FINISHED TRANSCRIPT

2013 APrIGF SEOUL

5 SEPTEMBER 2013

TRADE ISSUES ARISING FROM THE 2012 KOMPU GACHA BAN OF MONETIZATION OF VIRTUAL GOODS

LECTURE ROOM 2

16:30

Services provided by:

Caption First, Inc.

P.O. Box 3066

Monument, CO 80132

1-877-825-5234

+001-719-481-9835

www.captionfirst.com

\*\*\*\*\*\*\*\*

This text is being provided in a rough draft format. Communication Access Realtime Translation (CART) is provided in order to facilitate communication accessibility and may not be a totally verbatim record of the proceedings.

\*\*\*\*\*\*\*\*

>> ADAM PEAKE: Hello. Good afternoon, everybody. Apologies for the delays. We are trying to work out how remote access works, which is always an interesting challenge. Anyway, hopefully we will have Pindar Wong joining us later from Hong Kong.

I feel a bit lonely over this side looking at you three there. Hopefully -- yeah, that's why I was feeling lonely. Thank you.

So we have a session today that's going to talk about trade issues arising from basically kompu gacha and the ban on monetization of virtual goods, and the idea is we want to talk about developments in the trade of -- trade and development of online services and goods, particularly focusing to begin with on online gaming.

One of the reasons we wanted to do this was to somewhat test an idea that the Internet Governance Forum is about, and for those of you who are very familiar with the origins of the Internet Governance Forum, one of the things in its mandate is to generally, of course, the Internet Governance Forum is to have a dialogue, a multistakeholder dialogue, about Internet policy issues. But one of the things that happens that the IGF is -- has the mandate to do is to identify emerging issues, to discuss them and, if appropriate, make recommendations to other external entities, other bodies, the appropriate body that might deal with that particular issue.

So what we want to do, what Pindar Wong and I wanted to do in organising this workshop, is to begin by discussing some of the issues about online gaming, virtual goods, monetization, and the commercialization of these goods. We'll then hold a workshop in Bali at the global IGF where we will add some aspects of intellectual property and also trade issues. And if appropriate then, we'll try and take recommendations from these two processes to a WTO, so World Trade Organization, meeting, which will also happen to take place in Bali in December.

So we're sort of on the one hand trying to test this model of the Internet Governance Forum making recommendations to other bodies and also hopefully having an interesting discussion about issues that are particularly relevant to the Asia Pacific region, which is online gaming, the success of online gaming, the social issues around online gaming, and of course, monetization.

And so I think with that, we can go to our first speaker, and I'll ask you to introduce yourselves one by one, but so if you give a brief introduction to who you are and then go into your presentation, and we will begin with Jae Yeon Kim, if we could, please. And please let me know if Pindar appears online.

>> JAE YEON KIM: Good evening -- not good evening -- good afternoon. My name is Jae Yeon Kim, and it's my honor and pleasure to be here. First of all, I would like to give my thanks to Adam Peake and Pindar Wong. Pindar Wong is not present here, but they organized this event.

I think today's topic is timely for two reasons. First of all, gaming industry -- especially online gaming industry -- has been essential for growth of the commerce. At the same time, Asia Pacific --

I am a member of a grass-roots network, and we are aimed to promote online freedom. And in the forum, I am interested in Korean game regulation, and I have written some articles about Korean game regulation. Today I am talking about virtual economy regulation from partial monetization to kompu gacha. The title is too long, so let me briefly say about what I am going to talk. I am going to talk about one thing. Whether we have regulations already. We have regulations in copyright and regulations in other areas. And we've got some lessons from there. And so my argument is about whether that lesson, whether the lessons we gained from other areas of regulation, can be applicable to the regulation of online gaming, to a large extent, virtual economy as well. So I am going to talk about that.

Also, because I am trying to represent the voice of civil society, I'd like to talk more on the personal side. I am a game player. I play a game daily about an hour. I think I have some stake here; right? Because the future of game is about -- and we talk about it from that concept.

Let me talk about the order. First, I talk about the virtual economy and the political nature and state of the future. So at the end, I talking about the conclusion. But because other distinguished panelists talk about these issues in detail, so I am not going down in detail. I am talking about them, briefly sketching out the big picture.

So virtual economy. Virtual economy is a Wikipedia definition. Virtual economy is emerging economy existing in a virtual persistent world, so online gaming industry. That's one example.

Second Life is an example. It's very hard to draw the line between gaming and play and virtual economy. It's a very complicated nature there. So let me say virtual economy is virtual, it's play, but at the same time it's economy, which is a market. Virtual economy, but for example, if you are playing a game, you play it, you -- for items, valuable items, are you liable for that behavior?

