

FPB Tariff Review Research Documents

Reports attached on the Document

1. Market Analysis Report - Film and Publication Board Tariff Review
2. International Benchmarking Report - Film and Publication Board Tariff Review
3. Gauteng Session Market Trajectory Report - Film and Publication Board Tariff Review
4. Durban Session Market Trajectory Report - Film and Publication Board Tariff Review

Market Analysis Report - Film and Publication Board Tariff Review

Prepared by: Enterprises University of Pretoria (Pty) Ltd – Research Solutions

Prepared for: Film and Publication Board

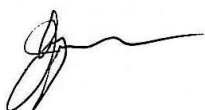
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Abbreviations

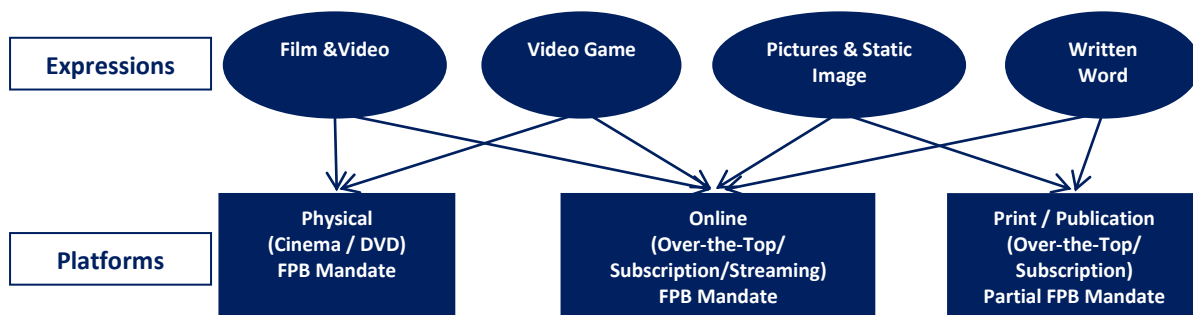
Apps:	Applications
CAGR:	Compound Annual Growth Rate
EY:	Ernst and Young Global Limited
FPB:	Film and Publication Board
ISP:	Internet service Provider
ISPA:	Internet Service Providers Association
IP:	Internet Protocol
MGSA:	Make Games South Africa
M&E:	Media and Entertainment
MVNO:	Mobile Virtual Network Operator
NFVF:	National Film and Video Foundation
OTT:	Over-the-Top
PASA:	Publishers Association of South Africa
PWC:	PricewaterhouseCoopers
SASFED:	South African Screen Federation
VoD:	Video on Demand
WASPA:	Wireless Application Service Providers Association

1. Introduction

Enterprises University of Pretoria (Pty) Ltd is contracted by the Film and Publication Board (FPB) to review its tariffs for content distribution in South Africa. The *Market Analysis Report* begins this process by providing an overview of the media and entertainment (M&E) sector that falls under the board’s jurisdiction; namely to “regulate the creation, production, possession and distribution of films, games and certain publications” (RSA, 1996). As such, the report serves as a contextual resource for the quantitative tariff review exercise and the qualitative consultative research.

The Film and Publication Act (No 65 of 1996) articulates the nature of content or expression that is considered harmful to the public and the platforms that is regulated by FPB as shown in Figure 1. While the act is ‘technology neutral’; convergence of technology has intensified since its promulgation. Consequently, the FPB is now faced with an explosion of content that is available online. This ‘disruption’ is expected to gain momentum as access to the internet and broadband becomes universal. The *Market Analysis Report* is centred on forecasts of M&E over the next five years; subsequently, it is skewed towards online content as this is where real growth is expected.

Figure 1: Film and Publication Board Mandate



1.1. Methodology

The *Market Analysis Report* is a result of reviewing current industry reports¹ on the state of the M&E globally and locally and the expected shifts over the next five years. These industry reports were complemented with FPB reports. Online sources were used to find relevant industry data; which was supplemented with a search for academic papers using Google Scholar. The [Bibliography](#) section lists the documents used for the *Market Analysis Report*.

1.2. Report Structure

The internet has ‘disrupted’ the way films, games, and various publications are produced, distributed and consumed; it has also created new digital platforms and associated technologies such as applications (apps) that meet consumers’ lifestyle needs. Consequently, the first section of the report centres on internet penetration, traffic and usage. This is followed by contemporary trends in the M&E industry and the size of the films, videos, apps, video games, books and magazines subsectors in terms

¹ Academic and policy studies lag industry research; consequently few academic papers were available through Google Scholar that provided up-to-date data and forecasts.

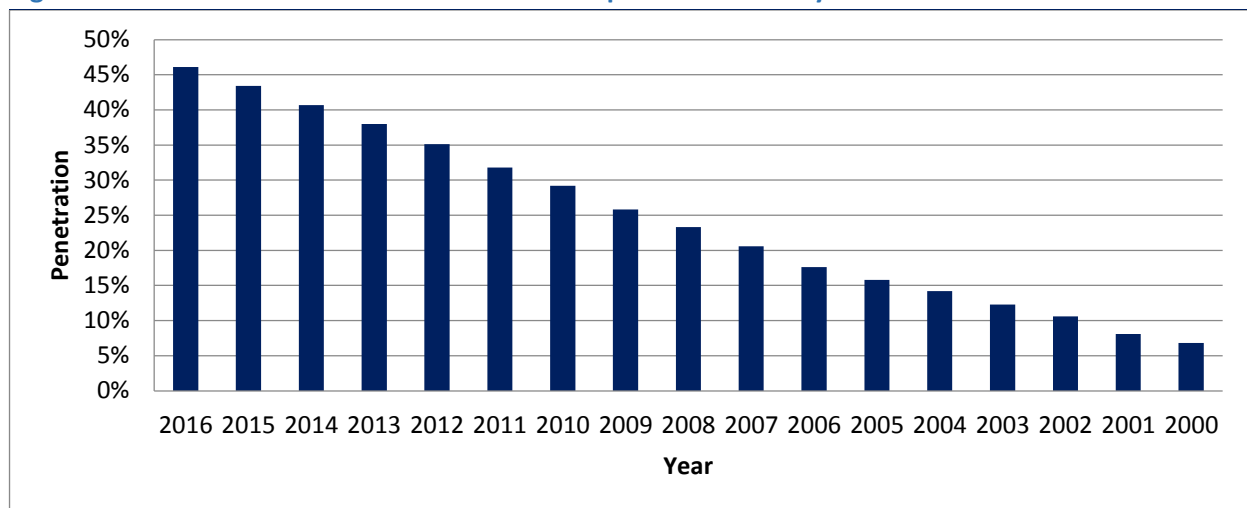
of producers and distributors. The conclusion presents implications for FPB based on these trends and forecasts. The last section looks at the implications of the analysis on the tariff review process.

2. The Internet Access, Traffic and Use

“It would take an individual more than 5,000,000 years to watch the amount of video that will cross global IP [Internet Protocol] networks each month in 2020.” (Cisco, 2016a)

The internet has fundamentally changed the M&E landscape; it is now expected that M&E content is available anytime, anywhere and on any smart device as internet penetration becomes ubiquitous as shown in Figure 2. At the onset of the new millennium less than one in fifteen people (6.8%) around the world used the internet; over the last 17 years internet users has grown to reach 46.1%. Concomitantly, consumer behaviour was shaped not only by access to the internet (expansion of mobile telephony and adoption of broadband) but also by the availability of smart devices, large e-commerce companies and an ever-increasing number of over-the-top (OTT) app providers. In 2010, only 24% of South Africans used the internet; today just under half (49%) are considered active users. While the ‘internet of everything’ is becoming a reality; Table 1 shows that video is most accessed by internet users.

Figure 2: Internet Penetration as a % of World Population over 17 years



Source: Internet Live Stats (www.InternetLiveStats.com)

Table 1: A Second in the Life of the Internet

Media	Number in 1 second as at 26 th July 2016 (Global)
Emails Sent	2,509,653
YouTube Videos Viewed	127,599
Google Searches	55,422
Tweets	7,287
Skype	2,211
Tumblr	1,141
Instagram	733

Source: Internet Live Stats (www.InternetLiveStats.com)

2.1. Internet Protocol Traffic Forecast

Cisco estimates that IP traffic will triple by 2020, with an expected steady compound annual growth rate (CAGR) of 20% to 25% for the period (2016b) as shown in Table 2.

Table 2: Historical Internet Protocol Traffic Data

Year	Global Internet Traffic
1992	100 GB per day
1997	100 GB per hour
2002	100 GBps
2007	2,000 GBps
2015	20,235 GBps
2020	61,386 GBps

**Source: Cisco. (2016). The Zettabyte Era: Trends and Analysis, California, United States of America*

Video traffic will represent 82% of IP traffic (Cisco, 2016b); this will include video on demand (VoD), video files exchanged through file sharing, video-streamed gaming, video conferencing, and video surveillance. The global forecast for households and individual internet consumers are that they will access the internet through multiple devices and that they will increasingly use their mobile devices. Furthermore, Wi-Fi and mobile devices will account for 66% of IP traffic by 2020.

The Cisco report estimates that over the next four years, digital TV and social networking “will be the two services with the highest household penetration, 87% and 76% respectively” (p12, 2016a); while online gaming is expected to increase from 3% to 5% CAGR. According to one telecommunication executive interviewed by Ernst and Young (EY) Global Limited (2015):

“Customers are increasingly focused on data. Media and video was less than 10% of traffic in 2010; now it is almost 50% in 2015.” (EY, 2015)

Consequently, telecommunication executives see the share of digital services in their revenue increasing over the next five years; they perceive TV and video as potential revenue streams. According to EY, there has been an increase in mergers and acquisitions of pay TV assets by telecommunication companies. As one telecommunication executive puts it (2015, p24):

“TV is attractive because of high volumes. You can increase customer loyalty and have the ability to fine-tune the offer and pricing.”

South Africa’s IP traffic shows similar patterns; by 2019 it is expected that 78% of all IP traffic will be video IP traffic.

Cisco’s forecast for IP traffic for South Africa from 2014 to 2019²:

1. Internet traffic will grow 6.3-fold from 2014 to 2019, a CAGR of 44%.
2. There will be 189.8 million networked devices in 2019, up from 112.2 million in 2014.
3. 59% of all networked devices will be mobile-connected in 2019.
4. M2M modules will account for 22% (42.0 million) of all networked devices in 2019, compared to 13% (14.4 million) in 2014, (23.9% CAGR).

² http://www.cisco.com/c/en_za/about/press-releases-south-africa/archive-2015/ip-traffic-growth-rate.html

5. Tablets will account for 11% (21.2 million) of all networked devices in 2019, compared to 5% (5.1 million) in 2014, (33.2% CAGR).
6. Smartphones will account for 30% (57.5 million) of all networked devices in 2019, compared to 22% (25.1 million) in 2014, (18% CAGR).
7. Connected TVs will account for 6% (12.0 million) of all networked devices in 2019, compared to 3% (3.3 million) in 2014, (29.6% CAGR).
8. Non-Smartphones will account for 14.3% (27.1 million) of all networked devices in 2019, compared to 44% (49.3 million) in 2014, (-11.2% CAGR).
9. TVs will account for 34% (1.4 million) of all flat panel TVs in 2019, compared to 0.8% (8,551) in 2014, (175.4% CAGR).

The implication for FPB is:

South Africans are viewing video online and by 2019 video IP traffic will dominate IP traffic; expected to represent 78%:

- This indicates that the consumption of other forms of content/expression online will be small in comparison to video.
- This will require that the FPB intensify its public awareness campaigns; especially regarding online video content and the impact of harmful content on children.

2.2. Current Ownership of Media and Entertainment Devices in South Africa

South Africa's population is 51.7million, with close to 17million³ households. Mobile phone penetration in households is almost universal (94%), followed by television sets (83%). Two in five households have satellite television (41%), while a quarter of households have tablets/phablets⁴ (22%), computers (24%), and home theatres (25%) as shown in Table 3. The number of households with a landline has dropped from 14% in 2011 to 11% in 2016. Similarly, the number of households with a DVD player has declined from 59% in 2011 to 54% in 2016 (StatsSA, 2016).

Table 3: Distribution of Household by Ownership of Household Goods

Household Goods	Census 2011				Community Survey 2016			
	Owning	%	Not Owning	Total	Owning	%	Not Owning	Total
Fridge	9 886 238	68%	4 563 924	14 450 162	13 084 170	82%	2 916 610	16 000 780
Electric Stove	11 129 857	77%	3 320 305	14 450 162	13 608 882	84%	2 517 504	16 126 386
Vacuum Cleaner	2 521 249	17%	11 928 912	14 450 161	2 681 929	17%	12 706 218	15 388 147
Washing Machine	4 556 455	32%	9 893 707	14 450 162	6 307 589	41%	9 203 872	15 511 461
Tablet/Phablet	-	-	-	-	3 363 207	22%	12 226 405	15 589 612
Computer	3 092 543	21%	11 357 618	14 450 161	3 884 348	24%	11 973 379	15 857 727
DSTV	3 721 067	26%	10 729 095	14 450 162	6 692 558	41%	9 482 424	16 174 982
Motor Vehicle	4 266 081	30%	10 184 080	14 450 161	5 292 194	32%	11 013 686	16 305 880

³ There are 16 923 309 households - population living in conventional housing units.

⁴ The Phablet is a class of mobile computing devices designed to combine or straddle the size format of smartphones and tablets. (<https://en.wikipedia.org/wiki/Phablet>)

Household Goods	Census 2011				Community Survey 2016			
	Owning	%	Not Owning	Total	Owning	%	Not Owning	Total
TV	10 761 949	74%	3 688 212	14 450 161	13 850 708	83%	2 766 644	16 617 352
Radio	9 749 897	67%	4 700 264	14 450 161	11 276 289	68%	5 322 155	16 598 444
DVD Player	8 575 219	59%	5 874 943	14 450 162	8 860 933	54%	7 598 365	16 459 298
Home Theatre	-	-	-	-	4 032 652	25%	12 281 341	16 313 993
Landline	2 088 147	14%	12 362 015	14 450 162	1 866 384	11%	14 382 949	16 249 333
Cellphone	12 850 874	89%	1 599 288	14 450 162	15 584 615	94%	1 026 427	16 611 042
Microwave	-	-	-	-	9 128 279	56%	7 202 499	16 330 778
Geyser	-	-	-	-	4 707 210	29%	11 357 270	16 064 480
Air-Conditioner	-	-	-	-	1 254 469	8%	14 392 411	15 646 880

*Source: Statistics South Africa. (2016). Community Survey 2016, Pretoria

The implication for FPB is:

Over the last five years, South African households have increased their spending on pay TV and have also purchased smart devices:

- This signals that South Africans like their global counterparts are going online and are keen on subscription TV.
- This will require that the FPB take leadership in providing fair and transparent guidelines for online content providers, hosts and users.

2.3. Digital Divide

While, global internet penetration is estimated at over 40%, the ‘digital divide’ remains persistent; 6 billion people are without broadband, 4 billion are without internet access, and 2 billion are without mobile phones (World Bank, 2016). The internet as a development tool has come under scrutiny in recent times (World Bank, 2016; Vodafone, 2016). A closer look at how South Africans use the internet in 2012 showed that those who are ‘super-connected’ (most connected to the internet) use the widest range of internet services; compared to those who connect via their mobile phones. The latter were the highest users of social media and were the lowest users of M&E content; while the super-connected were high users of e-commerce/banking and M&E (De Lanerolle, 2012). This study also revealed that English language literacy is an important predictor of internet use, more significant than age, income, gender or where people live; “more than one in five respondents said they could not easily read and write in English. And virtually none of these people (3%) used the Internet” (p10). Figure 3 presents the profile of South Africans who are connected and those who are unconnected from the internet as surmised in the latter study.

