



entertainment<sup>®</sup>  
software  
association

**Comments on the  
Global Digital Trade Study**

**Report #1**

*April 21, 2017*



April 21, 2017

Filed electronically via EDIS and in hard copies to the Commission

Lisa R. Barton  
Secretary to the Commission  
United States International Trade Commission  
500 E Street, S.W.  
Washington, DC 20436

**Re: Global Digital Trade I: Market Opportunities and Key Foreign Trade Restrictions; Institution of Investigation and Scheduling of Hearing, 82 Fed. Reg. 10397, pp. 10397-98 (February 10, 2017)**

Dear Madam Secretary:

The Entertainment Software Association<sup>1</sup> (“ESA”) welcomes the opportunity to respond to the International Trade Commission’s (“Commission”) Notice of Investigation No. 332-561, published on February 10, 2017, and which will form the basis for the first of three Commission reports on global digital trade, as requested by the Office of the U.S. Trade Representative in January 2017.

As the association that represents nearly all of the major video game publishers and video gaming platform providers in the United States, ESA is pleased to provide an overview in this submission the state of the video game industry in the U.S. and in key foreign markets and the challenges to full and true market access for video game companies. We are gratified that digital trade remains a priority for the U.S. Government and that it is seizing the opportunity to re-evaluate the state of trade in digital goods and services—an area in which the United States currently maintains a trade surplus—in light of the rapidly changing landscape of eCommerce. We hope that the Commission will use data as a guide when developing policies, rules and regulations that encourage growth of fair digital trade.

Since the Commission’s report on similar subject matter in 2013, digital trade has grown significantly for many industries, including the video game industry, which has seen in the past few years marked shifts (from physical to digital formats) in the derivation of revenue from the sale of entertainment software and related services. ESA members are an integral part of the

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<sup>1</sup> A list of ESA members is available at <http://www.theesa.com/about-esa/members/>.

digital economy and rely on trade rules that promote principles of fairness and equal competition in order to succeed in the 21<sup>st</sup> century.

## **About the Industry**

The Commission’s notice of investigation requested, among other topics, information on the market for digital products and services, the rate of adoption of digital technologies and a description of the regulatory and policy measures currently in force, both in the United States and in key foreign markets that significantly impede digital trade. The Commission stated that it hopes to use this information for the purpose of assessing the global competitiveness of U.S. firms.

### *United States*

ESA believes that the video game industry has a unique story to tell. Our members’ games and interactive experiences entertain, teach and inspire millions of consumers. Our industry creates art through software and invents new ways to deliver those experiences. Consumers now use a variety of platforms to access the video game content they want—from traditional and handheld consoles to PCs, tablets and smartphones.

Sixty-seven percent of U.S. households own a device used to play video games and 48% of U.S. households own a dedicated game console, with 48% owning a dedicated game console, 22% a dedicated handheld system and 11% a virtual reality device.<sup>2</sup> Gamers who own dedicated game consoles use them for other entertainment media, in addition to playing games. For example, 50% use game consoles to watch movies while 28% use them to listen to music.<sup>3</sup>

#### **IN THE US HOUSEHOLD:**

67% own a device that is used to play video games.

48% own a dedicated console.



50% use their game consoles to watch movies



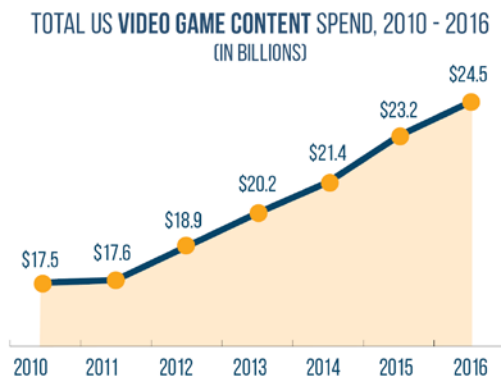
28% use them to listen to music



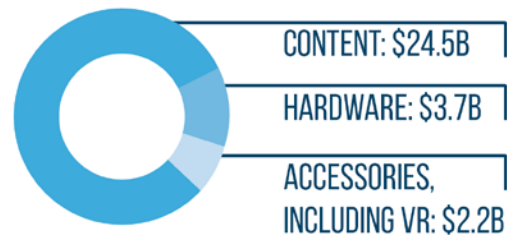
<sup>2</sup> See 2017 Essential Facts About the Computer and Video Game Industry, p. 6, available at <http://essentialfacts.theesa.com/mobile/>.