So it's a virtual issue, but it's a collective activity. It's a collective activity. But at the same time, it's an economic relationship. There is a whole range of issues involved in virtual economy which are very much like the -- economy. Online gaming is a big thing in Asia. There is a status issue. Why are people crazy about gaming? I say I play a game daily an hour. Why do I spend my valuable resources on that? It's my status. It's human nature. Right? Even if you go to virtual, your human nature, it does not disappear. The same like if you play in the real world, the same thing happens in the virtual world as well.

There is an exchange existing in virtual. One of the key issues here is real money and virtual money. Real money changes into virtual money, and virtual money changes to real money.

The convoluted nature of the virtual economies makes all the discussions very difficult because people are looking at only one side of the issue. Right? There are some idealists or purists who only understand game as play, as a kind of fantasy. But is it real? Is it virtual? There are some people, organising in especially China, they are making money from there. For them, it's not play. It's labor, it's economy, it's their business. So what is the nature of this? It's not simple. It's multiple nature there.

How many play can this be for? Image. I play this game. I was born in 1984, so when this game was invented, I was in school. It was a huge hit. Everybody began to play this game. Right? And in 1998, you know, it's a very important year for Korean game users. Why so? Because at the time, two games were released. One is Lineage, and the other is --. A whole phenomenon started from here. In September 3, 1998, memorable. It is when they released multiplayer online game.

And it represents three characteristics which is shared and which is succeed and which is further developed by other game developers later. First one is rare item use. Right? Rare item very numerous economic barriers. So everyone wants to get this, rare item use. Rare item, like something very difficult to be able to get.

The other thing is cooperation and conflicts among users.

In Lineage, even there is a war between the tribes for 60 years, and there are many nobles about the history of that war, virtual war even, and also items traded. So Lineage paved the path for this whole phenomenon.

Later, after the other game developers, they discovered that game can make them a lot of money, especially due to this, why Asia has been particularly strong in online gaming industry? There is a lot of reasons. We have very first -- before I started mobile gaming, I didn't bother using 3G. But after I started playing mobile game, I concerned that I need to move to 4G because I need to get the faster connection and more easily to play a game.

And after Lineage, now game developers realized that they can make money. They can make money. But how they can make money? Simple formula is here. First of all, they need to acquire as many users as possible. Right? And as I say, there is scarce item, and if they want to play more, then you can have limited access, and then you can make the players pay to play more. So there are lots of ways. But basically the biggest model is requiring as many players and making as many users to be paid users, paid meaning a lot of things. Like you are paying for item, paying for access, a lot of things.

Loyal enough? There is a lot of debate about this. There is some groups interpret this as addictive. Some government bodies interpret this as gambling. I try to make this neutral. But their aim, the game developers' aim, is simple. Loyal enough to be paid users. Because why so? Basically because they are commercial entities. They are corporations. They want to make money. So this is simple.

But it's not simple how we can label this. First of all, this business model causes some negative externality, someone claims gambling or addiction. Or if it has ethical limits. This is especially children protection, like children are supposed to be studying more, not playing games. This morning I had a conversation with a lawyer who is very progressive, very liberal ideas, and when I say I am going to present my ideas about game regulation, and she said you must ban this. She is a liberal, progressive. She has taken very liberal position. When it comes to game, she hates it. Why so? Because she has a daughter, and she and some others are playing game online every day. So she doesn't like the idea.

(Laughter)

So the most complicated question is what is the best way for coping with these problems from both short-term and long-term.

If you want to regulate the game virtual economy, it's not simple. You can ban the game, limit access, you can make an upper limit for the monetary.

Negative externality, as I said, gambling issue. Ethical limits, the lines are blurred. Gambling, society does not -- society tries to regulate gambling because gambling promotes luck over efforts. Right? If the best way to earn money is doing gambling, then what's the outcome of the society? It's not better. It's against increase in general welfare. So society tries to regulate gambling because they want to promote not luck but effort as instilled in every individual in society.

And also, they care about children's protection. We are not living in the 18th century England. Right? So we are trying to send our children not to factory but to school. So that's one of the reasons why they're trying to regulate, we have an issue here.

Also regulatory options, just to differentiate the two options, because other distinguished panelists will talk about these issues in detail. First option is total regulation. I think it's kind of revenge. Okay? You spoiled my children, and you gambling here, and now you have a punishment. Ban the game. But it's very short-term because a game is not -- as I say at the beginning of my presentation, game is a play, a show, an economy. It's a rising and growing economy. So it's not simple.

Partial regulation, there's a lot of ways to do that, but it's basically about compromise, making compromise among different entities. So it's amazing. It's amazing. It's hard to do. But I think it's the way we must go.

So it's -- I try to discover the sentiment here. As much as video games are hated in the United States, online game receives negative abuse in east Asia. Whenever goes virus in the United States, people talk about banning things. Same here in Korea. Whenever there's problems, people talk about gaming. That's the issue. But we must talk about how we can deal with the problem; right?