Furthermore, where you stay also has an impact on your access and quality of internet (Vodafone, 2016, p12):

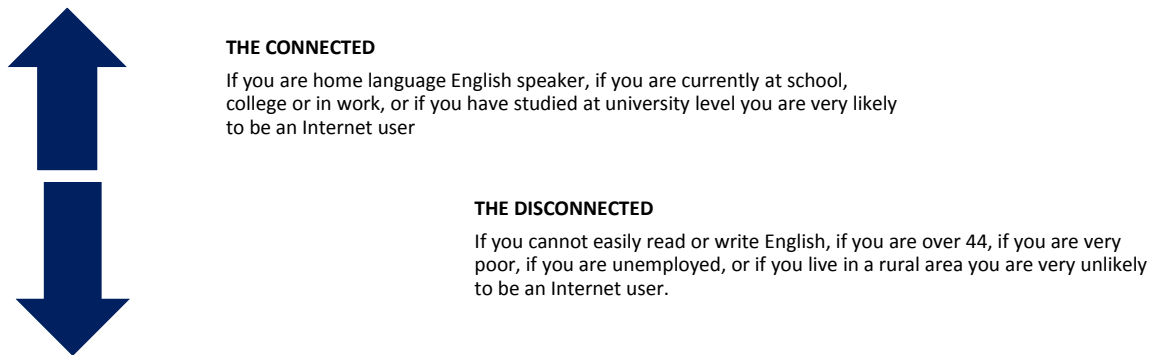
“While affordability of purchasing a smartphone and continued access to mobile data services will continue to be an important driver of uptake and usage, all else being equal, an individual on a low income in a densely populated area will have better access to mobile internet services than their counterpart in a rural area.

The challenges of investment are highlighted by our analysis which shows that a relatively small number of sites generate the bulk of Vodacom’s revenue. The top 10% of total sites contribute over 30% of total revenue,

whereas the bottom 50% of sites contribute under 10%. Of the top sites, just 10% are in rural areas. Data revenues represent a much greater proportion of revenue at the highest earning cell sites than at the lowest earning sites; the top 1,000 sites contribute 37% of total data revenues, whereas the bottom 2,000 sites contribute less than 1% of total data revenues.”

Over the last two years, municipalities especially the metros are rolling out free Wi-Fi to those who live, work and play in their cities. While there is limited and often anecdotal data on how residents are using WiFi; municipalities like the City of Tshwane are providing content that they consider to be relevant to their communities (Vawda, 2016).

Figure 3: Profile of South Africans Connected and Disconnected



**Source: De Lanerolle, I. (2012). Who Connects to the Internet, How They Connect and What They Do When They Connect, South African Network Society, University of Witwatersrand*

The implication for FPB is:

The nature of content (language), the cost of data and the quality of infrastructure will influence who will access M&E online:

- If data costs are significantly reduced and free Wi-Fi becomes a local government priority, then more South Africans will access M&E content online.
- If the number and diversity of M&E content providers increase; especially those offering content in multiple languages, then more South Africans will access M&E content online.
- Subscription television (DStv) appears to be on a steady increase.
- This means that there is a market for subscription-based M&E and for diverse content providers; this will require that FPB be prepared for providing services to various M&E content providers on multiple platforms.

3. Media and Entertainment Trends

3.1. Global Media and Entertainment Trends

In 2014, almost half (46.2%) the global M&E spend was for digital media (McKinsey, 2015). Digital advertising was the fastest growing category with 16.1% growth, followed by video games (14.3%) and broadband (9.3%) as summarised in Table 4. According to Spil Games (2013) in relation to ranking online activities by popularity; “gaming comes in just below watching videos and ahead of watching TV and films or listening to the radio”. The latter report also draws attention that while people are doing a lot of things online; playing video games are one of the things that they are doing most across all internet-enabled devices.

Growth in OTT services will be the major contributor to in-home video entertainment according to McKinsey’s global media forecasts, which will taper as pay TV matures. The recent survey of 30 000 online consumers in 61 countries by Nielsen confirmed this trend; where “most viewers appear to be supplementing, rather than replacing, paid traditional TV services” (Nielsen, 2016, p1). This survey also revealed that 80% of those who do access on-demand content report that they view movies. The McKinsey and Nielsen datasets also show that consumers are “spending less to buy and own content, while spending more to simply gain access to content without owning it” (McKinsey, 2015, p21). It is notable that 59% of the respondents of the Nielsen global survey reported that they don’t mind getting advertising if they can view free content.

Table 4: Total Global Spending by Category (US \$ millions)

Category	2009	2010	2011	2012	2013	2014p	2009-2014p CAGR
Digital Advertising	60,336	70,756	81,544	94,065	109,686	127,345	16.1%
Broadband	234,137	267,784	313,039	355,947	393,274	429,280	12.9%
TV Advertising	136,792	152,824	159,985	168,749	173,314	183,501	6.1%
In-Home Video Entertainment	257,841	270,985	283,287	297,662	310,783	323,408	4.6%
Audio Entertainment	92,551	91,294	92,470	93,681	96,559	95,636	0.7%
Cinema	30,147	31,692	32,245	34,719	35,972	37,133	4.3%
Out-of-Home	24,817	27,044	27,816	29,150	30,627	31,747	5.0%
Consumer Magazine Publishing	65,573	65,010	65,376	63,635	61,167	59,061	-2.1%
Newspaper Publishing	153,392	154,521	153,900	150,311	145,688	142,430	-1.5%
Consumer Books	69,687	70,034	69,504	69,944	70,750	72,357	0.8%
Educational Publishing	38,619	39,608	40,135	39,347	39,955	40,980	1.2%
Video Games	55,190	57,791	60,822	66,444	73,973	84,534	8.9%
Total	1,208,470	1,286,526	1,364,933	1,446,077	1,521,420	1,603,951	5.8%

*McKinsey and Company. (2015). *Global Media Report*, London, United Kingdom

While content-on-demand appears to dominate M&E forecasts, the Nielsen (2016) report identified drivers and barriers that influence consumer behaviour as summarised in Table 5. Notably, that ‘content is king’ (PricewaterhouseCoopers (PWC), 2015, p9):

“Overall, what is becoming more evident globally is that the distinction between ‘digital’ and ‘non-digital’ is regarded as mostly irrelevant by consumers. Instead, their focus is on choosing a convenient and compelling content experience that suits their needs depending on where they are and what they are doing – without worrying or even caring how it’s delivered. What is much more relevant these days is what content, services and experiences consumers are willing to pay for and how.”

Table 5: Facilitating and Impeding Factors to Content on Demand

Drivers	Barriers
<ul style="list-style-type: none"> • Convenience – ‘anytime, anywhere, any device’. • Allows members in a household to watch different programme on different devices at the same time. • Can watch multiple episodes of their favourite series at once. • It is perceived to be cheaper than content from satellite and cable providers. 	<ul style="list-style-type: none"> • Limited content on OTT providers. • The quality on an online or mobile device is not as good as watching on a bigger screen.

*Nielsen. (2016). *Video on Demand – How Worldwide Viewing Habits are Changing in the Evolving Media Landscape*

3.2. South African Media and Entertainment Trends

South African media consumption show similar patterns with internet spend having the highest projected growth, followed by video games and filmed entertainment as shown in Table 6. Unlike the global trends, the forecast for growth in magazine consumption appear to be healthier in South Africa. However, the growth forecast for out-of-home is lower for the South African economy. It is notable that the M&E spend/revenue forecast is much higher at 9.4% than economic growth for the same period (PWC, 2015).

Table 6: Total Entertainment and Media Spending by Segment, 2010 – 2019 (R millions)

Media	Historical Data					Forecast					CAGR
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014-2019
Books	3 884	3 819	3 807	3 832	3 828	3 832	3 845	3 863	3 914	3 967	0.7%
Business-to-Business	7 289	7 328	8 103	8 623	9 203	9 805	10 393	10 966	11 517	12 050	5.5%
Filmed Entertainment (includes both out-of-home and in-home)	2 287	2 539	2 671	2 824	2 991	3 173	3 287	3 458	3 684	3 919	5.6%
Internet	10 010	13 544	18 624	26 725	34 589	42 916	51 846	61 312	71 277	81 705	18.8%
Magazines	6 755	7 572	8 386	8 865	9 446	9 773	10 085	10 418	10 663	10 899	2.9%
Music	2 315	2 212	2 141	2 082	2 014	1 998	1 995	2 027	2 086	2 144	1.3%
Newspapers	8 518	8 984	9 139	9 288	9 075	9 229	9 392	9 559	9 742	9 948	1.9%
Out-of-Home	2 860	3 297	3 736	4 105	4 271	4 401	4 542	4 704	4 879	5 071	3.5%
Radio	3 019	3 243	3 612	4 170	4 452	4 750	5 048	5 346	5 643	5 941	5.9%
TV	23 680	25 951	28 093	30 102	32 390	33 836	35 620	37 180	39 151	40 949	4.8%
Video Games	1 592	1 810	2 029	2 365	2 619	2 823	2 997	3 194	3 404	3 610	6.6%
Total	71 200	79 001	88 769	101 136	112 748	124 098	136 290	148 916	162 472	176 281	9.4%

* PricewaterhouseCoopers. (2015). *Entertainment and Media Outlook: 2015-2016 (South Africa, Nigeria & Kenya)*, Johannesburg

According to this PWC report (2015), South Africa in 2019 will reach a tipping point with digital having 49.6% of E&M spend. Furthermore, the report highlights that:

“One consistent trend, then – and not just in South Africa, but globally – is the rise in overall consumer spending through to 2019 on video-based content and services, against far flatter prospects for spending on primarily text based content and services.”

In 2013, South Africans who earned less than R5 000 per month reported that convenience and affordability were the two main criteria influencing their access to films. They were more likely to watch films on free TV, followed by DVDs bought from informal traders, small shops and flea markets; very few accessed films on-line. The majority (81%) did not play games; those who played games, accessed these on their mobile phones. However, their wealthier counterparts were not as price sensitive; in the main they viewed films on pay-TV and in the cinema. They rented DVDs and none reported buying these from informal street vendors. Convenience and viewing experience mattered to this latter market segment. A quarter (24%) of the respondents played video games. They bought physical games at big retail stores and also played online. If they bought films and games online, it was from ‘established’ foreign online stores/providers (DeLoitte, 2013). In the last two years, data from SAARF (2016) shows that as mobile connectivity increases, so did online instant messaging, video viewing and gaming. Table 7 present the latest M&E trends in the subsectors that fall under the FPB jurisdiction.

Table 7: Media and Entertainment Trends in South Africa⁵

Media	Trends
Books	<ul style="list-style-type: none"> The book market in South Africa is small, mainly due to price (books are expensive in South Africa), limited reading culture⁶ and high illiteracy rates. In 2014, the book market comprised consumer books (38%), education books (57%), and professional books (5%). Consumer books are expected to rise to 41% in 2019. In 2014, e-books comprised 4% of the consumer books and are expected to rise to 14% in 2019. Online booksellers are Takealot, Exclusive Books and Loot. There is no kindle store in South Africa; consumers have purchased kindles and books from the Amazon.com Kindle Store. Self-publishing statistics are unavailable, although there are a number of self-published authors in South Africa and companies supporting them. Publishers and e-book retailers are offering 'all-you-can-read e-book' service for a fixed subscription fee, similar to the 'all-you-can-eat' subscription services that are popular in online music and video delivery. Piracy is becoming a problem with e-books.
Filmed Entertainment (includes both out-of-home and in-home)	<ul style="list-style-type: none"> The filmed entertainment market in South Africa is expected to continue to grow at a 5.6% CAGR to 2019. This growth will be influenced by the uptake in digital home video; reaching R1 billion – outstripping both box office and physical home video revenues. By 2019, 69% of electronic home revenue will come through TV subscription, with 31% deriving from OTT/streaming. Currently the local VoD services available are MTN's WhattoVU and Naspers' Showmax (Naspers). Altech's Node and Times Media Group's VID services are no longer on offer. These services were considered unprofitable. However, international service providers Google Play, Netflix and OnTapTV are now available in South Africa. Physical home video is showing a slow decline; so it will still be generating revenue in the near future. In 2014 the DVD sales revenue was R809million; however in 2019 it is expected to be roughly R730million. Cinema revenue, comprising box office revenue and cinema advertising, will rise from R1.5 billion in 2014 to an estimated R1.9 billion in 2019. Although cinema goers are a small fraction of the population; as cinemas are located in malls in urban centres and large towns. The number of 3D films released in South Africa is increasing and contributed to a third of the box office takings. Unfortunately, local films still make a small share of the film market. South African adult audiences prefer action films followed by comedy, drama, romance, musicals, horror/thriller/adventure and documentaries. While children prefer cartoons and animation films⁷. National Film and Video Foundation has entered into co-production treaties with Canada, Italy, Germany, UK, France, Brazil and Nigeria.
Internet ⁸	<ul style="list-style-type: none"> Internet revenue in the main will be generated by mobile internet access compared to fixed broadband. Mobile internet revenue is expected to reach R69.1 billion in 2019; while fixed broadband access revenues will increase to R7.1 billion. By 2019, an estimated 2.3 million households will subscribe to broadband, and mobile Internet subscribers are expected to rise to 38 million. Fibre to the home and buildings is gaining momentum, with numerous entities rolling-out fibre for monthly subscriptions. The main operators are MTN, Telkom, Vodacom, Vumatel, Dark Fibre Africa, and Internet Solutions.

⁵ Most of the data in Table 7 is from PricewaterhouseCoopers. (2015). *Entertainment and Media Outlook: 2015-2019, South Africa, Kenya and Nigeria*, Johannesburg (downloaded on the 15th May 2016). Data from other sources is referenced separately as footnotes.

⁶ Genesis Analytics (Pty) Ltd. (2006). *Factors Influencing the Cost of Books in South Africa*, South African Book Development Council

⁷ Devnomics and Social Surveys. (2015). *Audience Research Project*, Johannesburg

⁸ The FPB is not responsible for classification of the internet sites, media content is increasingly being delivered through it; hence it is included.

Media	Trends																																													
	<ul style="list-style-type: none"> In July, ICASA issued an invitation to apply for spectrum that will enable 4G services; enabling mobile operators to extend quality services to more South Africans. Recognising the increasing demand for mobile data Telkom has taken the lead in responding to this changing consumer needs through its recently launched FreeMe packages. According to one market analyst, the Telkom FreeMe packages that are parcelled around free data bundles “will shake up the South African mobile market” (Tarrant, 2016). Table 8 compares the FreeMe packages to equivalent packages by other major mobile operators. <p>Table 8: Telkom FreeMe Packages in Relation to Other Mobile Operators as at 25th July 2016</p> <table border="1"> <thead> <tr> <th>1GB</th> <th>Telkom</th> <th>Vodacom</th> <th>MTN</th> <th>Cell C</th> </tr> </thead> <tbody> <tr> <td></td> <td>FreeMe 1GB</td> <td>Smart More Data 2GB</td> <td>My MTNChoice+ S</td> <td>Pinnacle 1</td> </tr> <tr> <td>Per month</td> <td>R99</td> <td>R349</td> <td>R299 (R199 promo price to 31 July)</td> <td>R499</td> </tr> <tr> <td>Data</td> <td>1GB</td> <td>2GB</td> <td>2GB</td> <td>1GB</td> </tr> <tr> <td>Minutes</td> <td>(Telkom calls only)</td> <td>50</td> <td>100</td> <td>600</td> </tr> <tr> <td>SMSs</td> <td>Unlimited</td> <td>25</td> <td>100</td> <td>600</td> </tr> <tr> <td>Out-of-bundle (per MB)</td> <td>29c</td> <td>R1</td> <td>99c</td> <td>15c</td> </tr> <tr> <td>Call rate (per min)</td> <td>69c</td> <td>R1.75</td> <td>R1.50</td> <td>R1.50</td> </tr> <tr> <td>SMS</td> <td>30c</td> <td>50c</td> <td>50c</td> <td>15c</td> </tr> </tbody> </table> <p><i>*Source: (Tarrant, 2016). Telkom FreeMe, Vodacom, MTN, Cell C contracts compared, Moneyweb</i></p> <ul style="list-style-type: none"> Cheaper basic smart phones and tablets are entering the market. At the end of 2014, there were 22.8 million smartphone connections in South Africa; representing 31% of all mobile phone connections, and the number of smartphone connections is forecast to rise to 52.3 million by end-2019. While the number of active tablet devices was at 2.6 million. Consumers continue to buy laptops as they realise that tablets lack the depth of functionality and processing power to handle all their needs. The South African mobile virtual network operator market is gaining traction; there are 9 active operators; Hello Mobile, Virgin Mobile, FNB Connect, me&you mobile, Smart Mobile, Afrihost, Econet Wireless, iBurst, MRP Mobile (Mr Price)⁹. Cities are providing free public Wi-Fi; the City of Tswane has roughly 800 free Wi-Fi zones in the City¹⁰. Tshwane Free Wi-Fi is delivered by Project Isizwe, which is providing similar network solutions to other municipalities; hence increasing the free Wi-Fi footprint. As at December 2015, adults used the internet in the main for¹¹: <ul style="list-style-type: none"> Instant messaging/chats (46%, increased from 2014) Search (45.2%) Social networking (36.7%) Email (28.3%) Games (21.6%, increased from 2014) Music downloads (20.7%, increased from 2014) Download Apps (17.3%) Weather (16.3%) Banking (14.7%, increased from 2014) Watch video (13.4%, increased from 2014) Read newspaper/articles (13%, increased from 2014) 	1GB	Telkom	Vodacom	MTN	Cell C		FreeMe 1GB	Smart More Data 2GB	My MTNChoice+ S	Pinnacle 1	Per month	R99	R349	R299 (R199 promo price to 31 July)	R499	Data	1GB	2GB	2GB	1GB	Minutes	(Telkom calls only)	50	100	600	SMSs	Unlimited	25	100	600	Out-of-bundle (per MB)	29c	R1	99c	15c	Call rate (per min)	69c	R1.75	R1.50	R1.50	SMS	30c	50c	50c	15c
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SMS	30c	50c	50c	15c																																										
Magazines	<ul style="list-style-type: none"> There are approximately 17million adult readers in December 2015. The most popular magazine categories are¹²: <ul style="list-style-type: none"> Family (22.7%) 																																													