<sup>3</sup> 2016 Essential Facts About the Computer and Video Game Industry, at p. 5, available at <http://essentialfacts.theesa.com/Essential-Facts-2016.pdf>.

In 2016, the U.S. video game industry generated more than \$30.4 billion in overall revenue<sup>4</sup>, with consumers spending \$24.5 billion on software, downloadable content and subscriptions,<sup>5</sup> up 6% from 2015.



The **total** consumer spend on the video game industry was **\$30.4 BILLION IN 2016.**



Adding more than \$11.7 billion in value to U.S. GDP in 2016, the industry also directly and indirectly employed more than 220,000 people nationwide with 2,457 video game companies operating in all 50 states.<sup>6,7</sup>



<sup>4</sup> For purposes of comparison and context, the U.S. motion picture industry noted that in 2016, box office receipts for both the U.S. and Canada totaled \$11.4 billion ([http://www.mpa.org/wp-content/uploads/2017/03/MPAA-Theatrical-Market-Statistics-2016\\_Final-1.pdf](http://www.mpa.org/wp-content/uploads/2017/03/MPAA-Theatrical-Market-Statistics-2016_Final-1.pdf)) while the U.S. music industry stated that sales from subscription streaming services totaled \$3.4 billion for the first half of 2016 ([http://www.riaa.com/wp-content/uploads/2016/09/RIAA\\_Midyear\\_2016Final.pdf](http://www.riaa.com/wp-content/uploads/2016/09/RIAA_Midyear_2016Final.pdf)).

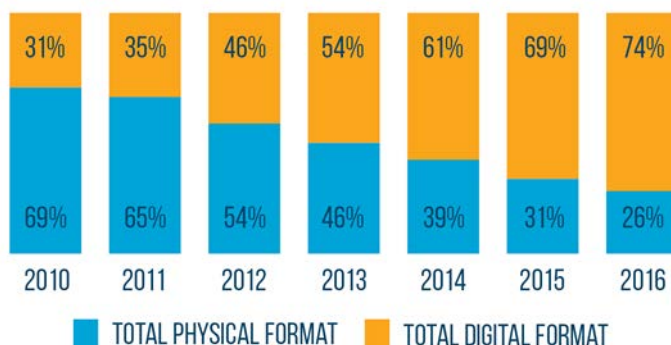
<sup>5</sup> 2017 Essential Facts at p. 15.

<sup>6</sup> See generally Stephen Siwek, "Video Games in the 21<sup>st</sup> Century: The 2017 Report", ENTERTAINMENT SOFTWARE ASSOCIATION, p. 2, available at [http://www.theesa.com/wp-content/uploads/2017/02/ESA\\_EconomicImpactReport\\_Design\\_V3.pdf](http://www.theesa.com/wp-content/uploads/2017/02/ESA_EconomicImpactReport_Design_V3.pdf).

<sup>7</sup> See also Entertainment Software Association, *Impact of the Video Game Industry: State by State*, available at <https://www.areweinyourstate.org/>.

## RECENT DIGITAL\* AND PHYSICAL SALES INFORMATION

\*Digital format sales include subscriptions, digital full games, digital add-on content, mobile apps and social network gaming.



In 2016, sales of digital content (including subscriptions, full digital download games, digital add-on content, mobile apps and social network games) outpaced sales of video game content in physical format, a trend that has become more pronounced since 2012. Digital content constituted 74% of video game sales in 2016, up from 46% in 2012.<sup>8</sup> In 2013, consumer spending on content delivered in innovative formats stood at \$9 billion; by 2015, that number had reached \$11.2 billion.<sup>9</sup>

Ever forward-looking, the video game industry is constantly pioneering the adoption and use of new technologies—such as, for example, augmented<sup>10</sup>, virtual (“VR”)<sup>11</sup> and mixed<sup>12</sup> reality—in order to create new interactive and entertaining user experiences that push the envelope in innovation. Users can solve a murder mystery as a detective, defend one’s castle from invaders, catch pocket monsters, or play with palm-sized elephants or fairies using these technologies. Virtual and augmented reality platforms are projected to be the next big groundswell in computing with possible industrial applications that are far beyond video games or entertainment, like having a surgeon wearing augmented reality glasses seeing a patient with the result of an MRI scan overlaid on top. One report estimated that, by 2025, virtual reality and augmented reality will constitute a \$23 billion market and if VR becomes a generic computing platform, it could reach a \$182 billion market.<sup>13</sup>