And now we got very extreme regulation, like the government put several game regulations, a "shutdown system" introduced by three government industries, which is very extreme. But at the same time, it shows how is popular sentiment among the citizens? The politicians employed a popular regulatory option because they know people love it. Like I said, I have a friend, a liberal lawyer, she is very much liberal, extremely lawyer, but when I say about gaming regulation, she say we must ban this. Because she is not a gamer. So if the game is banned, she has nothing to lose, but she has her child back from gaming, from her perspective.

So that's what I explained.

And now the Korean government, they realized that there's a very large playing market, especially concerning item trade, so essentially, the Korean government tried to introduce a ban including item trade, but it's only about individual-to-individual item trade, not including --

Kompu gacha is not that much different. It arises from political nature of online gaming, which is a profitable business but which is also at the same time hated. Not hated by all, but hated by some important people, some strong bodies in society. But it's still a very important question because this represents a lion's share, a huge portion of the commercial Internet. Right? So ignoring this means we are ignoring one of the essential characteristics now we have in commercial Internet.

So how we can do this? I think the heart of the matter is how we can optimize the effectiveness and legitimacy of partial regulation. Partial regulation, as I mentioned, is about how we can make compromise among different stakeholders. And because I am a user, a gamer, I think all of the cases we have is that a game is less represented in the decision-making process. For example, item trading, as I mentioned in the previous slide, item trading is legal under Korean law but illegal in many of the terms of service for users. This is a long discussion for Korean game users. Item is property right, game item has a priority right. If it has property right, property lies with who? Obviously, game is written by game provider. Game provider holds all property rights. But as I mention, if Shakespeare, Hamlet, is all right. But online gaming is different. It's collective creation. Not single user make the whole thing. Every player participates in, and they make the whole thing. Then the item, the virtual property, belongs to them. Who decides the decision? This is one of the key issues. Because without no property rights, without clearly defined property rights, no stable economic development, even in virtual economy.

>> ADAM PEAKE: Could we close it off there? Because we've heard that Pindar Wong is going to be able to join us, so we are back to five presenters.

>> JAE YEON KIM: Okay. Thank you. So my presentation, my talk is all about a simple point. That is that we need to think about the institutional imagination, the kind of organization that represents not only the government, not only parent organization, but the game users and other civil society members so they can come in and discuss, like we did and we are doing for the governance like this forum.

And I don't know exactly the kind of discussion form will be, but I think starting point needs to be about making this commercial Internet development not only economically profitable, but also politically legitimate.

Thank you.

>> ADAM PEAKE: Thank you very much. Thank you. Sorry to have interrupted at the end. We weren't too sure if the other speaker was going to be able to join remotely. He is now, so now we're going to have to shut down the amount of time. So if the rest of you could stick to about ten minutes, please, then we should be able to -- should be able to fit everybody else in.

And with that, we'll go on to the next presenter, which is Jay Yoon.

>> Good afternoon, everybody. I am Jay Yoon. I am the project lead of Creative Commons Korea, and I am also a judge here, so I have different position at the same time.

So we heard that the over explanation from Jae Yeon Kim about these issues, so I would like to focus on the legal dimension.

So innovation is this issue, real money trading or real money trading of -- in items, in-game items. It's a very exciting issue.

We can, we must, we have to meet the real economy in virtual world. So if we bring the virtual economy to the real world, it can be a big engine for the real world economy as well as the virtual economy. So. But as a lawyer, this issue is a big headache. So it's very difficult to solve the problem. I'll simply catalyze the real issue in four -- categorize the real issue into four groups. One is game addiction, as we heard explanation from Jae Yeon. The issue is the social issue rather than the legal issue, but the Korean government has had a very aggressive approach for regulating the game industry, so there are already many regulations to regulate game addiction.

So in that stage, there's some conflict between that regulation and other rights, other human rights. For example, the freedom to express. So at this stage, it can be a legal issue.

And the virtual crime. The virtual crime is not a new one. When the virtual world started to interact with the real world, something happened. It's natural. But something is not new. We know very well what something is. All the crime with the -- similar to all the crime in the real world.

And the third one, the gambling regulation. I think it's most big issue, the biggest issue relating to the real money trade. So I will explain some situation in Korea about the gambling regulation. And the nature of trade is a big issue. This issue is most difficult to explain, as a lawyer, what the nature of the in-game items or the real money trade means.

So I'm explaining among them, just two issues, gambling regulation and the nature of trade. So gambling regulation, actually, this issue arose from traditionally arcade games, so especially redemption game. The redemption game means give some reward to players according proportional to their credit. So at the time, at this stage, if the reward can be -- real money, it triggered.

What we consider the characteristic of the game of chance. The characteristic of chance has three elements, wager, chance, and prize. Among those, the most essential element is chance. So MMORPGs, the player gets their item through spending their time or their money, their effort, and not by chance. So we can avoid the gambling regulation issue easily in MMORPG. Kompu gacha, I don't know what the basic model is, but I think kompu gacha, the business model is similar to arcade game, redemption game. So it is likely to trigger the gambling regulation.