⁹ <https://www.detecon.com/en/Publications/mobile-virtual-network-operators-south-africa>

¹⁰ Vawda, S. (2016). *Formative Evaluation of Tshwane’s Free Wi-Wi*, City of Tshwane

¹¹ South African Audience Research Foundation. (2016). *AMPS 2015B – January 2015 – December 2015*, Johannesburg

¹² South African Audience Research Foundation. (2016). *AMPS 2015B – January 2015 – December 2015*, Johannesburg

Media	Trends
	<ul style="list-style-type: none"> ○ Women (18%) ○ Entertainment (17.1%) ○ Sport and hobby (12.8%) ○ Motoring (7.7%) ○ Men (3.7%) ○ Travel (3%) ○ Parenting (2.5%) ○ Business (1.9%) <ul style="list-style-type: none"> ● Magazine readership will continue to increase at a slow rate of 2.7% by 2019, although there was a slight decline of readership in 2014 and 2015. ● Trade magazines will increase more sharply at 4.8% CAGR by 2019. ● Print will remain king in the sector. ● There were more closures of magazines than new launches in 2014.
TV	<ul style="list-style-type: none"> ● The latest South African Audience Research Foundation (SAARF) figures shows that 92% of adult South Africans watched television broadcast on a television; only 0.9% viewed online and 0.8% on mobile phones¹³. ● The outlook for pay-TV remains bright, as incumbent subscription TV services have moved quickly and successfully to counter the potential impact of OTT and other disruptive influences by implementing attractive product and service initiatives. ● Discover Digital is a company in Johannesburg that is offering OTT services and Internet Protocol TV (IPTV) for ISPs.
Video Games	<ul style="list-style-type: none"> ● In 2014 the video games market grew by 10.7% and is expected to continue to grow at 6.6% CAGR by 2019. ● The PC game market is growing faster than the console game market, mainly due to digital downloads. ● Social/casual gamers will be the biggest contributors. ● While gaming console sales remain steady as consumers get quality experience; the future remains uncertain as connectivity and streaming are improving significantly. ● Since broadband infrastructure is lagging in South Africa, the revenue from digital downloads of games is still small. This may change as broadband infrastructure is improved. ● Micro-transactions appear to be attractive to gamers. ● There is an explosion of free-2-play games. ● 40 organisations are involved in game development in South Africa.

* PricewaterhouseCoopers. (2015). *Entertainment and Media Outlook: 2015-2016 (South Africa, Nigeria & Kenya)*, Johannesburg

The Implication for FPB is:

The revenue from video-based products takes the lion's share of the M&E market; i.e. revenue from pay-TV, video games, filmed entertainment. While DVD sales continue to be resilient in South Africa; its growth is on a decline. Wealthy households are more likely to go to the cinema and to access home-entertainment online or through pay-TV. While poorer households will watch free TV and are more likely to purchase pirate DVDs. Nevertheless, mobile connectivity is increasing viewing video and playing games online. While trade books are a small market, the magazine market is expected to grow moderately:

- Piracy is a major problem in the M&E sector, especially physical DVDs and online movies. Piracy of e-books appears to be increasing. It seems that poorer households that are price sensitive are more likely to purchase or borrow 'free content'. This will require that the FPB strengthen its monitoring and compliance capability and capacity and also to step up its education and

¹³ South African Audience Research Foundation. (2016). *AMPS 2015B – January 2015 – December 2015*, Johannesburg

awareness campaign around harmful content to minors and the related significance of the classification system.

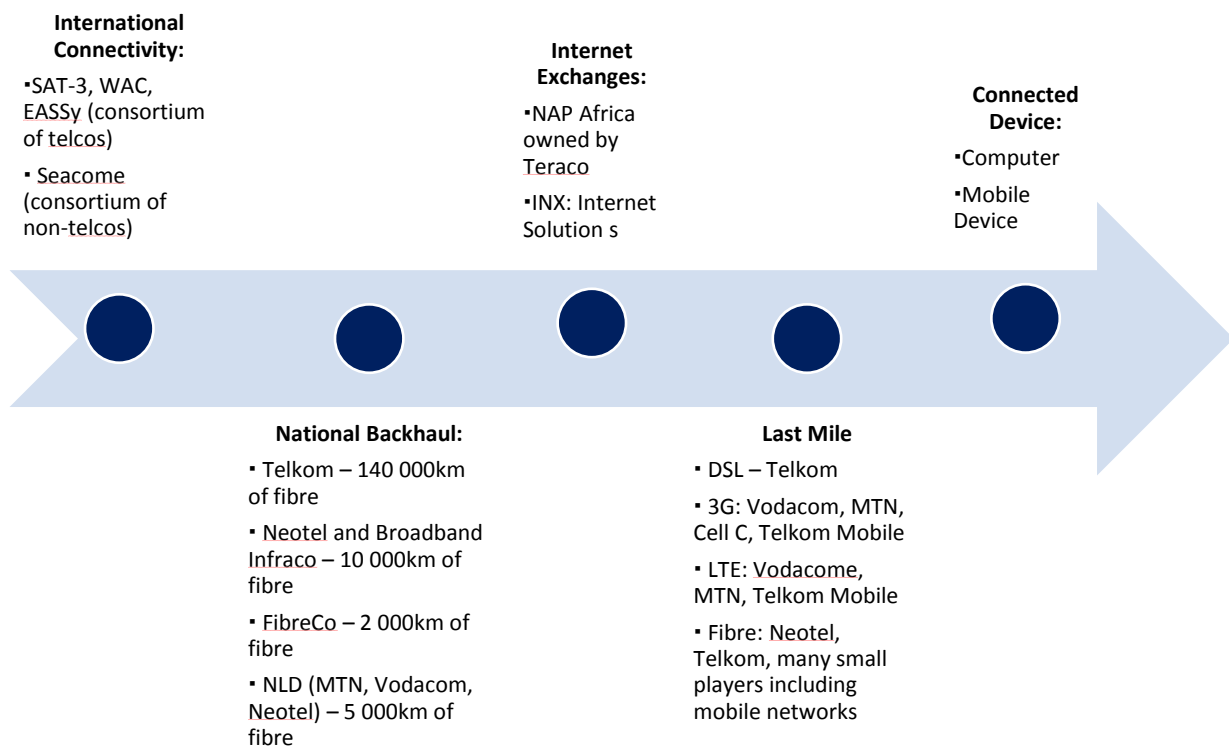
- The FPB’s mandate covers films, video games, pictures, static images and print. Consequently, irrespective that the market share of print is small and that South Africans in the main use the internet to access social networking sites, viewing videos and playing games; the FPB has to continue to offer services across the M&E landscape.
- FPB urgently needs to finalise its online regulatory policy, especially regarding video games as casual gamers are growing as a result of increasing access to the internet via mobile smart devices.
- FPB will need to review its role in the age of the internet of everything. This will also require that the organisation reflect on the adequacy of its current processes, structures and systems.

4. Providers of Media and Entertainment in South Africa

4.1. Internet

The infrastructure to access the internet either through broadband or mobile is owned by few companies with vertical integration becoming more entrenched as shown in Figure 4.

Figure 4: Who Controls South Africa’s Internet



**Source: Vermeulen, J. (2014). Here is Who Controls the Internet in South Africa, Mybroadband.co.za*

In 2015, Vodacom had 33.7million customers followed by MTN (29.1million), Cell C (22million), Telkom (2.3million). There are nine mobile virtual network operators with roughly 600 000 customers; these operators use Cell C’s network. There are 177 internet service providers (ISP); making it a very competitive market as shown in Table 9.

Table 9: ISPA Membership by Size as at July 2016

Internet Service Provider Category	Category Description	Count of Category
Small	Members with offices and/or infrastructure in three or more major centers.	133
Medium	Members with offices and/or infrastructure in more than one city.	27
Large	Members with offices and infrastructure in only one city or location.	17
Grand Total		177

*Source: <http://ispa.org.za/membership/list-of-members/>

Internet service providers are represented by the Internet Service Providers Association (ISPA). The association was established in 1996 and received industry representative body status in 2009. Since its inception over two decades ago, the association has 177 members. Its memberships is categorised according to its infrastructure reach as summarised in Table 9.

The association has a code of conduct that all its members have to adhere to as part of its self-regulatory approach. In relation to content that is considered harmful to the public, the code of conduct requires that all its members comply with the Film and Publication Act (No 65 of 1996). While the code of conduct does not require the ISPs to monitor content provided by its customers; “a member is obliged to take appropriate action where it becomes aware of any unlawful content or conduct.” As such:

- ISPA members must establish a notification and take-down procedure for unlawful content and activity in accordance with ISPA’s take-down notification procedure, and respond expeditiously to such notifications.
- ISPA members must submit a report to ISPA on the steps taken in response to a take-down notice within a reasonable period after such a notice is lodged.
- ISPA members must keep a record of all take-down notices received and any materials taken down for a period of at least three years unless possession of such materials is illegal.

In 2015, ISPA received 164 complaints and 264 take-down notices. As at July 2016, 50 phishing sites were removed.

The wireless industry is represented by two associations; the Wireless Application Service Providers’ Association (WASPA) and the Wireless Access Providers’ Association (WAPA). WASPA launched in 2004 and currently has over 300 members. WAPA was established in 2006 and has 173 members. Both associations have industry body representative status; all the members are required to comply with the respective organisation’s code of conduct. WASPA’s code of conduct is more detailed with regards to content classification compared to WAPA. The more significant difference is the WASPA’s complaints process; the association employs full time staff to monitor the services provided by its members and to handle complaints by members of the public.

The implication for FPB is:

While the ownership of the infrastructure for delivering internet services are concentrated; the ISP and mobile telephony markets are competitive, especially as new mobile virtual network operators enter the market:

- The sector is organised and self-regulated with different levels of complaints and appeals processes. This requires that the FPB step up its advocacy and monitoring roles.

4.2. Films

The distribution and exhibition of films in South Africa is dominated by Ster Kinekor and Times Media¹⁴ as shown in Tables 10 and 11. Indigenous Film Distributors focuses on promoting and distributing locally produced films. Locally produced films account for roughly 10% of annual film releases as shown in Table 12. At the time of writing this report there was no comprehensive data on the independent distributors and exhibitors.

The Nielsen (2016) survey on VoD included a sample of South African online respondents. The aggregate findings reveal that 63% do watch VoD. While there is no data on VoD reach in South Africa, the growth in the number of venders testifies that the South African market is ripe for the pickings. JUSTFLICKS is a new entrant that took over the VIDI’s website and advertises that “for R1 a day you can binge-watch marathon sessions of your favourite TV series as and when you want”¹⁵.

Table 10: Film Releases by Distributors from 2013 to 2015

Distributor	2013 Releases	% Share	2014 Releases	% Share	2015 Releases	% Share
Avalon	2	1.0%	0	0.0%	0	0.0%
Black Sheep	0	0.0%	7	3.1%	25	10.3%
Crystal Brook	4	2.0%	19	8.3%	14	5.8%
Indigenous Film Distributors	6	2.9%	6	2.6%	5	2.1%
Ster Kinekor	83	40.7%	90	39.5%	83	34.2%
Times Media*	76	37.3%	78	34.2%	81	33.3%
United Internal Pictures	33	16.2%	28	12.3%	35	14.4%
Total	204	100.0%	228	100.0%	243	100.0%

*In 2014 Times Media sold its Nu Metro business

Source: National Film and Video Foundation 2014, 2015, 2016 Reports

Table 11: Revenue from Film Releases by Distributors from 2013 to 2015

Distributor	2013 Releases	% Share	2014 Releases	% Share	2015 Releases	% Share
Avalon	R227 151.00	0.03%		0.00%		0.00%
Black Sheep		0.00%	R5 588 198.00	0.63%	R78 776 507.00	6.57%
Crystal Brook	R9 935 066.00	1.13%	R43 769 151.00	4.97%	R12 532 217.00	1.05%
Indigenous Film Distributors	R24 157 702.00	2.75%	R4 938 895.00	0.56%	R12 177 231.00	1.02%
Ster Kinekor	R338 791 154.00	38.54%	R268 538 886.00	30.50%	R376 271 977.00	31.40%
Times Media*	R314 418 596.00	35.77%	R435 865 452.00	49.50%	R366 398 709.00	30.58%
United Internal Pictures	R191 557 261.00	21.79%	R121 812 275.00	13.83%	R352 105 677.00	29.38%
Total	R879 086 930.00	100.00%	R880 512 857.00	100.00%	R1 198 262 318.00	100.00%

*In 2014 Times Media sold its Nu Metro business

Source: National Film and Video Foundation 2014, 2015, 2016 Reports

Table 12: Local Film Releases between 2013 and 2015

Year	Total Films	South African Films	% Share
2013	204	25	12.3%

¹⁴ In January 2014, Time Media sold of Nu Metro.

¹⁵ <http://justflicks.co.za/?action=FAQs>

2014	228	23	10.1%
2015	243	22	9.1%

The implication for FPB is:

The film subsector is showing healthy growth, with increasing content being released in the market:

- The sector is dominated by a few distributors, and Table 7 shows that this sector is expected to see continuous growth. While DVD sales are declining, over the next five years the sales will remain robust with expected revenue of R730million in 2019. Consequently, FPB has opportunity to increase its tariffs and reduce its dependence on national grants. However, if the FPB want to consider encouraging new entrants, then it should create a tariff structure that serves as an incentive.
- As internet penetration increases and the VoD matures, more South Africans will complement television viewing with subscription television services and VoD. This requires that the FPB finalise its online regulations.

4.3. Apps

All media accounts on the app development sector suggest that the sector is growing and in the main it is driven by the corporate sector; with few app entrepreneurs. In 2014, PwC estimated that there were forty organisations developing apps (2015). Alexander and Francke (2013) in studying the sector in Cape Town found that software development companies see the business potential of mobile apps; however they are struggling with the monetisation or commercialisation of their products. Mobile apps can be grouped according to nine categories as shown in Table 13. While local app developers have not been successful in monetising their products, international apps such as Uber and Kindle (via Amazon.com) have found South Africa to be a lucrative market. According to recent reports, Uber facilitated 2 million trips in 2015, a 100% year on year increase (Holmes, 2016).

Table 13: Mobile Applications Categories

Category	Category Description
Calculate / Utilities	Do calculations like mortgage payments, convert temperatures, etc.
Games Apps	For entertainment.
News Apps	Users can get the news delivered to their smart phone in real time.
Productivity Apps	Users can be more productive by using their smart phone to scan and send documents; etc.
Search Tool Apps	Allow users to find information by using their smart phone.
Social Networking Apps	Include apps such as Facebook, Twitter, Pinterest, etc.
Sports Apps	Useful for those who want all the latest sports news.
Travel Apps	Useful for those who are travelling.
Weather Apps	Allow users to receive their daily weather forecast to a smart phone.