With respect to games, in 2016, 63% of the most frequent gamers who are familiar with virtual reality noted that they intended to play video games in VR<sup>14</sup> while 1 in 3 gamers noted that they were “likely to buy VR [hardware and software] in the next year.”<sup>15</sup> In response, game

<sup>8</sup> 2017 Essential Facts at p. 14, available at <http://essentialfacts.theesa.com/mobile/>.

<sup>9</sup> *Id.* at p. 12.

<sup>10</sup> An augmented reality user wears a semi-transparent lens that allows her to see both the real world and the digital content layered on top of the real world.

<sup>11</sup> With virtual reality, the user wears opaque goggles or glasses and is completely closed off from the “real world,” and is fully immersed in the virtual world displayed before her eyes.

<sup>12</sup> Mixed reality contains elements of both virtual and augmented reality. Using a transparent lens or goggles, the user can see both the real world and a virtual world seamlessly tied together.

<sup>13</sup> Heather Bellini et al., *Virtual & Augmented Reality: Understanding the Race for the Next Computing Platform*, GOLDMAN SACHS GLOBAL INVESTMENT RESEARCH, p. 14, Jan. 13, 2016.

<sup>14</sup> 2017 Essential Facts at p. 9.

<sup>15</sup> *Id.*

developers are launching highly-anticipated game software, hardware and accessories, such as, for example, Sony PlayStation's VR headset and VR games<sup>16</sup>, which launched on October 13, 2016. As of February 19, 2017, over 915,000 PS VR headsets had been sold worldwide<sup>17</sup> and over 100 new PS VR experiences are set to be released in 2017.

### *Europe*

The entertainment software industry is the fastest growing sector of the European content industry with consumer spending estimated at more than €20 billion in 2015 out of a global market of €68 billion.<sup>18</sup> In 2012, 36% of 35-44-year olds reported that they play some types of games, rising to 46% in 2016. Similarly, for 45-64-year olds, gaming increased from 21% to 27% in the same timeframe.<sup>19</sup> One study indicates that, as of 2012, 25% of Europe's online population was playing video games at least once per week.<sup>20</sup> In 2016, Europeans (those surveyed in the United Kingdom, Germany, France and Spain) spent about 3.7 hours playing games on their tablets and smartphones. Mobile devices, such as smartphones, drove not only the growth in digital revenue but also interest in gaming from non-traditional groups. This trend is evident in the significant increase in gaming amongst older Europeans.

As the second-largest market for video games in Europe (with revenue of £4.6 billion), the U.K. leads the continent in the digital sales of games. In 2016, sales of physical boxed software declined by 15% to £766 million but this was offset by an 11% increase in digital sales of console and personal computer games to the tune of £1.2 billion. Revenue for sales of mobile games in the UK also rose 17% to £995 million.<sup>21</sup> The 2016 digital sales of games in the UK was larger than the in-country combined digital sales of video content and music.<sup>22</sup>

### *Asia*

According to one survey, gamers in China, Japan, South Korea and Southeast Asia are projected to generate 45% of the \$99.6 billion in global revenue for 2016. The survey goes on to estimate China to be one of the largest markets in the world for video games with an estimated revenue generation of \$26.4 billion in 2017.<sup>23</sup> This growth is powered partly by the popularity of massive multi-player online games,<sup>24</sup> such as the World of Warcraft and League of Legends, and

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<sup>16</sup> See generally Sony PSVR at <https://www.playstation.com/en-us/explore/playstation-vr/games/>.

<sup>17</sup> Nick Wingfield, "Popularity of Sony's PlayStation VR Surprises Even the Company", THE NEW YORK TIMES, Feb. 26, 2017 available at <https://www.nytimes.com/2017/02/26/business/sony-playstation-vr-sales.html>.

<sup>18</sup> See Interactive Software Federation of Europe, "About ISFE" available at <http://www.isfe.eu/about-isfe>.