We have in Korea some Game Industry Promotion Act. This Act focuses on the gambling exchange game money or item for real money. But the role narrowed the application of it to the activity as a business. This applies to game money or items obtained by chance in gaming, obtained by the irregular way, such as getting game item as a business, so such as hacking.

In Korea, exchange in game, in MMORPGs is legal in Korea. And the nature of the online game item. So most difficult question is what to trade for real money in legal conception? Many experts try to answer this question, but we get no answer for this question yet. Some people say trading the item itself, but the item, what does it mean the item? It's not copyright or it's not anything, so we cannot explain what the item means exactly.

Some people said we are trading the right to use items. But the right to use items, how can the right to use items can be priced apart from the use of the game? It's a very difficult question. And another guy, it's a very interesting approach, he said we trade the item itself, though we don't know what item means. But at the same time, we trade a premium. The premium in Korean is a very unique concept, but it showed some hint of this trade. The premium means the premium symbolizes some effort by the users. So it has some value. So we can capture the value as your premium.

So terms of use issue, I think that we can -- we heard that enough explanation from Jae Yeon, so the Supreme Court -- I just add one news. The Supreme Court of Korea only addressed the interpretation of terms of use but not validity of RMT. In the opinion, I cannot find the RMT. But in the opinion they addressed the interpretation of the terms of use. It's a very interesting approach. It's kind of vague.

According to the nature of the RMT or the in-game item, there are several issues coming up. For example, if the game developer adjusts, changes, or deletes the game item, the people -- which the people recognized as the asset, in this case, the people -- can the people require damages for the removal of the asset? It's a difficult issue. We have many cases, but it's not easy to answer this question as a lawyer.

So let's go on to the taxation issue. We have an interesting case, Supreme Court of Korea acknowledged the taxability of trading game money in a VAT case. In the VAT case, VAT is applied to the supply of a product, goods. The opinion addressed the game item, game money, is a product, is a good. But they did not explain the nature of the RMT of in-game item. So it is also vague approach. It is a very interesting situation. But I think we have -- you have some cases related to that in other countries, so I think it can be some reference to a situation in other countries.

Okay. Thank you.

>> ADAM PEAKE: So taxation might be one way of controlling this -- controlling this rather than banning it, you know, one way of regulating and controlling something is to tax it. But anyway.

One thing that I should have done is spoken a little bit about kompu gacha, which is this idea that the gacha, as you might have seen around convenience stores or railway stations, you put a few coins in, and you will get some item, as you term. The gacha is referring to the sound, the turning of a lock gives you, it opens up and you get this sort of little plastic ball, and inside the plastic ball will be some item or good given to you at random. It's the randomness of the delivery of this item that you're getting that you are talking about.

What happens online is that there were games where you would -- where you would put in a virtual coin into a machine, and you would receive some item which was part of a set, the goal being that you would randomly turn this gacha online and you would receive this random item and hopefully build up a set of goods that you wanted to collect, which would then eventually give you some kind of grand prize. And what happened in both Japan and Korea was that this was considered to be gambling. It was also found to be quite addictive, as we've already heard about with the word addiction, and there are examples of high school kids spending thousands or hundreds of thousands of yen or millions of won doing this because it was great fun. So it was seen as gambling and was controlled by the consumer agencies of both countries.

But it's the notion of trying to get items that would be useful to you in some way, virtual items, in a random fashion. But that was the nature of the kompu gacha. Kompu means complete gacha. But you have to really see these little things around the train stations and get your little plastic ball to understand what it might be virtually online.

With that -- and please, if you could keep your questions -- unless it's a clarifying question to one of the speakers, could you keep questions to the end, and we'll try and move along because we are losing time again. So thank you very much.

And the third speaker is Kim Jong Il. I believe you are speaking in Korean. So unless you have a headset, then I am going to have to read behind. So about 10 minutes, if you could, 10 to 12 minutes.

>> KIM JONG IL: Good afternoon, everyone. I am Kim Jong Il. I am from a game company. The title is GSP regulation. Although I wrote this in English, this presentation I have to say in Korean for Korean audience.

(Standing by for English translation)

And also we had revised a lot of regulations as well. We also have some crimes very much. And related to the game money, there are so many issues, addiction, gambling to name just a few. Sometimes game companies itself has been thrown in a hot spot, and the monopoly of the game industry has become an issue, and also tax avoidance is another problem.

In China and Japan, the regulations have already been conducted. I am from the one game owned by NHN. I am very much interested in Chinese and Japanese cases in online game, and I have been closely following similar developments in China and Japan and also very much interested in the enforcement of game-related regulations in Korea.

Having said that, I am seriously concerned about the recent trend of game regulation in Korea because the regulations that have been developed lately work on penalizing on the entire game users in general.