The implication for FPB is:

FPB’s mandate covers all M&E content; as such related e-commerce apps should also be monitored.

- This requires that the FPB finalise its online regulations.

4.4. Video Games

The distribution of video games in South Africa is limited to a small number of distributors. These are: Megarom Interactive, Comztek (now part of Westcon Southern Africa), Electronic Arts, Nintendo

Interactive South Africa, Xbox 360 South Africa, Apex Interactive, Ster Kinekor Entertainment, and Nu Metro Interactive. Data on individual company's market share was not available at the time of writing this report.

The industry representative body for video game makers, Interactive Entertainment South Africa was launched in early 2016. Prior to the establishment of this body; Make Games South Africa (MGSA) provided a platform for game makers. While there is no official count of the number of companies/individuals developing video games in South Africa; MGSA survey (2015) reported 40 respondents to their survey. Considering MGSA's reach in the gaming market; their survey provides a good approximation of the industry. In 2014, 67 games were commercially realised and another 126 were in development. Other key stakeholders in the South African gaming sector include:

- rAge Expor – premier gaming Expo in Johannesburg
- Cape Town Electronics & Gaming Expo
- NAG Lan – annual gaming competition
- Mygaming – online news website
- SA Gamer – Online community for gamers

The implication for FPB is:

Video gaming is expected to grow significantly in South Africa as discussed in Table 7, especially casual gamers using their mobile phones. In the near future as internet penetration is not universal and broadband speeds remains a constraint, South Africans will continue to purchase physical games.

- This requires that the FPB finalise its online regulations.
- There is opportunity for FPB to increase its revenues from the classification of video games.

4.5. Publishing

The Publishers Association of South Africa (PASA) is the industry representative body; with a membership of roughly 154 organisations. Publishers are broadly grouped into the following three categories:

1. Academic (or higher education) publishing provides learning materials for the tertiary market (that is, all post-school levels);
2. Education publishing is aimed at the school market, from pre-school to Grade 12, and provides learning materials for learners and support materials for teachers; and
3. Trade publishing provides the kinds of books that you will find at bookstores in your local mall.

In 2011, there were 27 large book distributors who were not members of PASA (Struik and le Roux, 2012). Retailers are represented by the South African Booksellers Association. In 2012, locally published books accounted for 39.5% of sales compared to imported books (61.5%) in the general trade category (Struik, 2012).

Other key stakeholders in the sector include:

1. The National Library of South Africa
2. Academic and non-fiction authors' association of South Africa
3. South African Book Development Council
4. Indigenous Languages Publishing Programme
5. South African Writers' Network

4.6. Content Classified by FPB

The number of films and games classified by FPB has more than doubled (2.3 times) over the last three years as shown in Table 14. The revenue generated by FPB from classification is insignificant as summarised in Table 15, compared to the revenue generated by the filmed entertainment and video games subsectors as shown in Table 16. In 2015, the FPB billed just over R4million; in the same year the spending on filmed entertainment and video games were slightly under R6billion.

Table 14: Content Submitted for Classification by Three Top Distributors from 2013 to 2015

Distributor	2013 Content	% Share	2014 Content	% Share	2015 Content	% Share
Crystal Brook	30	8%	22	7%	66	7%
Ster Kinekor	231	59%	149	46%	367	41%
Nu Metro/Times Media	128	33%	152	47%	460	52%
Total	389	100%	323	100%	893	100%

Source: Film and Publication Board ERMS 2013, 2014, 2015 Database Reports

Table 15: Content Classified by FPB and Related Costs from 2013 to 2015

Distributor	2013 Content	2014 Content	2015 Content	Total
All Distributors	1 798	2 054	1 941	5 793
All Classifiers and QA's	R2 821 880.00	R3 814 312.00	R4 114 940.00	R10 751 132.00

*Source: Film and Publication Board 2013, 2014, 2015 Annual Financial Statements Reports
Film and Publication Board ERMS 2013, 2014, 2015 Database Reports

Table 16: Total Film and Video Games Spending from 2013 to 2015 (R millions)

Media	2013	2014	2015
Filmed Entertainment (includes both out-of-home and in-home)	2 824	2 991	3 173
Video Games	2 365	2 619	2 823
Total	5 189	5 610	5 996

* PricewaterhouseCoopers. (2015). Entertainment and Media Outlook: 2015-2016 (South Africa, Nigeria & Kenya), Johannesburg

The implication for FPB is:

The number of media content being submitted for classification is growing and the growth forecast for the sector is extremely positive.

- The costs of classification appear insignificant compared to the revenue generated from films and video games. Furthermore, Table 7 shows that this sector is expected to see continuous growth. Consequently, FPB has opportunity to increase its tariffs and reduce its dependence on national grants.

5. Conclusion

More South African households' own computers, DSTV, and television sets according to 2011 Census; concomitantly the M&E sector's revenue or spend is expected to be higher than economic growth

forecast over the next five years. It is projected that South Africans will continue to increase their spending on internet content; mobile internet spend will grow faster than broadband. In the immediate future, physical share will dominate, the tipping point towards online content (49.6%) is expected to be in 2019 (PwC, 2015). The aforementioned has the following implications for the FPB:

- South Africans will continue to spend on magazines albeit at a slower growth rate than other M&E products. Unfortunately, spending on books will remain low.
- South Africans will be spending more on digital in-home video entertainment with 31% of revenue coming from OTT services. As such, there is space for more OTT companies to enter the South African market. The current trend is that these OTT companies are beginning to create their own content; consequently there will be a corresponding increase in film and series productions.
- As the uptake of broadband increases, online video gaming is expected to increase; although video games on consoles will continue to dominate. It is also expected that there will be an increase in both content and online distributors of video games.
- As most of the internet traffic is expected to be from mobile devices; it is projected that there will be significant growth in casual/social video gamers as well as the number of free-2-play games.
- In terms of local production; local films, video games and app makers are increasing their respective outputs. Currently, more tertiary institutions are partnering with big telecommunication and smart devices manufacturing companies to offer specialised courses in video games and app creation. With the above demand, this supply side intervention will positively contribute to local production.

6. Implications for the Tariff Review Study

The market analysis reveals that more and more South Africans are using the internet to socialise, to do business, and to be entertained. South African households' ownership of digital devices and internet spend are increasing; as such within a household multiple devices will be used at the same time to access content. Hence, 'content will remain king' to satisfy the diverse consumer interests. Nonetheless, free-TV, DVDs and physical video games will continue to grow with the slower economic growth (persistent unemployment) and broadband uptake forecasts. In summary this creates market opportunities for both physical and digital distributors and creators of content; consequently there is space in the South African market for a range of M&E players. The implications for the tariff review process are twofold:

1. FPB has a wide range of stakeholders that will need to be consulted.
2. The tariff regime will need to be sensitive to media convergence, the related mergers and acquisitions, and the opportunities for new entrants, especially small, local, and those who further broad-based black economic empowerment.

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International Benchmarking Report - Film and Publication Board Tariff Review

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Prepared for: Film and Publication Board

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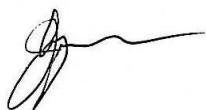
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Abbreviations

ACB:	Australian Classification Board
ACMA:	Australian Communications and Media Authority
AGCOM:	Autorita Per Le Garanzie Nelle Comunicazioni
CLASSIND:	Brazilian Classification Authority
ESRB:	Electronics Software Ratings Board
FPB:	Film and Publication Board
IARC:	International Age Rating Coalition
ISP:	Internet Service Providers
MDA:	Media Development Authority
NICAM:	Netherlands Institute for the Classification of Audio-visual Media
PEGI:	Pan-European Game Information
TIME:	Telecommunications, Information Technology, Media and Entertainment
UK:	United Kingdom
US:	United States of America
VoD:	Video on Demand

1. Introduction

Enterprises University of Pretoria (Pty) Ltd is contracted by the Film and Publication Board (FPB) to review its tariffs for content distribution in South Africa. The *International Benchmarking Report* is the second desktop study to contribute to this process. The purpose of the report is to collate and analyse existing FPB reports on international practices with specific attention to the tariff regimes for content classification. As such, the report also serves as a contextual resource for the quantitative tariff review exercise and the qualitative consultative research.

1.1. Methodology

Since 2013, the FPB did three international visits to learn from and to share experiences with peers in Australia (2013), Brazil (2014) and United Kingdom (2015). Unfortunately, the three study tour reports do not provide any information on tariff regimes in the respective countries. Furthermore, the regulatory bodies of the three countries are different. The British Board of Film Classification (BBFC) is an independent industry body while the Australian Classification Board and the Brazilian Classification Authority (CLASSIND) are statutory bodies. Also CLASSIND is fully funded by the state as classification of content is a right in Brazil.

Consequently, FPB's three study tour reports were complemented with data from visiting websites of a range of classification bodies and downloading their policies and latest annual reports including financial statements to gain knowledge of their income sources and tariff structures. The challenge with this approach was twofold; first language was a barrier to accessing non-English websites. Second, not all classification boards' websites offer comprehensive information on their systems and processes, including financial statements and annual reports. Additional industry, government and academic publications were used to compensate for this hiatus (see full list in the [References](#) section).

1.2. Report Structure

Classification or rating of films, video games and publications are part of all countries legislation in the form of 'regulating' cultural norms and moral behaviour. Countries that are historically linked to the commonwealth are more likely to have promulgated legislation specifically addressing classification of films and the establishment of independent statutory bodies to implement the laws and to monitor its efficacy. While, countries closely associated with post World War II United States of America (US) and those with modern strong civil society organisations have opted for self-regulation of the industry. Countries that historically had strong censorship laws are moving towards classification and rating and are beginning to put supporting regulations in place. In the latter countries censorship/classification boards/councils are run by government ministries.

The impact of convergence of technology and its concomitant explosion in content is also influencing the monitoring and related regulations of films, video games and publications. Some countries have created 'convergent regulators' by merging broadcasting and infrastructure regulators, while others are considering ways of merging sector specific regulators to align to the outcomes of convergence of technology. With regards to content delivered online, countries appear to be favouring co-regulation and self-regulation as optimum approaches to classification due to the exponential growth of content, especially user generated content. While many countries support the notion of an 'open net'; they have also instituted filtering or blocking of websites to restrict child pornography, hate speech,

violence or terrorism. Although countries are grappling with classification of online content; content producers and ISPs are bound by existing national legislation related to media content including defamation, intellectual property rights, obscenity, child pornography, etc.

The *International Benchmarking Report* is presented in six sections including the introduction. Section 2 presents the findings from reviewing four countries with ‘convergent regulators’. Section 3 provides data on five countries where classification is self-regulated. This is followed by section 4 on eight countries that have statutory independent classification boards or government departments that are responsible for film, video games and publication ratings. Section 5 provides concluding remarks followed by a summary of implications for the FPB Tariff Review Process.

2. Sample Countries with ‘Convergent Regulators’

Historically, in democratic countries separate independent bodies are instituted to regulate the telecommunications and the broadcasting sectors. These regulators are mandated to ensure competitive markets, universal access to services, freedom of expression, cultural norms and media diversity and pluralism. With the convergence of technology these two sectors are now intertwined; which has influenced the efficacy of separate regulatory authorities. A few countries have merged these regulators into single ‘convergent regulators’. In the United Kingdom (UK), Ofcom was created by merging five regulators and took over seven years to complete; while AGCOM in Italy was created from scratch (Council of Europe, 2008). In Singapore the Media Development Authority (MDA) was formed in 2003 by merging the Singapore Broadcasting Authority, the Films and Publications Department and the Singapore Film Commission. The primary focus of MDA is to develop the media sector; it also includes oversight of online content.

The desktop review of convergent regulators in four countries is summarised in Table 1. Table 1 show that with the exception of MDA in Singapore these convergent regulators do not cover the classification of film, video games and publications. Rating of films, video games and publications remain the responsibility of their respective Classification Boards. However, there are differences in the way these boards are constituted, for example the Australian Classification Board (ACB) is an independent body set up by the Australian Department of Communications and the Arts, while the British Board of Film Classification (BBFC) is an independent industry body. In Italy classification is done by a directorate in the Ministry of Cultural Heritage and Activities and Tourism. The sources of income of these boards also differ significantly; BBFC is self-funded, while the ACB’s revenue comes from classification fees and grants from national government.

It is notable that video games are self-regulated in European countries using the Pan European Games Information system. In 2012, the European Commission published its Green Paper on audiovisual content in the context of convergence; which promoted self-regulation with emphasis on classification of content. In 2010, Authority for Television On Demand was created by Ofcom to ‘co-regulate’ Video on Demand (VoD). Since 2015, it is now part of Ofcom. In Australia, ACMA is piloting using the International Age Rating Coalition (IARC) for the period July 2015 to June 2016. The review reveals that convergent regulators appear to prefer self-regulation or co-regulation with regards to content delivered online.

Table 1: Sample of Countries with ‘Convergent Regulators’

Country	Legislation	Converged Regulator	Films / DVDs	Video Games	Online Content	Publications	Tariff Scheme
Australia	<ul style="list-style-type: none"> Classification (Publications, Films and Computer Games) Act 1995. National Classification Code Classification guidelines for Films. Classification guidelines for Computer Games. Classification guidelines for Publications. Classification (Publications, Films and Computer Games) (Modifications of Films) Instrument 2015. Classification (Publications, Films and Computer Games) (Modifications of Computer Games) Instrument 2015. Classification (Publications, Films and Computer Games) (Conditional Cultural Exemption Rules) Instrument 2015. 	<ul style="list-style-type: none"> Australian Communications and Media Authority (ACMA) regulates telecommunications, broadcasting, radio communications and the internet. 	<p>Regulated:</p> <ul style="list-style-type: none"> The Classification Board is responsible for classifying films, DVDs, video games, certain publications. The Board is independent of the ACMA. Classification Review Board reviews classification decisions that are contested and makes fresh judgements. Classification Branch is part of the Attorney General and serves as oversight of the boards as well as provides secretariat and operational services. 		<p>Co-Regulation/Filtering:</p> <ul style="list-style-type: none"> ACMA implements filtering of ‘blacklisted’ websites, especially content that is categorised as ‘refused classification’. ACMA investigates complaints about online content. Encourages the development of codes of practice for ISPs and monitors compliance. Piloting IARC for one year starting from 1st July 2015. VoD content is classified by ACB. There is debate on whether ACB should be absorbed in ACMA. 	<p>Regulated:</p> <p>Only submittable (publications that are likely to be restricted or censored) must be submitted to the board. These include publications that:</p> <ul style="list-style-type: none"> contains depictions or descriptions likely to cause offence to a reasonable adult, is unsuitable for a minor to see or read, or is likely to be refused classification. 	<p>ACB/ACMA Income from Fees/licensing and Government Grants:</p> <ul style="list-style-type: none"> All costs incurred during classification are recovered from the fees charged. Fees are dependent on length of time, number of pages and number of assessors required for the classification process. Inter-government services, stakeholder engagement, services to the public and services exempted from paying fees are funded through national budget process.
Italy	Law 163/1965	<ul style="list-style-type: none"> Autorita Pe Le Garanzie Nelle Comunicazioni (AGCOM) was established in 1997 to regulate broadcasting and 	<p>Regulated:</p> <ul style="list-style-type: none"> Films are classified by the Commissione di Revisione Cinematografie in the Direzione 	<p>Self-Regulatory</p> <p>Pan European Games Information</p>	<p>Regulated by AGCOM and Selected Filtering/Blocking</p>	<p>Regulated:</p> <ul style="list-style-type: none"> The Ministry of Cultural Heritage and Activities and Tourism is responsible for all artistic 	<ul style="list-style-type: none"> Could not determine the classification fee tariffs. Since 2006 AGCOM funding is 91% from fees from

Country	Legislation	Converged Regulator	Films / DVDs	Video Games	Online Content	Publications	Tariff Scheme
		telecommunications.	Generale Cinema of the Ministry of Cultural Heritage and Activities and Tourism.			expressions.	operators, 6% from state grants and 3% from other sources.
Singapore	<ul style="list-style-type: none"> • Films Act 1981 • Media Development Authority of Singapore Act • Internet Code of Practice. • Media Market Conduct Code 2003 • Subscription TV Programme Code 2004 • Two tier licence framework for IPTV 2007 • Two-rating classification system for video games 2008 	Media Development Authority (MDA) was formed on 2003 by merging the Singapore Broadcasting Authority, the Films and Publications Department and the Singapore Film Commission.	Regulated: <ul style="list-style-type: none"> • Singapore Board of Film Censors is responsible for all film classification. • The Board is a division of MDA. 	Co-Regulated: <ul style="list-style-type: none"> • In 2008, MDA introduced a classification system: 'suitable for 16 & above' and M18—and also bans games that contain content deemed 'Not Allowed for All Ratings' ('NAR'). • Distributors are responsible for classifying video games that are not considered harmful to children. 	Co-Regulated: <ul style="list-style-type: none"> • ISPs adhere to a code of conduct. • The Singaporean government holds stakes in all three of the ISP, as such has significant control over the content. It institutes internet blocking and filtering. 	Regulated: The MDA is responsible for approving publications.	MDA receives income from the following sources: <ul style="list-style-type: none"> • Broadcast licence. • Film and video licence fees. • Film and video classification fees. • Revenue from completed films. • Government grants. • Charges an administration fee for titles that are 'self-assessed' by trained assessors. • At the end of the 2014/15 financial year, MDA received: \$57 646 000 grants from government, \$27 837 000 from broadcasting fees, \$2 091 000 from film and video fees, \$126 000 from completed films. • Government grants are the main source of revenue.