<sup>19</sup> See Interactive Software Federation of Europe and Ipsos Connect, "The New Faces of Gaming: Thought Piece 2017" available at [http://www.isfe.eu/sites/isfe.eu/files/attachments/ipsos\\_connect\\_gaming\\_feb\\_17.pdf](http://www.isfe.eu/sites/isfe.eu/files/attachments/ipsos_connect_gaming_feb_17.pdf).

<sup>20</sup> Interactive Software Federation of Europe, "Videogames in Europe: Consumer Study", European Summary Report, p. 12, Nov. 2012 available at [http://www.isfe.eu/sites/isfe.eu/files/attachments/euro\\_summary\\_-\\_isfe\\_consumer\\_study.pdf](http://www.isfe.eu/sites/isfe.eu/files/attachments/euro_summary_-_isfe_consumer_study.pdf).

<sup>21</sup> The Association for UK Interactive Entertainment, "UK Games Industry 2016 Consumer Spend", Mar. 16, 2017 available at <http://ukie.org.uk/news/2017/03/uk-games-market-worth-record-%C2%A3433bn-2016>.

<sup>22</sup> The Association for UK Interactive Entertainment, "UK Video Games Fact Sheet", p. 16, Mar. 20, 2017 available at <https://ukie.org.uk/sites/default/files/UK%20Games%20Industry%20Fact%20Sheet%202020%20March%202017.pdf>.

<sup>23</sup> Newzoo Games Market Research, "China" available at <https://newzoo.com/insights/countries/china/>.

<sup>24</sup> *Id.*

the rise in mobile gaming. Another study forecasts revenue from Chinese mobile games to reach \$8.3 billion in 2017, carving out an increasing share of the Chinese digital games market.<sup>25</sup> The number of mobile gamers in China is expected to continue growing to more than 500 million.<sup>26</sup> But it is not just mobile games that drives gamers in China. Internet cafes and online gaming on personal computers are also expected to play major roles. Internet cafes provide a space for a friendly environment for competitive video gaming (eSports) and live-streaming of tournaments.<sup>27</sup>

Japan is the third largest market in the world for video games and is worth an estimated \$12.4 billion. Approximately 54% of the general Japanese population play video games with 61% of those gamers spending money to play games. At \$6.5 billion, mobile games drive revenue in Japan although console games are just about as popular at \$4.7 billion.<sup>28</sup>

### ***Latin America***

At \$4.1 billion in revenue for 2016, Latin America is one of the fastest growing regions of the world for the video game industry.<sup>29</sup> Propelling the increase in growth is mobile gaming which, in 2017, is projected to stand at \$1.4 billion, a number that is roughly equal to that of gameplay on personal computers, which is also expected to bring in \$1.4 billion.<sup>30</sup> Revenues from console gaming are expected to not be far behind at \$1.3 billion.<sup>31</sup> Fifty-one percent of the continent's online population—371 million people—plays video games.<sup>32</sup> There are estimated to be 188 million gamers, 58% of whom will be spending \$37 on average to pay for games. Gameplay on personal computers is expected to rise 6% in 2016, for consoles 9% and for mobile, a remarkable 56%.<sup>33</sup>

### **Intellectual Property**

Free and fair trade fuels the innovation that powers the 21st century digital economy. As creators of technologically advanced interactive works, ESA members occupy a unique position as copyright-intensive companies who not only deliver content, but also technology services to their customers, fans and enthusiasts by making games available for digital download, on mobile and handheld devices, or providing online platforms to stream gameplay. In order to maintain its

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<sup>25</sup> Nicholas Meyer, "Niko Partners: Predictions for the 2017 Games Market in China and Southeast Asia," Feb. 6, 2017 available at <http://www.makinggames.biz/news/top-predictions-2017-games-market-china-southeast-asia-nico-partners.2303228.html>.

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> Newzoo Market Games Research, "The Japanese Games Market 2016" available at <https://newzoo.com/insights/infographics/japanese-games-market-2016/>.

<sup>29</sup> Newzoo Market Games Research, "The Latin America Games Market: Console Still Standing Strong, but Mobile is Winning", Oct. 31, 2016, available at <https://newzoo.com/insights/articles/latin-american-games-market/>.

<sup>30</sup> Newzoo, "The Latin America Games Market".

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

technological edge, our industry relies on rules and policies that promote fair trade and competition, increase access to new markets and expand high-wage job creation.