I was asked to share my views on this topic, and I actually reviewed ten years of history of regulating the Internet. I am talking about regulations over piracy, distribution of materials, defamation, and criticism of government that takes place on the net.

What we see is that the more authoritative the government is, the government has focused very much on blocking services, obligated monitoring over Internet uses.

We are seeing quite similar trends in the regulations of the game industry in Korea. The model of the game regulation in Korea is very much closely resembled to the government. So the example, the in-game services are now being redefined as illegal game services, and transactions of online games is prohibited. So they are regulating forceful regulations which applies to Internet exactly the same way as to the online game.

I tried to find alternatives. For the last ten years -- provisions that have been put in place, so they try to strike a balance between violation and regulation. And this has already been reflected in the Korea's communications law and also U.S. TMC has reflected this law. And Japan actually adopted similar provision as well.

In my presentation, I'd like to talk about the side effects of free trade of game items, and I also try to find measures to minimize the side effects. NTD system, notice and take down system.

If you look at the very structure of the game monitoring transaction, that is happening within the game and also the currency transaction is happening outside of the game. Game developers are not actually, you know, giving money for the items. Actually, the users -- between users, they are trading items for money. So gamers, they believe that they need to have some rare items, and also, you know, from seller's side, the incentive is they can actually dispose of leftover game assets, and they can switch to other games, and at the same time, they can cash in on their game items.

If you look at the size of the game money trading, it actually amounts to 4 to 5 trillion Korean won. It is as large as the game industry itself is in Korea. Actually, crystal world, the scale of the game money amounts to 20 billion, and this is almost as large as the game industry -- global game industry itself.

Regarding the game money, you know, some people said we should allow this, and some people said we should not allow this. For the banning, the basis for them is, you know, game players, they consume these items very much, and if a trade is allowed, then, a monopoly is going to be strengthened and an addiction will happen. And you know, since they can make money out of this item, they will be much more addictive, and also they can make money while playing this game, the monopoly of the game maker will be strengthened.

However, you know, there are some supporters of the game item trade. What they said is, actually, the game companies have their use of terms, so it will not throw the company in the hot spot.

Recently, game money trading has been banned, and a lot of countries are actually now taking regulations, especially in Korea. Started to regulate this with a poker game in Japan. Japan prohibits kompu gacha, and in China, China also put a regulation so the teenagers, Chinese teenagers, can trade at a limited amount of money. And also Korea has adopted a lot of regulations, and in 2013, not just users, but also the government has added the provisions so that based on the provisions, the game developers are actually liable for these side effects.

In the end, the government's logic is this. While playing game, people pay for it, and they buy items, and by playing games, people can increase the value of their items, and by trading the items, they get cash again to play the game again. So game money is like the real money. So the Korean government thinks we need to put administrative regulation on the gaming industry.

So in Korea, there is strong regulation from the government on gaming industry, so the voice for allowing game is actually very weak. Although those who call for the government to allow the gaming and item trade lost its power because they didn't actually propose any feasible method to prevent the social ills from the game, so that's just the institutional side in Korea regarding the game industry.

So in order to search for the alternatives to a free transaction, we have to minimize the social ills from games. So each government needs to understand why we need to allow the free transaction of game items and prevent the possible social problems from those games.

And I would like to go more specific about the regulations of Korea, Japan, and China. Korean government is focused on preventing the game from becoming speculative, and the Chinese Ministry of Commerce thinks that the game money or cyber money shouldn't be confused with other legal money. And in the case of Japan, the Consumer Affairs Agency put regulation on the online game item transaction. So those governments are trying to put regulation on the games in order to prevent game-based speculation and prevent market chaos and also prevent overspending or game addiction.

Then what does it mean to seek for alternative? And many authoritative government has conducted -- they have put regulation in advance on the gaming industry, so the most optimal way of minimizing the social ill will be, for example, notice and take down -- for example, the notice and take down method could minimize the damage from game. So we try to get some hint from the notice and take down method.

And regarding the speculative nature of game, I'm going to -- so this explains how we apply the notice and take down game. In the case of poker game, there is Zynga poker, Facebook, and TToudizhu.

If there is no monetization of game item, there will be no serious problem. So if we can take proactive and immediate measures for monetization of items, then we can prevent gambling or speculation of games. So the most optimal way will be that the purchaser of game money can report to the game service provider, and the game service provider takes down the seller's account. And then such transaction -- illegal transactions will be removed.

And regarding overspending and addiction, in Korea, there are games like Oro or chess, even adults cannot buy over $3 worth of game items per month. Japan has presently launched the regulation for the use. They put a limit on the amount of game items to be sold to the youth. So such regulation could sometimes infringe on the rights of the adults and the rights of the youth.