Country	Legislation	Converged Regulator	Films / DVDs	Video Games	Online Content	Publications	Tariff Scheme
United Kingdom (UK)	<ul style="list-style-type: none"> Video Recordings Action 2010 (repealed and revived the Video Recordings Act 1984). The Cinematograph Films (Animals) Act 1937 The Obscene Publications Act 1959 and 1964 The Protection of Children Act 1978 The Animal Welfare Act 2006 The Criminal Justice and Immigration Act 2008 Communications Act, 2003 	Ofcom is responsible for television and radio, telecommunications, wireless services, spectrum management, and also aspects of competition.	Regulated: <ul style="list-style-type: none"> British Board of Film Classification (BBFC) established by the film industry to classify films. BBFC's classification can be overridden by local council authorities. 	Regulated: <ul style="list-style-type: none"> The Video Standards Council is a self-regulatory body that is mandated to classify all video games sold in the UK using the Pan European Games Information (PEGI) system. In this role it uses the name Games Rating 	Co-Regulation/Self-Regulated: <ul style="list-style-type: none"> Authority for Television On Demand is responsible for the classification of Video on Demand Programmes. Since 2016, it is part of Ofcom. In 2011, the four largest ISPs committed to the <i>Code of Practice on Parental Controls</i> that gives customers a choice whether to activate a filter to screen sexually explicit content on computers connected to their account. Internet Watch Foundation was established "to fulfil an independent role in receiving, assessing and tracing public complaints about child sexual abuse content on the internet and to support the development of website rating systems¹". The BBFC also offer a 'watch and rate' service for online content distributors. This is a voluntary service; Amazon, DisneyLife and We are Colony are members of this service. The rates are £22 + £2.75 per-minute fee + VAT for a digital-only age rating. For example, for a 90-minute submission would cost £269.50 + VAT. 	<ul style="list-style-type: none"> The BBFC is an industry body, as such the organisation is not responsible for regulating publications. This is covered by other legislation. 	<ul style="list-style-type: none"> The BBFC is self-funded through the fees it charges for its services. Fees for classification are based on running time of the film. Ofcom is funded through licence fees and administrative charges from stakeholders and government grants. Government grants represent 50% of its income.

¹ <https://www.iwf.org.uk/about-iwf/iwf-history>

3. Sample Countries with Self-Regulated Classification Boards

The review of five countries where film, video games and publications are self-regulated by independent bodies established by their respective industries are all high-income economies as summarised in Table 2. This does not translate into industry being solely responsible for the development and regulation of content. In these countries civil society organisations and their citizens are active in monitoring content; as such there is greater consensus on the classification of content and enforcement of rating. Furthermore, the state has strong monitoring capability. Also the high levels of economic development in these countries leave little space for an informal sector and the inadvertent outcome of bypassing legislative requirements. These countries also prefer a competitive market environment with restrained state intervention in the economy. Consequently, the review reveals that all these boards are funded through the classification/licence fees.

Table 2: Sample of Countries with Self-Regulated Classification Boards

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
Canada	Classification is the responsibility of the provinces.	<p>Regulated:</p> <ul style="list-style-type: none"> Six Provincial Classification Boards are responsible for classification of films. 	<p>Self-Regulation:</p> <ul style="list-style-type: none"> Classification is voluntary. The Canadian Home Video Rating System is administered by the Canadian Motion Picture Association – an industry body. 	<p>Unregulated:</p> <ul style="list-style-type: none"> The Canadian Broadcasting Standards Council is a national voluntary self-regulatory organization created by Canada’s private broadcasters to deal with complaints made by viewers or listeners about programs they have seen or heard broadcast on a participating station. The council administers seven 	<p>Unregulated:</p> <ul style="list-style-type: none"> Provincial Classification Boards Most of the provincial boards use the Electronics Software Ratings Board (ESRB) established by the gaming industry in the US. 	<ul style="list-style-type: none"> As industry bodies their mandates do not cover publications. 	<ul style="list-style-type: none"> The Canadian Broadcasting Standards Council’s revenue comes from membership fees. The Ontario Film Review Board is self-funded through classification fees.

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
				<p>industry codes including VoD.</p> <ul style="list-style-type: none"> Laws governing child pornography, defamation, anti-discrimination and copyright also hold for online content; as such courts can instruct ISPs to remove material. Cleanfeed Canada is a coalition of ISPs, federal and provincial governments, and law enforcement bodies to filter access to foreign-hosted URLs associated with images of child sexual abuse. 			
Netherlands	<ul style="list-style-type: none"> Article 240a of the Criminal Code 	<p>Self-Regulation:</p> <ul style="list-style-type: none"> Netherlands Institute for the Classification of Audio-visual Media (NICAM). It implements the Kijkwijzer classification system. Over 2 200 organisations from both public and private broadcasters, distributors, exhibitors and retailers are members. 		<p>Self-Regulation:</p> <ul style="list-style-type: none"> Video on Demand companies are members of NICAM. 	<p>Self-Regulation:</p> <ul style="list-style-type: none"> Implements PEGI. 		<ul style="list-style-type: none"> The Dutch Media Authority is mostly funded by the State and additionally through license fees. NICAM is self-

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
		<ul style="list-style-type: none"> NICAM is monitored by the Dutch Media Authority. 					funded through membership fees.
Germany	<ul style="list-style-type: none"> German Youth Protection Law was amended in 1985 State Treaty on Youth Protection in the Media Children and Young Persons Protection Act (JuSchG) Audiovisual Media Services Directive, 2007. 	<p>Self/Co-Regulation:</p> <ul style="list-style-type: none"> The Freiwillige Selbstkontrolle de Filmwirtschaft is an industry body established to classify films. It works with the Oberste Landesbehörden. 		<p>Self-Regulation:</p> <ul style="list-style-type: none"> Currently methods for restricting access include age verification and blocking routines or disabling access to the content altogether between 6am: and 10pm German time. 	<ul style="list-style-type: none"> Unterhaltungssoftware Selbstkontrolle (USK) is the self-regulatory body for entertainment software. It implements the ratings for all video games. Since 2014 it also classifies apps and games within the IARC. 		<ul style="list-style-type: none"> FSK is self-funded through the income it receives from fees. USK is self-funded.
Japan	<ul style="list-style-type: none"> The Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People. Code of the National Association of Theatre Owners of Japan. Computer Entertainment Rating Organisation Code of Ethics. 	<p>Self-Regulated:</p> <p>Film Classification and Rating Committee (EiRIN) is a non-governmental organisation established in 1956.</p>		<p>Self-Regulated:</p> <ul style="list-style-type: none"> Council for Promoting Measures Against Content Harmful to Young People on the Internet and Development of an Appropriate Environment comprises of key cabinet ministers, including the Prime Minister. The Council is responsible for 	<p>Self-Regulated:</p> <ul style="list-style-type: none"> Computer Entertainment Rating Organisation (CERO) is a non-governmental organisation established in 2002 by the gaming industry to classify all video games. 		<ul style="list-style-type: none"> EiRIN is self-funded through fees. At present, the fee is 2,740 yen per one minute plus consumption tax. Fees for re-edited versions, reissued films and films solely intended for festivals, may be discounted. CERO is funded by the gaming industry (Computer

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
				developing a basic plan setting out measures to promote safe and secure internet use by young people.			Entertainment Supplier's Association).
United States of America (US)	<ul style="list-style-type: none"> • First Amendment (No legislation directed at censorship/ classification) • Children’s Internet Protection Act (2001) • Prosecutorial Remedies and Other Tools to end the Exploitation of Children Today Act (PROTECT Act, 2003) 	Self-Regulation: <ul style="list-style-type: none"> • Classification and Rating Administration (CARA) established by the film industry (Motion Picture Association of America) is responsible for classification of films and DVDs. 		Unregulated: <ul style="list-style-type: none"> • Online content is not exempt from the law including laws protecting children, defamation, intellectual property, etc. 	Self-Regulation: <ul style="list-style-type: none"> • Video games are rated by ESRB, the industry body. • In 2015, ESRB joined IARC. • The major retailers have agreed to only stock classified games in their respective stores. 		Fees for classification are based on production value and projected gross revenue.

4. Sample Countries with Statutory Classification Boards

The review of eight countries with both independent statutory classification bodies and councils/directorates located in government ministries reveal that countries are struggling with regulating online content. These countries rely on existing legislation to ensure that their citizens are protected against defamation, intellectual property rights infringements, criminal actions, etc.

It is notable that the mandates of the classification boards in the eight countries differ; for example the Kenyan Film and Classification Board is also responsible for licensing film theatres; while the Radio, Television, and Cinematography Directorate in Mexico is responsible for classifying broadcast content. Furthermore, the nature of their mandates is often not ‘technology neutral’; for example India has strong regulations for film but no legislation

covering video games. Generally, statutory bodies or those located in government ministries are in the main funded through national government budgets/ grants.

Table 3: Sample of Countries with Statutory Classification Boards

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
Brazil	<ul style="list-style-type: none"> Audiovisual Law Rouanet Law MP 2,228-1/2001 SeAC Law Marco Civil Law, 2016 The Azeredo Law , 2013 – (protection against cybercrime) 	<ul style="list-style-type: none"> Brazilian Classification Authority (ClassInd) is a statutory body responsible for licencing film distribution, classifying films, video games and monitoring television content. It is part of the Department of Justice, Rating, Titles and Qualifications. 		<ul style="list-style-type: none"> All online VoD and video games are regulated by Department of Justice, Rating, Titles and Qualifications. Via ClassInd. Internet governance through the Brazilian Internet Steering Committee In 2015, Humaniza Redes (Humanized Networks), a website was established to receive complaints on human rights violations and offer internet users instructions on how to safeguard themselves from cyber-violence. Brazil is a 	ClassInd is responsible for the classification of video games.	Publications are not included in the ClassInd.	100% state funded.

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
				member of IARC.			
France	<ul style="list-style-type: none"> Decree n°90-174 of February 23, 1990; modified by the decree n°2001-618 of July 12, 2001) French cinematographic industry code Article R645-1 of the French criminal code 	<p>Regulated: The Centre national du cinéma et de l'image animée is a statutory in the Ministry of Culture that is responsible for regulating, supporting, promoting, and preserving films. It has the Board of Film Classification for classifying films.</p>		<ul style="list-style-type: none"> Limited filtering child pornography and websites that promote terrorism, hatred or racial violence. 	<p>Self-Regulated: Uses the PEGI age rating system.</p>	The Ministry of Culture's other departments are responsible for classification of other forms of expression.	No data on financial reports on the website.
India	<ul style="list-style-type: none"> Cinematograph Act 1952 The Cinematograph (certification) Rules, 1983 Government Guidelines, 1991 Indian Information Technology Act, 2000 Protection of Children from Sexual Offences Act, 2012 IT Rules 2011 Citizen Charter, 2011 	<ul style="list-style-type: none"> The Central Board of Film Certification is responsible for the classification of films and DVDs. It is a statutory body. The Film Certificate Appellate Tribunal established under the 1952 act for hearing appeals against CBFC classifications. 		<ul style="list-style-type: none"> The Internet Service Providers Association of India has a code of conduct that its members can adhere to on a voluntary basis. As such there is no mechanism for complaints. In 2011 the government adopted IT rules to supplement the Information Technology Act of 2000, which gives powers to the government to censure online content. 	<p>Unregulated: Video games are not classified in India; legislation that targeting gambling, pornography, indecent representation of women, may be used. To date there has been no legal challenge.</p>	The board is not responsible for regulating publications. The Constitution guarantees freedom of expression, nonetheless censorship does occur in India.	<p>Fees and Budgeted:</p> <ul style="list-style-type: none"> The board charges for classification of film, however it is not equivalent to the costs of the services. The 2014/15 Annual Report shows that only 42% of its budget was covered by fees received. In the main the board is funded by the state.
Kenya	<ul style="list-style-type: none"> Film and Stage Plays 	Kenya Film and Classification Board is		<ul style="list-style-type: none"> Kenya Film and 	Unregulated	The board is not	The Board's income in the main is

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
	<p>Act, 1968</p> <ul style="list-style-type: none"> Programming Code for Free to Air TV and Radio Kenya Information and Communications Act, 1998 Kenya Information and Communication Act, 2013 Sexual Offences Act, 2006 	mandated to license distributors and exhibitors, to classify films, and to classify television programmes.		<p>Classification Board want all VoD services to be classified using local system.</p> <ul style="list-style-type: none"> No filtering or blocking of websites but government does take down websites. 		responsible for publications. Kenya's Constitution guarantees freedom of expression.	from government grants. In the 2012/2013 financial year received the board received Kshs 149,753,831 from government and only Kshs 11,471,820 from fees and licencing (7%).
Malaysia	<ul style="list-style-type: none"> Film Censorship Act, 2002 	<p>Regulated:</p> <ul style="list-style-type: none"> The Film Censor Board of Malaysia in the Ministry of Home Affairs is responsible for rating films. 		<p>Regulated:</p> <ul style="list-style-type: none"> Filtering and blocking of websites. 	<ul style="list-style-type: none"> Data unavailable. 	Malaysia has strict 'censorship' regulations in place.	Funded by the state.
Mexico	<ul style="list-style-type: none"> Mexico (Federal Cinematography Law, 1992; Federal Radio and Television Law, 1960) 	<p>Regulated:</p> <ul style="list-style-type: none"> Radio, Television, and Cinematography Directorate in Ministry of Interior is responsible for classification of film, television and DVDs. 		<ul style="list-style-type: none"> Recent constitutional reform has made access to the internet a right. As such there is no filtering or blocking of online content. 	<p>Self-Regulation:</p> <p>Mexico uses the ESRB to assign classification of video games. The organisation is a US industry body.</p>	Freedom of expression is guaranteed, however there is a lot of self-censorship because of the drug cartels.	Fully budgeted by the State (100% funded).
New Zealand	<ul style="list-style-type: none"> Films, Videos, and Publications Classification Act, 1993 	<p>Co-Regulation:</p> <ul style="list-style-type: none"> Film and Video Labelling Body (FVLB) is an industry body that is responsible for classification of all films classifying 'unrestricted' films. Films that are unrestricted in Australia and the UK are accepted, i.e. cross-rated and lower classification fee. Films that may need to be banned or 		<p>Filtering and Blocking:</p> <ul style="list-style-type: none"> Digital Child Exploitation Filtering System (DCEFS) to block websites that host child sexual abuse images is being made 	Only games with restricted content must be classified. The OFLC uses the criteria set for films to classify video games.	The Office of Film and Literature Classification is responsible for publications that may be restricted or banned.	Fees and budget from the state. However, the organisation has not increased its fee structure since 1996 or its grant from the state, consequently it has instituted significant cost saving. Nonetheless, it remains under financial stress.

