

Chapter 1: Introduction

1.1 Introduction

Technological advances that significantly reduced the outlay of private copying of intellectual property have led to prevalent copying and produced claims of severe harm to producers (Besen, 1986). In Malaysia, despite the existence of various legal sanctions and regular enforcements, Optical Disc Products (ODPs) piracy is still rampant. According to the International Intellectual Property Alliance (IIPA), Malaysia is 'one of the primary sources for pirated optical media products that are exported all over the world'. The Video and Film Industry Association of Malaysia says the US film industry loses US\$40 million every year to Malaysian piracy. These losses put Malaysia in second place behind China, which accounts for US\$120 million in losses. The pirates' *modus operandi* is by smuggling preview copies or camcorder master discs from a country premiering a film to optical disc factories in Malaysia, which then produce the counterfeits for international as well as domestic market. Given these facts, we aim to look at ODPs piracy among student at University Malaya to gauge the depth of their involvement, perception, willingness to pay for ODPs and their awareness of government policies.

1.2 Definition on ODPs Piracy

Optical Disc Products are information goods that are stored in optical discs (Cassey, 2003), which includes Compact Discs (CDs), Video Compact Discs (VCDs), Digital Versatile Discs (DVDs), Compact Disc Read-Only Memory (CD-ROMs), CDRs and Super Audio Compact Disc (SACDs). Optical discs were initially developed by Philips Electronics for the storage and playback of digital music and were first released in

1982. Known as Compact Disc or simply CD, this format quickly revolutionized the music industry and, with the development of the CD-ROM has impacted the computer industry as well. VCD is an extension of this same technology and was developed by Philips Electronics and JVC in 1993 while DVD was launched initially in 1996¹. Due to its superior storage capability, optical disc became a dominant class of digital storage format.

Straub and Collins (1990) define software piracy as the unauthorized copying of an organization's internally developed software or the illegal duplication of commercially available software in order to avoid fees. As such, we can safely define ODPs piracy as illegal duplication of commercial ODPs, without making any necessary payment to the owner of the products' copyright. It is the unauthorized duplication, distribution or use of ODPs. Industry claims that piracy cheats both the publishers and consumers of the ODPs because it makes ODPs more costly (ODPs vendors often use piracy as grounds for pricing ODPs higher in order to recoup the potential piracy losses) and has a deleterious effect on the incentive to produce intellectual property. In another word, ODPs industry is haunted by piracy because it diminishes revenues and investments. In terms of welfare, piracy leads to a decline in social welfare due to underproduction (Novos and Waldman, 1984; Johnson, 1985). This paper takes a new dimension by taking a look at various form of ODPs piracy inclusive of software, instead of specifically on software piracy.

¹ The Canadian Motion Picture Distributors Association Anti-Piracy Operations at <http://www.fvso.org/english/optdisc.htm> retrieved on 17/6/04

1.3 Organization of the Study

The rest of the chapters were organized as follows. Chapter 2 provides some background on the research. Chapter 3 discusses some prior studies on piracy followed by description on research methodology and econometric specifications used in the study. Chapter 5 provides summary statistic while result and analysis were discussed in Chapter 6. Chapter 7 concludes.