So we can adopt NTD system. Under the NTD system, the game service provider sets its own ceiling and notifies the users. In any buyer purchases an item in excess of the limit, then that buyer can report it to the GSP, and then the GSP can cancel that excess amount of purchase. And through this method, the game company can limit the game addiction. And if the youth purchased a game item in excess of the limit, then the parents or the guardian may report this to the game company. And also, we can set the appropriate time for the juvenile to play the game, so the game service provider can take the takedown actions.

However, there are some social issues that entity NTD system cannot solve. For example, in order to prevent the game money from being confused with real, legal money, this cannot be solved only by NTD system. Also, the monopoly of game cannot be solved only through NTD system. The monopoly issue is also a longstanding problem in Korea. For the last ten years, the popular game -- the ranking of popular game has not changed in ten years in Korea.

And in conclusion, the transaction means a lot of things to the game players and users, and even if we cannot control the side effects from game money transaction, we have to -- it is our task to seek out solutions to solve the problems like gambling or overspending and addiction. And the revenues of game industry will be as much as the revenue of Google or Facebook. And actually, these days, the government has introduced regulations that were used by the authoritative government in the past, so we need to propose some better alternatives, not just authoritative regulation. An FTD system will be a very good example for such proper regulation, and I hope that there will be further discussion about this issue.

Thank you for listening to my presentation.

(Standing by for English)

>> ADAM PEAKE: Ten minutes.

>> Okay. I believe there are really good interpreters in this room, so let me take advantage of that. I mean I will speak in Korean.

I am in charge of online issues. You might have a question why is a telecom company in this room? For the last two or three years, we have thought very seriously about the virtual goods, and regulation on game items is a very important guideline for the virtual economy and the virtual goods. As you know very well -- you may have seen this very often. Digital devices are used by a lot of people, and we have recently won the gold bandwidth, and through the broadband bandwidth, many people can access the Internet.

For your information, in Korea, our company will offer the fastest Internet service in Korea. It means that on the digital device, people can enjoy a variety of items. And we launched kind of the fastest Internet service because it's a matter of life or death for our company. For a telecom operator's perspective, in the past we thought that voice call or telephone were the cash cow, but the revenue from voice call or telephone continues to be dropped. So for us to survive, we had to create some items to make our company be sustainable. So that's why we focused on the virtual areas.

And our company's capex has continuously increased. And for example, we spent around 900 billion one to get the golden bandwidth. And how much is it in dollar, the 900 billion one? I cannot calculate it fast, but it's quite big, $1 billion, $1 billion U.S. It's $1 billion. So we spent a lot of money to win the bandwidth.

And as explained before, in the past, our revenue came mainly from -- so the items that generated revenue in the past are now losing the revenue, and many OTT players are earning money on the network we established, but we are not making money. Rather, OTT players are a threat to us. But hopefully we have hope in the IP revenue. Our revenue from the IP base is increasing.

So KT has announced in the Mobile World Congress this year that we are going to go ahead of others and test things and pioneer the future. So as a telecommunication company, we are trying to figure out a way to survive through virtual goods. The virtual goods do not have national boundaries, so transaction of game items could be discussed at the national level, but virtual goods trading could be discussed at international level, not only at national level. So we have to prepare for such discussion.

So the President of KT proposed a way to form the kind of discussion and also proposed an idea to make a joint venture with foreign companies. Foreign companies, for example, Dokomu and many other companies.

There's a company that makes a platform and enables virtual trading on applications. Apart from this, as you can see on this slide, KT, for the recent years, tried to secure its position as a company. It actually has established a lot of subsidies in this area through MMA, and also established a company, so KT makes itself prepared for playing in this virtual industry.

Actually, the largest -- the consumers, most of the consumers are actually using these contents through the KT. Korea actually hosts the largest number of VODs in Korea, about 15,000. And through life streaming, sports games are actually aired live. And music is such an important business for us. So Genie is a new music service provided by KT. And this is making popular across the globe. So Genie is a platform to sell music files, not just in Korea, but other countries in Europe and other continents.

We have a platform through which Korean pop music is going to be sold across the globe. And UStream here, on the left side you see yew stream. This is -- UStream -- we are going to launch a joint venture with UStream America.

What's more important than that is game items, this is actually a secondary item. The copyright for secondary item, how can we handle this? This is very much an interesting topic. And what we are discussing at this workshop, this is going to be providing very good guidelines for us for our future business. We actually have paid a lot of attention to the potential of the Kindle Worlds. Not sure if you are familiar with Kindle Worlds or not. This is a secondary item market. There is an original article, and based on the original article, consumers are actually developing secondary articles. Those secondary articles are exchanged and shared in this space. So KT believes that this secondary article market is going to be really big, and it will actually give a lot of revenue to us.

That's our expectation.

And also, another business we are actually paying keen attention to is 3D printing. So 3D printing, this is one of the most important products happening inside KT. When we actually have 3D printing capability in full spring, the copyright for design, that issue should be resolved. Otherwise, you know, in the game industry, the controversies we are actually experiencing regarding the game item is going to be happening once again in the 3D printing industry as well. As is the case, we believe that through such governance, the copyright -- the virtual goods, all virtual goods should be set up and distribution legalized.