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
		restricted are sent to the Office of Film and Literature Classification (OFLC).		<p>available voluntarily to New Zealand Internet Service Providers (ISPs).</p> <ul style="list-style-type: none"> • Objectionable content cannot be distributed online. • Computer files downloaded from the internet is subjected to local law and hence films and games fall under fall under the OLFC. • There is no law to force ISPs to take down websites. • A significant number of ISPs in NZ have voluntarily implemented a filter to screen child sexual abuse images. • The Online Media Standards Authority has been set up by broadcasters to receive complaints and maintain codes in 			

Country	Legislation	Films	DVDs	Online Content	Video Games	Publications	Tariff Scheme
				relation to news and factual content placed online (and not otherwise broadcast.			
Nigeria	<ul style="list-style-type: none"> National Film and Video Censors Board Act, 1993 The Preview of Films and Video Works Regulations, 2000 National Film and Video Censors Board Regulations, 2008 Anti-Child Pornography Act of 2009 Cybercrime Act, 2015 	<ul style="list-style-type: none"> National Film Video Censors Board is mandated to classify films exhibited and distributed in Nigeria. 		<p>No filtering or Blocking of websites:</p>	<p>Unregulated:</p> <ul style="list-style-type: none"> Although there are no regulations for video games, this sector both from production and usage is growing. 	<ul style="list-style-type: none"> Historically Nigeria had strong censorship regulations. Since the new government came into power in 2015, there appears to be less government interference. 	<ul style="list-style-type: none"> Fee structure available on the website The Board is allowed to create a fund from government grants, gifts and fees. Data on its financials were not on the website. Classification fee is based on duration of film and class of films. License fees for exhibitors are dependent on size and footprint of the exhibitor.

5. Conclusion

Convergence of technology has disrupted traditional notions of and approaches to the classification, rating or censorship of media and entertainment content. The following six trends emerge from the review of international practice:

1. The efficacy of separate regulators for telecommunications, information technology, media and entertainment sectors is being reviewed. There is growing evidence that regulators are playing 'catch-up' to technology and that there is a need for 'convergent regulators' comprising multidisciplinary teams.
2. The explosion of content necessitates a society response; as such self-regulation and self-monitoring complemented with strong capability of the state to monitor and enforce legislation (co-regulation) with the support of a vocal and active civil society is seen as an efficient and effective means to regulating media and entertainment content.
3. Regional or international coalitions or classification systems are required to complement national ratings such as PEGI, IARC or ESRB.
4. Civil society oversight such as Humaniza Redes, Internet Watch Foundation or Cleanfeed Canada is important to enhancing internet governance.
5. Governments are engaging in internet filtering and blocking; while supporting the notion of an 'open net'.
6. Self-regulation occurs mainly in high income economies with producers, distributors and exhibitors paying the required fees to the industry body. Few countries have statutory independent statutory classification bodies; in the main it is government departments that are responsible for censorship or classification. Nonetheless, both statutory independent boards and directorates/departments located in government ministries are generally funded from national budgets.
7. In comparison with other countries, FPB in South Africa has the 'widest mandate' – includes all films, publications and video games irrespective of the format and technology (see FPB Law Report by Enterprises University of Pretoria). This approach is positive in combating the inefficiencies of a fragmented media content classification system, especially in protecting children from harmful content. However, the FPB's capacity, especially funding appears limited in comparison to its international peers.

6. Implications for the Tariff Review Study

The review of international practice highlighted the complexity of classifying media and entertainment content in the context of technology convergence. The implications for the tariff review process are fourfold:

1. Consider the efficacy of co-regulation of online content in partnership the Independent Communications Authority of South Africa and local industry bodies.
2. Deliberate on the notion of classification of media and entertainment content as a right that should be funded by the state or a consumer right that is the responsibility of the producers, distributors, broadcasters (linear and non-linear) and exhibitors. In so doing, it will clarify the role of the state and its related agencies. Furthermore, with a thriving informal sector and peer-to-peer digital environment for pirated material and content, this debate is more crucial as it is difficult to oversee informal and or anonymised economic activity.
3. Establish a separate unit that will focus on VoD with a unique fee structure and classification approach. The demand for these services is expected to increase in South Africa (see Enterprises University of Pretoria Market Analysis Report); consequently there will be many more VoD service offerings in South Africa. Implicit in a VoD service is the large catalogue of media content that is frequently updated and requires quick turnaround times for classification. While co-regulation, addresses these characteristics, it requires processes and systems that will adequately monitor these online services. It will also allow for FPB to provide services that ensure that the public and the industry's needs are effectively met. However, the final recommendation will be made in the Enterprises University of Pretoria Close-Out report on the Tariff Review Study.
4. Enhance public education to facilitate increasing role of individuals and civil society organisations in monitoring media and entertainment content.

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Market Trajectory Report - Film and Publication Board Tariff Review

Prepared by: Enterprises University of Pretoria (Pty) Ltd – Research Solutions

Prepared for: Film and Publication Board

Sessions: Gauteng

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Abbreviations

DVD:	Digital Video Disc
FPB:	Film and Publication Board
M&E:	Media and Entertainment
PEGI:	Pan European Game Information
VoD:	Video on Demand

1. Introduction

Enterprises University of Pretoria is contracted by the Film and Publication Board (FPB) to review its tariffs for content distribution in South Africa. The *Market Trajectory Report* is an outcome of conducting forty in-depth interviews and three roundtable discussions with FPB clients. The report provides insights on their businesses’ future growth areas, their perceptions of the FPB tariffs and related services, their preferred regulatory approach, and their internal capacity and capability to engage with their consumers. As such, the *Market Trajectory Report* complements the *Market Analysis Report* by giving a first-hand account of the experiences and opinions of the media and entertainment (M&E) sector. This is the fourth report to provide contextual information to support the quantitative tariff review exercise and the qualitative consultative process.

1.1. Methodology

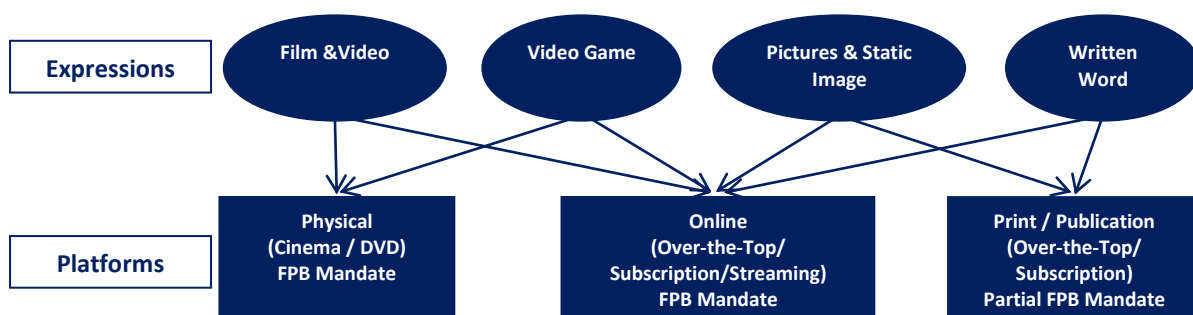
Forty in-depth interviews were conducted telephonically with clients on the FPB register from the 3rd to 17th October 2016. The in-depth interviews were complemented with three roundtable discussions with clients between 4th November and 7th December 2016.

The in-depth interviews were semi-structured; following the attached [schedule](#). The schedule allowed respondents to share their perceptions, experiences, and suggestions for improving the current FPB tariffs and related services. It also enabled gathering thick and nuanced data from a range of FPB clients.

The roundtable discussions were conducted like focus group discussions, the agenda covered the same themes as in the in-depth interview schedule (see attached [Round Table Discussion Agenda](#)). This approach allowed FPB clients to engage collectively with the key issues, in doing so it facilitated identifying their dominant concerns as well as learning more about the unique challenges and issues in the respective subsectors.

Figure 1 illustrates the FPB’s mandate; within each expression and platform its clients range from producers, distributors, exhibitors, and retailers of M&E content.

Figure 1: Film and Publication Board Mandate



The FPB register as at September 2016 had 2 390 clients as shown in Table 1. The Distributor of Video/Games/DVD Material describes the retail chains; each store in a retail chain is a unique client of the FPB. The current clients registered under the ‘internet service providers’ category are those who provide the public with internet access. There were no internet service providers as defined by the Electronic Communications and Transaction Act 25 of 2002 registered with the FPB.

Table 1: FPB Client List as at September 2016

Business Type	Total	%
A Distributor / Exhibitor of Video/Games/DVD Material	2	0.08%
A Retail Store	3	0.13%
Adult Distributor	80	3.35%
Cinema	3	0.13%
Digital/Online Distributor	7	0.29%
Distributor and Exhibitor of films	134	5.61%
Distributor of Video/Games/DVD Material	1 828	76.49%
Exhibitor	2	0.08%
Exhibitor of Film Material	10	0.42%
Exhibitor of Video/Games/DVD Material	12	0.50%
Family Video Shop	4	0.17%
Film Distributor	19	0.79%
Game Distributor	12	0.50%
Internet Café	8	0.33%
Internet Service Provider	252	10.54%
Pilot	1	0.04%
Retailer	12	0.50%
(Blank)	1	0.04%
Grand Total	2 390	100.00%

Random sampling technique was planned to create the sample frame and to identify the forty respondents for the in-depth interviews. This technique would enable the findings to be generalised across the FPB client register. However, each store of the large chain retailers was listed as a unique client; using random sampling would result in the sample frame being skewed towards the retail chain stores. Consequently, purposeful sampling technique was implemented to ensure that the selected forty respondents were representative of the FPB client list. The major challenge of implementing this sample frame was the accuracy of the contact information on the FPB register; telephone numbers and the contact people were dated. Tables 2 to 5 present the final sample frame in relation to type of business, media expression, Black ownership, the FPB services that they use, and the province where their head office or business resides.

The sample is representative of the M&E sector. The *Market Analysis Report* illustrated that the exhibition and distribution of media content is dominated by a few companies and with vertical integration becoming entrenched; while, the production and retailing of media content have diverse ownership. Half the respondents were from Gauteng, followed by KwaZulu Natal (23%) and Western Cape (13%). Six in ten respondents were producers/retailers and less than 20% were distributors.

The roundtable discussions were organised by the FPB. The first roundtable discussion was held at FPB offices in Gauteng on the 4th November 2016. It comprised of online distributors. The second roundtable discussion occurred on the 11th November 2016 and was also hosted at FPB offices in Gauteng. This group was more diverse and included large distributors of physical films and video games, mobile operators and online distributors. The third roundtable discussion was held in Durban at FPB offices and included distributors of physical films, producers and retailers of films.

Table 2: Final Sample Frame by Business and Media Expression

Business Type	Film	Film / Publication	Film / Video Games	Publication	Video Games	Internet Café	Grand Total	%
Distributor	5		1		1		6	18%
Exhibitor	2						2	5%
Exhibitor / Distributor	1						2	3%
Producer	12						12	30%
Producer / Distributor	1				1		2	5%
Producer /Retailer	2						2	5%
Rental	2						2	5%
Retailer	1	1	2	1	6	1	12	30%
Grand Total	26	1	3	1	8	1	40	
Percentage (%)	65%	3%	8%	3%	20%	3%	100%	100%

Table 3: Final Sample Frame by Business Type and Black Ownership

Business Type	Black Owned (Yes)	Black Owned (No)	Grand Total
Distributor		6	6
Exhibitor		2	2
Exhibitor / Distributor	1	1	2
Producer	3	9	12
Producer / Distributor		2	2
Producer /Retailer		2	2
Rental		2	2
Retailer	1	11	12
Grand Total	5	35	40

Table 4: Final Sample Frame by Business Type and FPB Services

Business Type	Classification	Classification / Registration	Registration	None	Grand Total
Distributor	3	3	1		6
Exhibitor			2		2
Exhibitor / Distributor		1			2
Producer	7	2	2	1	12
Producer / Distributor		2			2
Producer /Retailer	1	1			2
Rental			2		2
Retailer			12		12
Grand Total	11	9	19	1	40

Table 5: Final Sample Frame by Business Type and Province

Business Type	EC	FS	Gauteng	KZN	M	NC	NW	WC	Grand Total
Distributor	0%	3%	13%	0%	0%	0%	0%	3%	18%
Exhibitor	0%	0%	5%	0%	0%	0%	0%	0%	5%
Exhibitor / Distributor	0%	0%	0%	3%	0%	0%	0%	0%	3%
Producer	3%	0%	13%	8%	3%	0%	0%	5%	30%

Business Type	EC	FS	Gauteng	KZN	M	NC	NW	WC	Grand Total
Producer / Distributor	0%	0%	5%	0%	0%	0%	0%	0%	5%
Producer /Retailer	0%	0%	3%	3%	0%	0%	0%	0%	5%
Rental	0%	0%	0%	0%	0%	3%	3%	0%	5%
Retailer	0%	0%	13%	10%	3%	0%	0%	5%	30%
Grand Total	3%	3%	50%	23%	5%	3%	3%	13%	100%

All the in-depth interviews and roundtable discussions were conducted in English. The responses to the in-depth interviews were noted on the questionnaire. All these responses were captured onto MS EXCEL. The roundtable discussions were recorded and later transcribed into MS Word.

Thematic analysis was conducted on qualitative data; descriptive statistical analysis was used on quantitative data.

The majority of the respondents of the in-depth interviews refused to provide their financial data, and maintained that it is proprietary. Furthermore, respondents from large businesses could not provide details on their respective company’s strategic growth areas as they are not privy to this information. The absence of this data does not impact on the market trajectory analysis, as the smaller companies provided information on future growth areas. Smaller companies are more sensitive to market changes; thus providing a useful litmus test.

2. Findings

The findings from the in-depth interviews and roundtable discussions with FPB clients are presented according to four themes: 1) perceptions around the current FPB tariff structure, 2) preferred regulatory approaches, 3) capability and capacity to self/co-regulate, and 4) strategic growth areas over the next five years.

2.1. Current Tariff Structure

Generally respondents representing physical content found the tariff structure to be reasonable and fair. Distributors of physical content who sell niche products, products for small audiences, or special events find that the tariffs can become a significant cost, especially when sales are low and audiences are few.

Online distributors were concerned about the current tariff options available to them; i.e. an annual fee of R795 000 or paying per title. They are also unsure of the assumptions underpinning the current tariff for online distributors.

“Is this a cost recovery exercise or is it one that’s intended to induce some sort of behavioural change ... Once the purpose becomes clearer as to why for example there is a tariff structure in place and why it is at that threshold of R750 000, what rational basis informs the 750K ... Once there is more transparency in that exercise we can have something that is more informed and perhaps propose some suggestion that may contribute towards making the process a bit transparent and a bit fair and also lead to the objective that we are trying to get to”.
(Online Distributer)

There was agreement amongst online distributors that the R795 000 annual fee is high for new entrants, those with smaller content libraries and those with fewer subscribers. They also reported

that FPB's tariffs are significantly higher than international ratings such as the International Age Rating Coalition (IARC).

"We are a member of IARC for example and for us per country to be in the IARC system it's between twenty thousand and twenty five thousand [US] dollars which is nowhere near the seventy/eighty thousand dollars that is being proposed here." (Online Distributer)

Defining 'size' of an online distributor was contentious; should it be based on annual turnover or number of titles it offers its viewers or the number of subscribers to its service. Through intense dialogue during the roundtable discussion; there was consensus that the size of a distributor should be measured by its library.

It is notable that respondents value the classification services of the FPB, which they believe furthers their own goals of providing their customers with full information on media products. Online distributors in particular are concerned about the potential for 'unscrupulous' foreign services to exploit the South African market. These distributors would like FPB to monitor this space and to weed out services that are not registered with the organisation.

Nevertheless, retailers see the FPB registration as another 'tax', which they comply with so that they can continue to trade. Small retailers are unsure about the reasons for annual renewal of the certificates of compliance.

Few of the respondents are aware of all the services offered by the FPB. It appears that awareness of the FPB mandate and its functions and the day to day activities is low amongst its respondents.

