production held during Tokyo International Film Festival, is expanded to a much larger scale;
- TPG will be further scaled up in FY2008.

- Hold joint-production workshops (J-Pitch Program) at major film festivals in Cannes, Berlin, and others.

- At major film festivals in Cannes, Berlin, Shanghai, Pusan and others, international joint-production workshops are held;
- In FY2008, such workshops will also be held at major festivals.

- Promote conclusion of bilateral cooperation agreements.

- Interviews with Japanese producers are being conducted to ask them what future joint production agreements should be like.

- JETRO studies trends of foreign markets, systems and regulations of foreign countries, and successful cases of joint business, and others, and offers the results.

- In FY2008, programs will be carried out in cooperation with JETRO to strengthen public relations overseas for Japanese contents and collect information abroad.

- Expand TIFFCOM (contents market) and add more functions to it (review for turning it to a multi-market covering scenarios for remakes, manga, human resources, locations, and others).

- The scale of Tokyo International Film Festival is expanded to increase the number of exhibitors and buyers attending the exhibitions, and others;
- In order to attract new exhibitors, challenger booths, those smaller than regular space, are introduced;
- The Casting Forum (tentative name) is organized to discuss how casting should be to produce competitive contents in the world;
- Along with TPG “Original Work Market” is established to offer ideas that lead to original for movies and other contents;
• TIFF is expanded into events other than Tokyo International Film Festival, such as Tokyo Game Show, Tokyo Asia Music Market, and Tokyo Contents Market to turn TIFF multifunctional;
• In FY2008, Tokyo International Film Festival and other markets will be further expanded and made more multifunctional.

- Develop international transaction markets and send information abroad in corporation with contents portal sites.

• In FY2008, a contents portal site will be linked with JETRO’s public relations programs to strengthen information activities.

- Construct markets for producing net contents and promoting investments.

• As part of the program for developing environments for human resource development, a pilot website is being constructed for offering creators (designers and artists, etc.) opportunities for business and promoting matching them with those working in the contents industry to help them distribute their products on the internet;
• A matching site is being prepared on the internet to promote joint-production business as part of J-Pitch Program.

- Provide support for JETRO’s overseas trade fairs.

• In FY2008, support for JETOR’s overseas trade fairs and export business negotiations (concrete overseas business) will be continued.

2. Accumulation and internationalization of human resources

- Expand internship programs for developing human resources for producers.

• In FY2008, the internship program will be continued to develop human resources for producers through industry-university cooperation.

- Review possibilities to construct new systems for human resource development through cooperation among contents-related departments at universities in Japan.

• At the international human resource development seminar at CoFesta, a seminar is held for teachers working for contents-related education;
• Review meetings will be held to establish human recourse development systems in cooperation between contents-related educational institutions.
- Establish accreditation to curriculums at universities.

- Surveys will be continued to introduce the most suitable accreditation.

- Enhance human resource development in cooperating with foreign universities and other institutions.

  - At the international human resource development seminar at CoFesta, a lecturer is invited from a foreign university (University of Southern California), and a seminar is held for teachers working for contents-related education;
  - Teachers and others are sent to the United States to study at higher education institutions there and promote cooperation between organizations.

- Review possibilities to establish standards of skills of game or cartoon creators (designers and artists, etc.), and systems for the certification.

  - In FY2007, programs for introducing skill standards for animators are going to be carried out.

- Review possibilities to commend people who have successfully advanced overseas.

  - Reviews are going to be conducted.

- Provide training for creators (designers and artists, etc.), producers and people dealing with intellectual property right in Asia, and other countries.

  - ASIAGRAPH is held to provide seminars for CG creators (designers and artists, etc.) mainly from Japan, China, South Korea;
  - International transaction initiatives in support programs for anti-piracy are applied to provide training for people from companies in South Korea and other Asian countries. Such initiatives will be continued in FY2008;
  - AOTS’s programs are used to provide training for people in Asian countries about Japan’s contents business models and other issues concerning intellectual property right. Such initiatives will be continued in FY2008.

- Hold seminars and symposiums on human resource development and interactions of people at “Japan International Contents Festival.”

  - Avi Arad, film producer, Elizabeth Daley, Dean of the School of Cinematic Arts, USC, and other lecturers are invited to the opening and closing of CoFesta to hold seminars for developing international human resources;
  - At an event for animation (Japan Animation Contents Meeting), seminars are held for developing human resources;
• At events for video games (“CoFesta Forum”, to be held together with Tokyo Game Show, and “CoFesta Game Developers Seminar”, to be held together with CEDEC) seminars are held for developing human resources;
• At events for JLM and Dorama Festival, seminars are held for developing human resources;
• Japanese top creators (designers and artists, etc.) are invited as lecturers to Doramatic Three Hour Show at CoFesta to develop and exchanges human resources.