Thank you very much.

(Standing by for English)

>> ADAM PEAKE: -- takes on your point about the international nature of these virtual goods and the international nature of the trade in these goods.

So Pindar, are you there, please? Please. Does it look okay? All right. So let's see if the connection makes.

While we're waiting to see if this works, one of the questions I had is we've been talking about banning and restricting. At the same time, you know, we've always also heard about advantages and what great things that these particularly gaming in particular has brought to Korea, I think. We know that the PC ban probably was the stimulus to broadband, which has become the world leader throughout this country. So what are the implications of restriction and bans compared to, you know, the social ills that may be being caused by some of these, particularly, I suppose, the addiction aspect and uncontrolled and fear of gambling and so on?

So how are we doing? Okay. So if anybody wants to have a quick go at thinking about what the implications are to innovation and entrepreneurship and so on that Korea is seeing such a great deal of, of restriction and banning of some of these online services, I would be interested to hear. Any of you wish to have a go at that?

>> Regarding banning or controlling, traditionally, I remember that most countries -- (audio echoing) -- that's my voice.

That approach regarding the regulation gambling, maybe most countries adapt controlling approach rather than banning approach. It's a common approach. But regarding the online game, I think the people tend to be more sensitive to the effects of the game, the gambling effects to the young people.

So the point is, I think -- I agree with him -- the point is we need to provide some controlling mechanisms for the online game and not banning approach. But it's very tricky. What's the limit? What's the limit? Do we have to restrict time of betting? Or how much betting amount is allowed? It's very difficult.

And what makes the matter more difficult is this gambling issue related to business model. So regarding entity approach, I'd like to comment because the entity approach has been usually introduced to the domain of indirect responsibility. It means that the entity is applied to the case in which someone infringes other's personal rights on the platform the service provider is providing. So at the time, the company can be exempted for the liability through the entity.

But this gambling issue is not a personal right issue. The gambling issue is encroaching the public interest. So the liability of the company regarding the gambling is not indirect liability; it is direct liability. So it cannot be easy to apply an entity approach to this gambling issue.

>> ADAM PEAKE: And how are we doing with Pindar? No. Okay. I am just seeing if I can get him on Skype, so if you'll give me a moment.

Does anybody else want to fill this gap and answer that question, or are there any questions from the audience that we can continue with? And I'll see if I can find Pindar on Skype for a moment.

>> Hi. It's Susan Chalmers, Internet New Zealand. Just following on from that comment, I had the same kind of question is that safe harbor's premised on the idea that the intermediary can be sued for infringement. So there is that kind of -- there is that right. And in this instance, I'm not entirely sure how the notice and take down mechanism for the GSPs would function without having a right that is infringed or is violated.

So the NTD is used to exempt somebody from liability, but liability from what would be my question.

(Standing by for English translation)

>> KIM JONG IL: I believe that we can actually take some inspirations from the area where NTD have already approached it. The regulations on game and regulations on gambling should be separated, segregated. But just because game items are traded for money so that the game item becomes valuable goods, and through a game of chance, you know, if they are traded and that is translated into gambling, that means game companies, they -- the image of game companies, it gets defamated. Their image gets tainted. So some people buy items, some people trade items. When that trading happens, the direct sellers and buyers, they don't have any direct damages. However, through this trading activity, game companies actually face some legal threats, legal risks.

So when you play a Facebook poker game, if somebody incurred a trade so that the game item becomes something valuable, then playing the poker game with something valuable items, in that case, you know, that poker game company is a gambling company. This is the situation. In order to avoid such misused, distorted translation, in order for game companies to avoid such risk, you know, my alternative is to apply the NTD.

So for the past ten years, we have introduced NTD, and this system saved OST for liabilities. So we hope to apply the same measure to the GSTs.

You mentioned about direct responsibilities and indirect responsibilities. But of course, it is obvious that game companies have direct responsibilities; however, those responsibilities are actually happening due to the trading between users, not because of the game company itself. So you know, the exemption of the responsibility should be provided for the game companies. So you know, once users, they make notice to each other, then if the users actually make a notice to the game companies, then game companies can actually delete, shut down the buyer or the trader's account. And it's through this way, I guess, you know, game companies can be unliable for this activity.

(Standing by for English)

>> The buyer could have some bad feelings towards the seller because he may think that the seller took the money from me, and while having transaction, some buyers may think that I bought the wrong game item for a very high price. If such transaction occurs, then people have the incentive to send a notice to the game server.

>> ADAM PEAKE: Pindar says sorry it didn't work. Can you go to the second to the last slide, so it would be slide number 10, I think, in this slide pack here, Pindar's slide. One back, please. So I think that's a question he has for everybody, so if the panelists would think about that. And are there any more questions from the audience as we can mull over that question from Pindar, who I think is listening but can't speak. Which is unusual, if you know Pindar.