"There are a lot of people who have no idea what we pay that registration fee for." (Physical Content Distributer)

"I am okay with it as a service and we tend to offer this service to the customer." (Physical Content Distributer)

"I think it's the security and the consistencies of content availability. Once there are new players come down, there will be unscrupulous out there pushing content that's not classified correctly that's going to damage the market. So I think FPB can be strong but fair. I think that's the important trait really." (Online Distributer)

The contribution of the current tariffs to the overall expenses of companies that sell, hire, distribute or exhibit physical content were reported as 'very small', 'insignificant', 'not too much', or 'less than 0.1%' by respondents involved in selling, renting, exhibiting and distributing online content. It is the related administration processes within FPB that has frustrated these clients. The four most frequent grievances about the FPB processes are:

1. **TAX CLEARANCE CERTIFICATE:** FPB clients see the requirement of a tax clearance certificate for annual renewal as unnecessary. They see this as a barrier and increasing their administration burden.
2. **WEAK ACCOUNTING SYSTEM:** There was consensus amongst the large distributors that the FPB accounting system is weak and that the delays in receiving invoices makes reconciling their respective books very difficult.
3. **DELAYS IN RECEIVING CERTIFICATES:** A number of retailers complained that they do not receive their certificates of compliance timeously, resulting in their stores being vulnerable to harassment by monitors.
4. **ONLINE SERVICES ARE OFTEN OFFLINE:** Generally respondents prefer e-government as it allows for engaging with government anytime and anywhere. They also use the accompanying

tariff discount to reduce their business expenses. When the portal is offline, they feel penalised and ‘robbed’.

Micro enterprises and small independent filmmakers, especially new entrants find the classification fee ‘prohibitive’. In the context of limited funding for film and video game makers and scrounging for resources; for these clients the classification fee is seen as another barrier to entry.

“It is a bit prohibitive for new entrants. I have three movies that I have for two years and couldn’t distribute them because I did not have the money for the classification fee. (Filmmaker)”

Piracy, both physical and online is negatively impacting the industry, especially the small retailers, DVD rentals, and new filmmakers. These respondents have urged the FPB to take action to reduce piracy. It is notable that respondent in Durban were very appreciative of the monitors in their area. The monitors have been successful in keeping street venders under check. Table 6 summarises the recommendations made by respondents with regards to the tariff structure and FPB processes.

“Our monitors here in Durban are actually on the job. If you look at compliance work that is done in Durban and that which is done in Johannesburg, Durban I think is far more efficient than Johannesburg. So in terms of the compliance monitors, they are doing their job so I wouldn’t point a finger at them.” (Distributor)”

“The industry is struggling, people are illegally downloading content.” (Distributor)”

Table 6: Recommendations Made by Respondents on the Tariff Structure and FPB Processes

Tariffs	FPB Processes
Newly established film and video game makers should pay a reduced tariff to facilitate their entry into the sector.	FPB should create awareness of all its services. It should also continuously promote its regulations.
Faith-based content should be exempted from classification.	FPB should support small retailers with enforcing the classification ratings to their consumers.
Non-governmental organisations should be exempted from paying classification fees.	FPB should provide training to new film and video game makers on the classification system.
Niche or products for small audiences should have a reduced tariff.	Pricing for classification of products should be clearer on the rate card.
Clients are unsure about the double-handling fee; i.e. a fee for DVDs, trailers and blue-ray for the same film. Similarly for video games, Xbox versus PlayStation.	Chain stores prefer to renew licenses in batches instead of the opening date of each store.
Clients are unhappy about the high cost of classifying series. They believe FPB should review a sample of episodes instead of the entire series; which will significantly reduce classification costs for series.	Reduce the time for dispatching updated certificates of compliance.
There should be no tariff increases.	FPB should provide the labels, as it is difficult for small business to spend resources on design and printing.
Licenses should be directed at businesses and not individual stores. A business with multiple stores should only pay a single license fee.	FPB should reconsider the upfront payment requirement in light of its weak accounting systems.
The requirement of a tax clearance certificate should be dropped for registration and renewal of license fee; because it is an administration barrier for informal DVD venders and small storekeepers.	Filmmakers urge FPB to create an online content submission facility.

“We find out that after the payment has been met, it takes more than a month for the FPB to disclose the outcome of the new application process. So it’s of very much concern to the distributors.” (Retailer)

“A lot of them [small storekeepers] are not complaining about paying the renewal fee; it’s just that they need to get the tax clearance and that’s what’s causing the delay. (Distributor)

2.2. Preferred Regulatory Approach

It appears that the M&E sector is not averse to ratings and classification and is supportive of regulating the production, distribution, sales, and exhibition of media content in South Africa. Respondents prefer co-regulation and the current framework referred to as regulation; less than 10% preferred self-regulation as summarised in Table 7.

Co-regulation is preferred by almost half (47%) of the respondents as it is seen as ‘the middle road’; which intrinsically has ‘checks and balances’. This approach they believe will protect the sector from government interference and industry manipulation. It is noteworthy that for a few respondents, their preference for co-regulation is influenced by the need for more efficient services from FPB. These respondents are disappointed by the delays, non-responsiveness and weak accounting system at FPB and hope that an industry body will remove these inefficiencies. Concomitantly, these respondents are also suggesting that we adopt international standards such as Pan European Game Information (PEGI) to improve the turnaround time and to reduce costs for classification.

“Billing is a mess. We [are] waiting for new logo. Logo is not available; sent 100 email ... no help from FPB.” (Distributor)

Two thirds of respondents who opted for self-regulation reasoned that it will improve efficiency. Only one respondent supported the notion of limited state intervention.

“We don’t want too much interference from the state.” (Religious Producer / Distributor)

Respondents who support the current approach are independent organisations who feel that a ‘third party’ will be fair to them and that having a centralised entity (on-stop-shop) reduces their respective administration burdens. They believe that an independent statutory body will ensure high standards. They also recognise that the South African M&E sector is small and an industry body will be difficult to sustain. It is notable that the majority of these respondents’ have had positive experiences of FPB services.

“As a small independent company we prefer the state/agency because large companies can squash the small industry; can squash small competitor with their power in the industry. If the government regulates it, it treats everyone the same.” (Retailer)

“FPB to date has done a good job.” (Filmmaker)

Table 7: Preferred Regulatory Approach by Business Type

Business Type	Self-Regulation	Co-Regulation	Regulation	No Regulation	Other	Grand Total
Distributor	3%	15%	3%			21%
Exhibitor		3%				3%
Exhibitor / Distributor						0%
Producer		12%	18%			29%
Producer / Distributor		3%		3%		6%

Business Type	Self-Regulation	Co-Regulation	Regulation	No Regulation	Other	Grand Total
Producer /Retailer	3%				3%	6%
Rental		3%	3%			6%
Retailer	3%	12%	15%			29%
Grand Total	9%	47%	38%	3%	3%	100%

Few respondents had positions on the current FPB regulations; unfortunately many of the respondents were unfamiliar with the details of the regulations. Generally respondents seem to know and accept those parts directly affecting their ability to conduct their business such as license fee and classification requirements. None of the respondents reported that the FPB regulations restricted their artistic creations or hampered their business.

“I just follow by their [FPB] rules.” (Video Rental)

“We are fine with the regulations, we comply.” (Chain)

“No problem, it’s wide enough for you to do your business.” (Video Rental)

Nonetheless, respondents are perplexed about broadcasters not falling under FPB. They find this unreasonable, especially regarding films and series.

Small retailers and film and video makers have requested that the FPB provide posters, pamphlets, and ongoing electronic communication on their regulations. This they believe will help them to keep abreast with the FPB regulations. Video games retailers also want more clarity on the FPB ratings for their product.

“FPB must inform us on the classification of [video] games, which does not make sense.” (Video Games Retailer)

2.3. Capability and Capacity for Self/Co-Regulation

Few companies have written or formal policies or guidelines on M&E content; they rely on the FPB to provide this compass. Nevertheless, they do have an informal ‘moral code’, ‘value’, or ‘consumer preference’ that influence the media content that they produce, distribute, exhibit or sell. As such their responses to the set of questions related to their business capability and capacity to implement self/ co-regulation was based on this informal code/s as shown in Table 8.

There was consensus that infringing children’s rights is non-permissible. However, small retailers and rental stores are struggling to implement the FPB ratings when parents override these. They urge the FPB to help them to deal with this conundrum.

Similarly, the majority of respondents do not have formal complaints and appeals processes. Owner managed retailers and film and video games makers do not have dedicated staff to oversee complaints and appeals; they respond directly to customer complaints and queries. While, retail chains have dedicated staff to manage their customer care.

“Our rule is if the customer can’t meet age restrictions, we won’t sell it.” (Retailer)

Table 8: Capability for Self/Co-Regulation by Business Type

Business Type	Policies for Content for South African Market		Guidelines for Vetting Content for the South African Market		Specific Guidelines to Protect Children’s Rights		Complaints and Appeals Process	
	No	Yes	No	Yes	No	Yes	No	Yes
Distributor	12%	8%	8%	12%	7%	14%	8%	16%
Exhibitor	0%	4%	0%	4%	0%	4%	0%	4%
Exhibitor / Distributor	0%	0%	0%	0%	0%	0%	0%	0%
Producer	12%	23%	12%	23%	4%	29%	20%	8%
Producer / Distributor	4%	4%	4%	4%	0%	7%	8%	0%
Producer /Retailer	4%	4%	4%	4%	0%	7%	0%	4%
Rental	0%	8%	0%	8%	0%	7%	4%	4%
Retailer	12%	8%	8%	12%	4%	18%	0%	24%
Grand Total	42%	58%	35%	65%	14%	86%	40%	60%

2.4. Strategic Growth in the Next 5 Years

All the respondents reported that they plan to grow their businesses. The forecasts for their business in the next five years are presented according to the respondents’ business type:

- ONLINE DISTRIBUTERS:** Online distributors are buoyant about their market, especially with the growth of mobile telephony and smart phones. They are less optimistic about broadband for streaming purposes.

“Mobile is improving but consistent broadband for streaming purposes is going to be hard to have even in the next five years I imagine because of the diversity of the continent so we see downloading and downloads to mobiles as the trend that’s going to drive.” (Online Distributer)

- PHYSICAL CONTENT DISTRIBUTERS:** The large distributors are focussing their business growth strategy on selling to digital platforms, especially broadcasting and video on demand (VoD). Distributors see sales of television series being higher than films in terms of content. They also see year-on-year growth in their sales to cinemas. There is also consideration of increasing the share of other physical products such as merchandising in their product basket. Distribution of local content is also becoming more attractive to the large distributors. Video game distributors are unsure of their business growth over the next five years as they believe that they are unlikely to get the rights for online distribution from publishers.

“No growth, expecting slowdown. Broadcast sales will compensate.” (Distributer)

“Series is increasing on a daily basis and that is what we are also going into. Not so much on your normal feature films but TV series is increasing massively in SA.” (Distributer)

“The only growth I really feel if we can do more broadcast sales or have a proper digital platform for faith based films. ShowMax does not include religious films.” (Distributer)

“Distribution of content to video on demand services. Physical distribution of alternative products.” (Distributer)

“Maintain the theatrical and DVD distribution with the aim of increasing the amount of content for local distribution. (Distributer)

“Our physical selling of games has declined by 21%. If anything we will try to hold on to what we have. Online is growing, they are impacting us. We as distributors do not get online rights by the publisher-especially since we [South Africa] are a small market.” (Distributor)

- **EXHIBITORS:** The organiser of a film festival reported that they are expecting this form of exhibiting films to grow in the future. Similarly, an independent exhibitor reported that they are expecting growth. However, setting up theatres is capital intensive and also dependent on property developers.

“We are continuing to look for growth, especially properties. It depends on the building and infrastructure hence capital intensive.” (Exhibitor)

- **PRODUCERS:** Producers are bullish about local content; and plan to increase local productions. The individual growth strategies vary; including making product for the international market, creating content for the continent, producing documentaries for niche markets and building their capacity to create series for international broadcasters.

“Our aim, now that we released our first game is to increase staff and put more games into the market.” (Video Game Maker)

“What we are trying to do is produce independent television production. Keep our production low. To produce African content with international flair. To produce medium budget content for international market.” (Film Maker)

“Humanitarian and conservation television series.” (Film Maker)

- **RETAILERS AND RENTALS:** DVD retailers and rentals are severely affected by piracy, VoD - especially DStv BoxOffice, and pay channels that provide content for niche markets. They are unsure about their business prospects in the next five years. For example, a retailer who specialises in selling Nollywood DVDs has seen his sales drop steeply with the launch of Africa Magic. Retailers with distribution rights are concerned that as publishers put their products online, they will see a reduction in the sales of DVDs. For the immediate future, DVD rentals and retailers see their business performance remaining steady, especially in rural and low income area where BoxOffice and other Vod services remain expensive and broadband penetration remains low. Similarly, physical video games retailers are concerned about online sales. They are hoping to grow their business through selling online code if publishers agree or through increasing their sale of merchandising and hardware.

“Extending into online gaming and to increase the repair business.” (Video Games Retailer)

“I don't think it will survive, I used to own a video store before and had to downscale because people downloading and it was cheaper.” (Video Games Retailer)

“The products we are selling are physical and everyone is going digital. It is very difficult because we manufacture on license. If publisher goes digital then they will run it.” (DVD Retailer/Distributor)

“Currently the business is slowing down, the physical games are much more expensive than the downloading games. Also the exchange is fluctuating.” (Video Game Retailer)

3. Conclusion and Recommendations

There is wide support for regulating the M&E sector and the industry relies and trusts the FPB rating system. Unfortunately, the day to day activities of the FPB, its broader mandate, and its regulations are lesser-known to its clients. Clients are also frustrated by the FPB's weak internal processes and systems; especially delays in providing certificates and correct invoices and statements. Piracy and parental awareness of the classification system were identified as critical areas for urgent FPB intervention.

The current tariff structure for physical content is considered fair and reasonable and is an 'insignificant' cost to their businesses. However, micro enterprises and new entrants find the tariffs high. Classification fees and once-off registration fees are accepted; however clients questioned the annual renewal of store certificates. Similarly, they queried the reasons for double-handling. Online distributors want more transparency on the calculus of their annual fee.

While the sector is 'bearish' about the sales of physical content such as DVDs and video games; they feel that their retail business will continue to see steady sales in the coming years. Nonetheless, they are considering diversifying their business to mitigate the move towards pay-tv, VoD, and online gaming.

The M&E sector is bullish about local content and its prospects in the local, continental and international markets. Local producers also see pay-tv and VoD as opportunities to further commercialise local productions. However, it appears that FPB has not earnestly engaged this sub-sector.

The following recommendations emerge from the findings, the FPB should:

1. Increase its awareness campaign on its mandate, services, activities, regulations, and process.
2. Improve transparency on the assumptions underpinning its tariff structure.
3. Consider reviewing its internal systems and process to increase efficiencies. It may be useful to consider ISO 9000 standards.
4. Intensify its awareness campaign around its rating system and its importance to adult choice and protection of children from harmful content.
5. Address the concerns around 'double handling' and the annual renewal of store licenses.
6. Formulate a strategy to support local content producers, with the aim of assisting them with content classification and awareness of international rating systems where producers hope to sell their products.

4. Implications for the Tariff Review Study

In reviewing the current tariff structure, the following should be considered:

1. The current tariffs are low.
2. The online distributors' fee structure should accommodate the diverse business in relation to the size of their libraries.
3. Double handling is a concern.
4. Pay-TV and VoD are expected to mature.

5. Online-gaming is expected to grow.
6. There is a need for categories that are exempted from fees.
7. Special fee for small releases.
8. Local producers are intent on building the M&E sector.
9. New film and video game makers require support from the FPB.