Establish “Asia CG Creator Summit” (ASIAGRAPH) to nurture young computer graphics creators (designers and artists, etc.) through industry-university cooperation.

• As part of ASIAGRAPH, symposiums and other events are held for young CG creators (designers and artists, etc.) and researchers to meet together.

Establish international networks of producers through “J-Pitch Program,” which promote matching with foreign contents producers and support planning and development of contents that will be accepted in the world market.

• Workshops for planning and development are going to be held under the J-Pitch program to develop competitive human resources in the world market. Such workshops will be continued in FY2008.

3. Expansion and internationalization of financing

Expand programs of investments and loans for international joint-production (expansion of support by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) for forming international joint production funds, and expansion of loans by the Japan Finance Corporation for Small and Medium Enterprise (JASME), etc.

• In order to promote international joint-production, requests are being made to expand fiscal investment and loan programs (JASME) for production of digital contents and others.

Work to promote the LLP system to encourage active use of the system;
Develop infrastructure to promote contents financing (establish methods of assessment, review for more transparent business).

• For the purpose of keeping business transparent, researches and examinations are conducted mainly on general formats of contract for film production, models of licensing contract with foreign entities, and points of attention to be paid in adopting LLPs;
• Results of the researches and examinations will be disseminated to expand transparent contents business, which help raise external funds, including those from overseas investors.

- Develop accounting software suitable to contents business in Japan.

• Reviews are going to be conducted.

4. Technical Innovation and Cooperation Reinforcement

- Consider offering opportunities for industry-university-government cooperation and interactions of engineers (from private sector, universities, and the National Institute of Advanced Industrial Science and Technology (AIST), etc.).

• Reviews are going to be conducted.

- Prepare a roadmap for development of contents-related technologies and concentrate funding in fund for R&D.

• Industry-university-government review meetings will be held with a view to incorporating the results into the technology strategy map.

- Study systems to spread and promote best practices

• Reviews are going to be conducted.

- Hold new events at “Japan International Contents Festival” by linking hardware and software careers.

• Creation of new business opportunities is promoted with focus placed on linkage of technologies of hardware makers and software developers and creativity of contents creators (designers and artists, etc.).

- Consider development of infrastructure for development of software available for several types of contents

• Examinations are conducted on how the “Project for Development of Common Infrastructure for More Efficient IT Investment” can be effectively used.
Study actual cases of use of new channels overseas (example: study of relation between simultaneous distribution of Japanese TV animations on the internet and decrease of piracy).

- Demonstration experiment of internet distribution in China is going to be carried out by effective use of international interaction programs, which are included in FY2007 support program for anti-piracy. Examinations will be carried out to conduct demonstration experiment of effective use of new channels overseas and other projects also in FY2008.

5. Actions to be taken to globalization of intellectual properties

- Design systems to promote distribution of digital contents in a way relevant to the new age under the cooperation of government agencies.

- Examinations are going to be carried out by the “Experts Study Group for Contents and Japan Brand”, to be established as part of the Intellectual Property Strategy Headquarters.

- Provide support for developing infrastructure for intellectual properties in Asia (training for people dealing with intellectual property right, and develop infrastructure of systems for collecting copyright royalties.)

- International transaction initiatives in support programs for anti-piracy in Asian countries are applied to provide training for people from companies in South Korea and other Asian countries. Examinations are being conducted to continue such initiatives in FY2008;
- AOTS’s programs are used to provide training for people in Asian countries about Japan’s contents business models and other issues concerning intellectual property right;
- The Japan-China-South Korea Culture Contents Industry Forum is held in Osaka to promote interactions between human resources, especially people dealing with intellectual property right. The Forum will also be held in FY2008;
- The Japan-Taiwan-South Korea Digital Contents Industry Forum is held in Taiwan to promote interactions between human resources, especially people dealing with intellectual property right. The Forum will also be held in FY2008.

- Provide support for international joint-production products through entertainment business lawyers

- “J-Pitch Program” workshops for planning and development are held. Workshops will also be held in FY2008, and entertainment business lawyers will provide advice to support licensing business.
Prepare guidelines and model contracts for promoting licensing arrangement with premise of overseas business and multi-use.

- Examinations are carried out mainly on rules of internet distribution in cooperation with Nippon Keidanren.

Strengthen enforcement of piracy measures, and expand support for distribution of authorized products.

- Supports are provided for activities of Content Overseas Distribution Association (CODA) and distribution of authorized products (actual experiments, etc.) as part of support programs for anti-piracy in Asia. In FY2008, enforcement will be further strengthened and programs for promoting distribution of authorized products will be further expanded.