As copyright, trademark and patent owners, video game developers face an array of intellectual property protection and enforcement challenges. Left unchecked, these problems can ultimately lead to untenable distortions of digital trade. A non-exhaustive list of these intellectual property-based challenges include infringement via peer-to-peer file-sharing of infringing video game files, gameplay on unauthorized servers, infringing copies of mobile apps, hacking of video game consoles, and the trafficking of circumvention devices used to hack game consoles in order to force unauthorized gameplay. Strengthening rules on copyright, trademark and trade secret protection and enforcement—especially those that take into account evolving and emerging technologies, such as the proliferation of apps—is an effective way to preserve the incentives for companies in the video game industry to continue to producing the engaging content gamers want and embrace the technology that offers consumers new ways to interact with that content. These rules should be crafted to allow video game companies to seek compensation for infringement through adequate civil, administrative and criminal procedures.

### ***Technological Protection Measures (TPMs) and Anti-Circumvention***

With respect to TPMs, rules supporting use of these access controls to protect gaming hardware and software, and which prohibit the importation, sale and distribution of circumvention devices, are of vital importance. Ninety-five nations<sup>34</sup> around the world, including the United States, have already adopted principles (as articulated in Article 11 of the World Intellectual Property Copyright Treaty) supporting adequate and effective legal remedies against the circumvention of TPMs.<sup>35</sup> Device-based access controls protect video games, and associated consoles on which they may be played, from hacking and mass infringement. In the unique case of video games, circumvention of TPMs tend to lead almost exclusively to infringing uses. For example, with regard to console-based video games, a user cannot play an unauthorized game without also circumventing both the access controls embedded in the video game media and in the console's hardware architecture. This is why the Librarian of Congress noted in the 2015 triennial rulemaking, which occurs under the auspices of Section 1201 of the Digital Millennium Copyright Act ("DMCA"), that the "jailbreaking" of consoles was closely associated with massive infringement of video games and undermined the "value of console software as a secure distribution platform."<sup>36</sup>

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<sup>34</sup> See WIPO Copyright Treaty Total Contracting Parties: 95 available at [http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty\\_id=16](http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=16).

<sup>35</sup> See WIPO Copyright Treaty, World Intellectual Property Organization, art. 11 (Dec. 20, 1996) available at [http://www.wipo.int/treaties/en/text.jsp?file\\_id=295166#P87\\_12240](http://www.wipo.int/treaties/en/text.jsp?file_id=295166#P87_12240).

<sup>36</sup> U.S. Copyright Office, Library of Congress, "Exemption to Prohibition on Circumvention of Copyright Systems for Access Control Technologies", Fed. Reg. 2015-27212, pp. 68-69 Oct. 28, 2015 available at <https://www.copyright.gov/1201/2015/fedreg-publicinspectionFR.pdf>.



TPMs have long been fundamental to protecting and rewarding the investments made in improving console technology and enabling innovation in the video game ecosystem, including new business models that not only adapt to changing customer preferences but also position the industry for growth and expansion. The protection afforded to video games by access controls has unleashed new ways of making games available to players across a multitude of platforms and devices. Video game companies have launched new tools to enable cross-platform gameplay across personal computers, console and mobile devices and even a game console-based Internet television service.<sup>37</sup> Other game delivery models include freemium<sup>38</sup>, paymium<sup>39</sup> and true free-to-play<sup>40</sup> games, which bring games to consumers on new and exciting platforms, while creating a means by which game developers may be remunerated fairly for their efforts.<sup>41</sup> Makers of virtual, augmented and mixed reality platforms, hardware and accessories also rely on and benefit from strong rules on TPMs.

### ***Internet Service Providers (ISPs)***

Granting ISPs and other online service providers and intermediaries qualified protection from liability for infringement occurring in connection with the provision of services, as detailed in the DMCA, encourages fair digital trade and does not pose an obstacle to innovation or growth, as noted in the Commission's Federal Register Notice. The video game industry benefits from rules that encourage all stakeholders in the online content ecosystem to work together with the goal of fostering legitimate trade and fair competition.