Market Trajectory Report - Film and Publication Board Tariff Review

Prepared by: Enterprises University of Pretoria (Pty) Ltd – Research Solutions

Prepared for: Film and Publication Board

Session: Durban Session

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Abbreviations

DVD:	Digital Video Disc
FPB:	Film and Publication Board
M&E:	Media and Entertainment
VoD:	Video on Demand

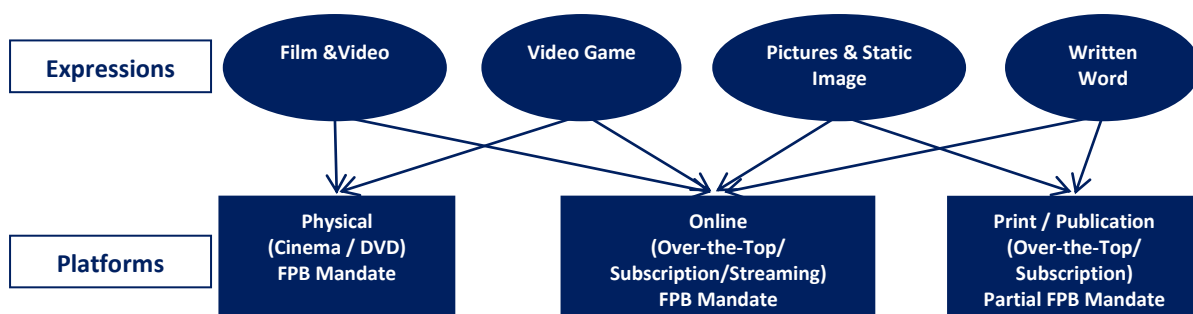
1. Introduction

Enterprises University of Pretoria is contracted by the Film and Publication Board (FPB) to review its tariffs for content distribution in South Africa. The *Market Trajectory Report* is an outcome of conducting forty in-depth interviews with FPB clients. The report provides insights on their businesses' future growth areas, their perceptions of the FPB tariffs and related services, their preferred regulatory approach, and their internal capacity and capability to engage with their consumers. As such, the *Market Trajectory Report* complements the *Market Analysis Report* by giving a first-hand account of the experiences and opinions of the media and entertainment (M&E) sector. This is the fourth report to provide contextual information to support the quantitative tariff review exercise and the qualitative consultative process.

1.1. Methodology

Forty in-depth interviews were conducted telephonically with clients on the FPB register from the 3rd to 17th October 2016. The in-depth interviews were semi-structured; following the attached [schedule](#). The schedule allowed respondents to share their perceptions, experiences, and suggestions for improving the current FPB tariffs and related services. It also enabled gathering thick and nuanced data from a range of FPB clients. Figure 1 illustrates the FPB's mandate; within each expression and platform its clients range from producers, distributors, exhibitors, and retailers of M&E content.

Figure 1: Film and Publication Board Mandate



The FPB register as at September 2016 had 2 390 clients as shown in Table 1. The Distributor of Video/Games/DVD Material describes the retail chains; each store in a retail chain is a unique client of the FPB.

Table 1: FPB Client List as at September 2016

Business Type	Total	%
A Distributor / Exhibitor of Video/Games/DVD Material	2	0.08%
A Retail Store	3	0.13%
Adult Distributor	80	3.35%
Cinema	3	0.13%
Digital/Online Distributor	7	0.29%
Distributor and Exhibitor of films	134	5.61%
Distributor of Video/Games/DVD Material	1 828	76.49%

Business Type	Total	%
Exhibitor	2	0.08%
Exhibitor of Film Material	10	0.42%
Exhibitor of Video/Games/DVD Material	12	0.50%
Family Video Shop	4	0.17%
Film Distributor	19	0.79%
Game Distributor	12	0.50%
Internet Café	8	0.33%
Internet Service Provider	252	10.54%
Pilot	1	0.04%
Retailer	12	0.50%
(Blank)	1	0.04%
Grand Total	2 390	100.00%

Random sampling technique was planned to create the sample frame and to identify the forty respondents. This technique would enable the findings to be generalised across the FPB client register. However, each store of the large chain retailers was listed as a unique client; using random sampling would result in the sample frame being skewed towards the retail chain stores. Consequently, purposeful sampling technique was implemented to ensure that the selected forty respondents were representative of the FPB client list. The major challenge of implementing the sample frame was the accuracy of the contact information on the FPB register; telephone numbers and the contact people were dated. Tables 2 to 5 present the final sample frame in relation to type of business, media expression, Black ownership, the FPB services that they use, and the province where their head office or business resides. The sample is representative of the M&E sector. The *Market Analysis Report* illustrated that the exhibition and distribution of media content is dominated by a few companies and with vertical integration becoming entrenched; while, the production and retailing of media content have diverse ownership. Half the respondents were from Gauteng, followed by KwaZulu Natal (23%) and Western Cape (13%). Six in ten respondents were producers/retailers and less than 20% were distributors.

Table 2: Final Sample Frame by Business and Media Expression

Business Type	Film /						Grand Total	%
	Film	Film / Publication	Video Games	Publication	Video Games	Internet Café		
Distributor	5		1		1		6	18%
Exhibitor	2						2	5%
Exhibitor / Distributor	1						2	3%
Producer	12						12	30%
Producer / Distributor	1				1		2	5%
Producer /Retailer	2						2	5%
Rental	2						2	5%
Retailer	1	1	2	1	6	1	12	30%
Grand Total	26	1	3	1	8	1	40	
Percentage (%)	65%	3%	8%	3%	20%	3%	100%	100%

Table 3: Final Sample Frame by Business Type and Black Ownership

Business Type	Black Owned (Yes)	Black Owned (No)	Grand Total
Distributor		6	6
Exhibitor		2	2
Exhibitor / Distributor	1	1	2
Producer	3	9	12
Producer / Distributor		2	2
Producer /Retailer		2	2
Rental		2	2
Retailer	1	11	12
Grand Total	5	35	40

Table 4: Final Sample Frame by Business Type and FPB Services

Business Type	Classification	Classification / Registration	Registration	None	Grand Total
Distributor	3	3	1		6
Exhibitor			2		2
Exhibitor / Distributor		1			2
Producer	7	2	2	1	12
Producer / Distributor		2			2
Producer /Retailer	1	1			2
Rental			2		2
Retailer			12		12
Grand Total	11	9	19	1	40

Table 5: Final Sample Frame by Business Type and Province

Business Type	EC	FS	Gauteng	KZN	M	NC	NW	WC	Grand Total
Distributor	0%	3%	13%	0%	0%	0%	0%	3%	18%
Exhibitor	0%	0%	5%	0%	0%	0%	0%	0%	5%
Exhibitor / Distributor	0%	0%	0%	3%	0%	0%	0%	0%	3%
Producer	3%	0%	13%	8%	3%	0%	0%	5%	30%
Producer / Distributor	0%	0%	5%	0%	0%	0%	0%	0%	5%
Producer /Retailer	0%	0%	3%	3%	0%	0%	0%	0%	5%
Rental	0%	0%	0%	0%	0%	3%	3%	0%	5%
Retailer	0%	0%	13%	10%	3%	0%	0%	5%	30%
Grand Total	3%	3%	50%	23%	5%	3%	3%	13%	100%

All the in-depth interviews were conducted in English and the responses were captured onto MS EXCEL. Thematic analysis was conducted on qualitative data; descriptive statistical analysis was used on quantitative data.

The majority of the respondents refused to provide their financial data, and maintained that it is proprietary. Furthermore, respondents from large businesses could not provide details on their respective company's strategic growth areas as they are not privy to this information. The absence of this data does not impact on the trajectory analysis, as the smaller companies provided information

on future growth areas. Smaller companies are more sensitive to market changes; thus providing a useful litmus test.

2. Findings

The findings from the in-depth interviews with FPB clients are presented according to four themes: 1) perceptions around the current FPB tariff structure, 2) preferred regulatory approaches, 3) capability and capacity to self/co-regulate, and 4) strategic growth areas over the next five years.

2.1. Current Tariff Structure

Generally respondents found the tariff structure to be reasonable and fair. Distributors of niche products, products for small audiences, or special events find that the tariffs can become a significant cost, especially when sales are low.

It is notable that respondents value the classification services of the FPB, which they believe furthers their own goals of providing their customers with full information on media products. Nevertheless, retailers see the FPB registration as another 'tax', which they comply with so that they can continue to trade. Small retailers are unsure about the reasons for annual renewal of the certificates of compliance. Few of the respondents are aware of all the services offered by the FPB. It appears that awareness of the FPB mandate and its functions and the day to day activities is low amongst its respondents.

"I am okay with it as a service and we tend to offer this service to the customer." (Distributor)

The contribution of the current tariffs to the overall company expenses were reported as 'very small', 'insignificant', 'not too much', or 'less than 0.1%'. It is the related administration processes within FPB that has frustrated these clients. The three most frequent grievances about the FPB processes are:

1. **WEAK ACCOUNTING SYSTEM:** There was consensus amongst the large distributors that the FPB accounting system is weak and that the delays in receiving invoices makes reconciling their respective books very difficult.
2. **DELAYS IN RECEIVING CERTIFICATES:** A number of retailers complained that they do not receive their certificates of compliance timeously, resulting in their stores being vulnerable to harassment by monitors.
3. **ONLINE SERVICES ARE OFTEN OFFLINE:** Generally respondents prefer e-government as it allows for engaging with government anytime and anywhere. They also use the accompanying tariff discount to reduce their business expenses. When the portal is offline, they feel penalised and 'robbed'.

Micro enterprises and small independent filmmakers, especially new entrants find the classification fee 'prohibitive'. In the context of limited funding for film and video game makers and scrounging for resources; for these clients the classification fee is seen as another barrier to entry.

"It is a bit prohibitive for new entrants. I have three movies that I have for two years and couldn't distribute them because I did not have the money for the classification fee. (Filmmaker)

Piracy, both physical and online is negatively impacting the industry, especially the small retailers, DVD rentals, and new filmmakers. These respondents have urged the FPB to take action to reduce piracy.

Table 6 summarises the recommendations made by respondents with regards to the tariff structure and FPB processes.

“The industry is struggling, people are illegally downloading content.” (Distributor)

Table 6: Recommendations Made by Respondents on the Tariff Structure and FPB Processes

Tariffs	FPB Processes
Newly established film and video game makers should pay a reduced tariff to facilitate their entry into the sector.	FPB should create awareness of all its services. It should also continuously promote its regulations.
Faith-based content should be exempted from classification.	FPB should support small retailers with enforcing the classification ratings to their consumers.
Non-governmental organisations should be exempted from paying classification fees	FPB should provide training to new film and video game makers on the classification system.
Niche or products for small audiences should have a reduced tariff.	Pricing for classification of products should be clearer on the rate card. Clients are unsure about the double-handling fee; i.e. a fee for DVDs, trailers and blue-ray for the same film.
FPB should provide the labels, as it is difficult for small business to spend resources on design and printing.	Chain stores prefer to renew licenses in batches instead of the opening date of each store.
There should be no tariff increases.	Reduce the time for dispatching updated certificates of compliance.

2.2. Preferred Regulatory Approach

It appears that the M&E sector is not averse to ratings and classification and is supportive of regulating the production, distribution, sales, and exhibition of media content in South Africa. Respondents prefer co-regulation and the current framework referred to as regulation; less than 10% preferred self-regulation as summarised in Table 7.

Co-regulation is preferred by almost half (47%) of the respondents as it is seen as ‘the middle road’; which intrinsically has ‘checks and balances’. This approach they believe will protect the sector from government interference and industry manipulation. It is noteworthy that for a few respondents, their preference for co-regulation is influenced by the need for more efficient services from FPB. These respondents are disappointed by the delays, non-responsiveness and weak accounting system at FPB and hope that an industry body will remove these inefficiencies. Concomitantly, these respondents are also suggesting that we adopt international standards such as PEGI to improve the turnaround time and to reduce costs for classification.

“Billing is a mess. We [are] waiting for new logo. Logo is not available; sent 100 email ... no help from FPB.” (Distributor)

Two thirds of respondents who opted for self-regulation reasoned that it will improve efficiency. Only one respondent supported the notion of limited state intervention.

“We don't want too much interference from the state.” (Religious Producer / Distributor)

Respondents who support the current approach are independent organisations who feel that a ‘third party’ will be fair to them and that having a centralised entity (on-stop-shop) reduces their respective administration burdens. They believe that an independent statutory body will ensure high standards. They also recognise that the South African M&E sector is small and an industry body will be difficult to

sustain. It is notable that the majority of these respondents' have had positive experiences of FPB services.

“As a small independent company we prefer the state/agency because large companies can squash the small industry; can squash small competitor with their power in the industry. If the government regulates it, it treats everyone the same.” (Retailer)

“FPB to date has done a good job.” (Filmmaker)

Table 7: Preferred Regulatory Approach by Business Type

Business Type	Self-Regulation	Co-Regulation	Regulation	No Regulation	Other	Grand Total
Distributor	3%	15%	3%			21%
Exhibitor		3%				3%
Exhibitor / Distributor						0%
Producer		12%	18%			29%
Producer / Distributor		3%		3%		6%
Producer /Retailer	3%				3%	6%
Rental		3%	3%			6%
Retailer	3%	12%	15%			29%
Grand Total	9%	47%	38%	3%	3%	100%

Few respondents had positions on the current FPB regulations; unfortunately many of the respondents were unfamiliar with the details of the regulations. Generally respondents seem to know and accept those parts directly affecting their ability to conduct their business such as license fee and classification requirements. None of the respondents reported that the FPB regulations restricted their artistic creations or hampered their business.

“I just follow by their [FPB] rules.” (Video Rental)

“We are fine with the regulations, we comply.” (Chain)

“No problem, it’s wide enough for you to do your business.” (Video Rental)

However, small retailers and film and video makers have requested that the FPB provide posters, pamphlets, and ongoing electronic communication on their regulations. This they believe will help them to keep abreast with the FPB regulations. Video games retailers also want more clarity on the FPB ratings for their product.

“FPB must inform us on the classification of [video] games, which does not make sense.” (Video Games Retailer)

2.3. Capability and Capacity for Self/Co-Regulation

Few companies have written or formal policies or guidelines on M&E content; they rely on the FPB to provide this compass. Nevertheless, they do have an informal ‘moral code’, ‘value’, or ‘consumer preference’ that influence the media content that they produce, distribute, exhibit or sell. As such their responses to the set of questions related to their business capability and capacity to implement self/ co-regulation was based on this informal code/s as shown in Table 8.

There was consensus that infringing children’s rights is non-permissible. However, small retailers and rental stores are struggling to implement the FPB ratings when parents override these. They urge the FPB to help them to deal with this conundrum.

Similarly, the majority of respondents do not have formal complaints and appeals processes. Owner managed retailers and film and video games makers do not have dedicated staff to oversee complaints and appeals; they respond directly to customer complaints and queries. While, retail chains have dedicated staff to manage their customer care.

“Our rule is if the customer can’t meet age restrictions, we won’t sell it.” (Retailer)

Table 8: Capability for Self/Co-Regulation by Business Type

Business Type	Policies for Content for South African Market		Guidelines for Vetting Content for the South African Market		Specific Guidelines to Protect Children’s Rights		Complaints and Appeals Process	
	No	Yes	No	Yes	No	Yes	No	Yes
Distributor	12%	8%	8%	12%	7%	14%	8%	16%
Exhibitor	0%	4%	0%	4%	0%	4%	0%	4%
Exhibitor / Distributor	0%	0%	0%	0%	0%	0%	0%	0%
Producer	12%	23%	12%	23%	4%	29%	20%	8%
Producer / Distributor	4%	4%	4%	4%	0%	7%	8%	0%
Producer /Retailer	4%	4%	4%	4%	0%	7%	0%	4%
Rental	0%	8%	0%	8%	0%	7%	4%	4%
Retailer	12%	8%	8%	12%	4%	18%	0%	24%
Grand Total	42%	58%	35%	65%	14%	86%	40%	60%

2.4. Strategic Growth in the Next 5 Years

All the respondents reported that they plan to grow their businesses. The forecasts for their business in the next five years are presented according to the respondents’ business type:

- DISTRIBUTERS:** The large distributors are focussing their business growth strategy on selling to digital platforms, especially broadcasting and video on demand (VoD). They also see year-on-year growth in their sales to cinemas. There is also consideration of increasing the share of other physical products such as merchandising in their product basket. Distribution of local content is also becoming more attractive to the large distributors. Video game distributors are unsure of their business growth over the next five years as they are unlikely to get the rights for online distribution from publishers.

“No growth, expecting slowdown. Broadcast sales will compensate.” (Distributor)

“The only growth I really feel if we can do more broadcast sales or have a proper digital platform for faith based films. ShowMax does not include religious films.” (Distributor)

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