### **Data Governance**

As a technology-intensive industry, video games require the use and transfer of data to adequately render gaming content, services and experiences to its consumers. For video game developers, ensuring smooth data flows across national borders is crucial to providing innovative services to users, such as enhancing personalized consumer gaming experiences and improving on new business models for delivering digital content. Generally, the elimination of obstacles to the free flow of data across borders is designed to ease the ability of Internet-native companies to conduct every-day business. However, in the past decade, complex rules and policies have

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<sup>37</sup> See the Sony PlayStation Vue service at <https://www.playstation.com/en-us/network/vue/>.

<sup>38</sup> **Freemium**: Publishers provide the lite version of games free to play on various platforms but offer in-game upgrade purchases or advertising. See [http://www.oxforddictionaries.com/us/definition/american\\_english/freemium](http://www.oxforddictionaries.com/us/definition/american_english/freemium).

<sup>39</sup> **Paymium**: Users pay a fee to play the game, which also features in-app or in-game purchases of virtual goods. See <http://www.gamesindustry.biz/articles/2013-11-29-is-this-the-start-of-the-paymium-generation>. Also called "paidmium" in Europe. See Deloitte and Interactive Software Federation of Europe, *Mobile Games in Europe: Innovation in European Digital Economy*, p. 7, Sept. 2015 available at [http://www.isfe.eu/sites/isfe.eu/files/attachments/deloitte\\_report\\_isfe\\_2015.pdf](http://www.isfe.eu/sites/isfe.eu/files/attachments/deloitte_report_isfe_2015.pdf).

<sup>40</sup> **"True" free-to-play**: The entire game is free (not just the lite version) but users have the option to make in-app purchases to improve their gaming experience.

<sup>41</sup> According to Distimo, game developers represent the majority of top publishers in all three major app stores – the Apple App Store, Google Play, and the Amazon App Store. Christel Schoger, "2013 Year in Review", Distimo available at [https://coaching.at-diversity.eu/media/resources/Distimo\\_Publication\\_-\\_December\\_2013\\_-\\_EN.pdf](https://coaching.at-diversity.eu/media/resources/Distimo_Publication_-_December_2013_-_EN.pdf). Seven of the top 10 paid apps on the Apple App Store are games (<http://www.apple.com/itunes/charts/paid-apps/>) and gaming made up more than 90% of Google Play's revenue in 2014. <http://fortune.com/2015/02/25/for-apple-and-googles-app-stores-the-moneys-in-the-games/>.

emerged in various countries around the world regarding data, including its collection, protection, use, and transfer. Some of these rules, such as those that do not distinguish amongst different types of data or that disregard how different industries make legitimate use of that data, make it much more difficult for video game companies to provide access to content or maintain a seamless gameplay experience for users.

Well-intentioned laws that nevertheless promote localization, protectionism and other restrictions on data flows under the guise of privacy and data security, are counterproductive and impose unnecessary burdens on industry. Forcing video game companies to store data within each country where they do business is not financially viable and ultimately interferes with the ability of companies to expand and hire more American workers or to reach consumers in new markets. Storage decisions should be dictated by technology, efficiency and security considerations rather than blanket regulations that do not take into account emerging business models and how they make use of data. Additionally, the patchwork of laws and regulations regarding notification timelines of data breaches constitute a burden on video game companies. It is already exceedingly difficult for companies to know the scope and scale of a data breach and the diversity of rules on notification only make it harder to comply with reporting obligations. In crisis situations, companies need clarity when it comes to rules on reporting as well as time to figure out what really happened. When developing notification requirements, data regulators should take into account that, minimally, time may be needed to understand the scale of a breach.

We believe that consumer privacy protections are advanced by laws and regulations that encourage free cross-border data flows. Consumers have highly individualized preferences when it comes to privacy, which is why video game developers provide them with information and tools (such as customized privacy settings) that enable informed decisions about the handling of their personal information. In addition, the video game industry seeks to enhance consumer privacy through voluntary self-regulatory mechanisms, such as the industry's "Privacy Certified" program offered and administered by the Entertainment Software Rating Board (ESRB).<sup>42</sup>

## **Regulation of Content**

Some countries possess onerous laws that regulate content, ostensibly to protect minors and/or public morality, but which ultimately disadvantage U.S. video game companies and make it much more difficult to succeed in those markets. In certain countries, industry self-regulation is considered inadequate even though the video game industry has been recognized by the U.S. Government as more than capable of self-regulation, through the ESRB.<sup>43</sup> Requirements are

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<sup>42</sup> See the ESRB "Privacy Certified" Program available at <https://www.esrb.org/privacy/>.

<sup>43</sup> Federal Trade Commission, Commissioner Maureen K. Ohlhausen, "Success in Self-Regulation: Strategies to Bring to the Mobile and Global Era BBB Self-Regulation Conference," p. 7, Speech given at the Better Business Bureau Self-Regulation Conference on June 24, 2014 available at [https://www.ftc.gov/system/files/documents/public\\_statements/410391/140624bbbself-regulation.pdf](https://www.ftc.gov/system/files/documents/public_statements/410391/140624bbbself-regulation.pdf).

created that all imported games go through a separate localized ratings process even if the games have already been ESRB-rated. These rules impose unreasonable delays on the distribution of content to gamers as well as costs on American companies and gamers. To address concerns about content in video games, the world's game rating authorities have formed the International Age Rating Coalition (IARC)<sup>44</sup>, which provides a globally-streamlined age classification process for digital games and mobile apps and helps ensure the consistent cross-platform accessibility of established, trusted age ratings by today's digital consumers. With the ubiquity of apps and the need for consistent ratings in order to avoid localization barriers, we encourage ratings authorities to do more to encourage integration—rather than fragmentation—of the digital economy.

Other countries go even further with content and censorship requirements that effectively prevent almost any foreign games from being sold, downloaded or otherwise published or distributed in their countries. As is evident, the prohibition of discrimination against foreign digital products, such as online and mobile games, is necessary for the U.S. video game industry in order for it to better compete on equal footing with its counterparts in overseas markets.

### **General Market Access**

Hardware and software-related tariffs translate into high costs for consumers of video game content and services. Elimination of such barriers eases entry into foreign markets for video game companies and provides easier access to legitimate game content for consumers. Some countries, such as those who joined the enhanced Information Technology Agreement (ITA), have already eliminated<sup>45</sup> such tariffs on hardware (such as video game consoles)<sup>46</sup> while others not party to the ITA, like Argentina, have done so for hardware in order to promote economic growth and high-wage jobs. We applaud those moves and encourage other U.S. trading partners to follow in these footsteps.

Other trade policies of concern to ESA members are government measures that force companies to transfer their technology, intellectual property or other valuable commercial information to national entities as a condition of doing business. Some countries use these policies as a means of support for their own domestic champions at the expense of American companies, which are then placed at a competitive disadvantage. These policies constitute unfair competition, discourage American companies from entering or expanding into markets and also

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Commissioner Ohlhausen noted that the “electronic game industry continues to have the strongest self-regulatory code and enforcement of restrictions on marketing, advertising and selling mature-rated games to younger audiences.”

<sup>44</sup> IARC is available at: <https://www.globalratings.com/about.aspx>.

<sup>45</sup> Office of the United States Trade Representative, “U.S. Leads WTO Partners in Clinching Landmark Expansion of Information Technology Agreement”, July 24, 2015 available at <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/july/us-leads-wto-partners-clinching>, (“ITA's expansion is great news for the American workers and businesses that design, manufacture, and export state-of-the-art technology and information products, ranging from MRI machines to semiconductors to video game consoles,” said [former] U.S. Trade Representative Michael Froman).

<sup>46</sup> ITA Expansion Product List available at <https://ustr.gov/sites/default/files/ITA-expansion-product-list-2015.pdf>.

distort free and fair trade. In order to continue America's competitive advantage in the digital trade space, these policies and practices must be eliminated. We also support rules and policies that prohibit any imposition of duties on electronically-transmitted content and that promote the ability of video game companies to invest in certain key (content and other) sectors in foreign markets.

### **Conclusion**

We believe that advancing high standards and rules in digital trade can have a beneficial impact on the creation and distribution of entertainment software and hardware. U.S. video game companies gain stronger footholds in key foreign markets, which are some of the world's fastest-growing economies. Cutting-edge rules on the protection of intellectual property rights on the Internet and the free flow of cross-border data further enhance the digital economy. Strong policies will help American video game companies continue to contribute to the growth of the U.S. economy and create high-wage jobs.

Should the Commission have any questions or comments concerning ESA's response, please contact Stanley Pierre-Louis at (202) 223-2400.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Stanley Pierre-Louis', is centered on the page.

Stanley Pierre-Louis  
Senior Vice President and General Counsel