So what is the future of trade in Internet intangibles?

So we are talking about virtual goods, online goods and services, yeah.

Yes, please.

>> I think this is an extremely quick question, so I will give a quick answer so everyone can join the Q&A.

As I mentioned in my presentation, I think this issue is not only an economic issue but at the same time ethical, but in a sense a political issue. Right?

I mean, for example, as regards item trading, somebody sees this as a kind of gambling, somebody sees this as a game addiction, and somebody sees this as purely economical. I have money, and you have time. You give a lot of time to digging gold and making better items, I give money, and they give items. This is the kind of economic exchange available and happening everywhere in capital society.

So if you take that approach, you can see the same. But the complicated issue is the -- it becomes illegal. Meaning there's no stable property right, and without stable property right, there is no economic.

So if you are taking from the perspective of future of the trade of Internet intangibles, it's possible from an economic perspective. But from ethical, as political perspectives, which is a very difficult issue, so how we can make this economic future possible? I think that I join in Jae Yeon Kim's opinion of JSPs. In the case of online item, introducing notice and take down approach, because we think -- you are responsible for monitoring every contents online there. Then you cannot make that future. If you are a game provider, provide notice and take down, you can do that. The business model is different and monitoring cost is different.

So from the perspective -- I am aware the government is taking approach toward regulation, banning, it's too extreme. But to the point the JSP is not -- GSP is not responsible, they make the institution. They make the structure in which it's possible, and they have some incentives. The buyers come from game space. Who made the game space, game provider. That's the point. So how we can make the economic future possible? By encouraging every stakeholder to take the responsibility they need to have. But at the same time, there's an alternative approximate there's an alternative to government control of game space. Government -- I don't think the government is Jesus Christ the savior over there. Not at all. They sometimes make mistakes, and they have to choose a course for regulation. You know, we need innovations in the business model. We need transaction between users, so we need to think about that. So that's my stupid answer.

>> ADAM PEAKE: I don't think it's a stupid answer. It sounds far better than any answer I could give, that's for sure.

Any questions from the audience, or would any of the other panelists like to try and address this question?

There's another thought that under what conditions will the Korean Internet community remove the ban or the bans that are occurring on some of these transactions, particularly on kompu gacha, as this is the title of the presentation? So under what conditions do you think the community might remove the bans?

>> I think the discussion is so broad, it has various dimensions. For example, the typical intangible asset, for example, the copyright or the song, movie, regarding these assets, this issue is about the business model or the quality of the service rather than the legal issue.

But game items, game items are different from that situation. So for example, regarding MMORPs, we saw that. We can see that there are conflicts between the game developer and the third-party company which provides some platforms for trading.

So I heard that someone introduced their auction system in which the players can trade items for real money. This means they have encompassed the possibility of the commodity advertised this product. So in my opinion, the Korean company now need to prepare some strategy change like that. So I think -- I don't know the exact time, but this year or next year, I expect some change in that situation.

>> ADAM PEAKE: Okay. Thank you very much. One of the things, as you mentioned that, I thought to bring up this page, which is a page for the Hong Kong Intellectual Property Exchange I think is the title of it. And you can see some of the intangibles that they are talking about trading in, from copyright and issues around there, which I imagine -- I am not entirely sure what they might be trading in there. Registered designs, which is important as we think about 3D printing and the designs you may want to put online and have people build goods or build the items you may wish to print from that 3D printer, and of course, patents which are ongoing.

So there are at least four or three other activities in Hong Kong which, at the moment, wishes to establish itself as a new kind of trading hub. Like many port cities, it's built around trade for the last hundreds of years, and in the virtual world, wishes to continue as a trading nation and to do so with these intangible goods. This is one example of the type of thing being developed at the moment, so Korea may look to this type of activity, I suppose.

And this is something that Pindar is involved with, trying to create an industry association that will bring these trading groups together so that they have a common voice and can actually build into a Hong Kong governmental plan that supports this kind of trade.

Please.

>> What's the difference between this platform and the existing platform provided by Apple or Google or the market?

>> ADAM PEAKE: To be perfectly honest, I don't know the answer. Unfortunately, Pindar does. So we're stuck without our expert, so we can leave that one hanging. I don't know the difference.

>> This is initiated by the government, and then the other -- the platform is actually the entrepreneurs providing that platform. I think that's the biggest difference.

Since it is government initiatives, it provides credibility, and also the fairness between traders.

>> Why? Why do governments need to introduce this platform by itself? Not the company?

>> Because it is government who created the regulation. So the company like us are always concerned about the regulation originated by the government.

>> ADAM PEAKE: I am just wondering if we still might be able to grab Pindar. Yeah, sure. Let's see what happens if we can ask that question to him and if this works with Skype. All right. Sort of manual virtual something technology kind of thing. Might have to turn my -- hey, Pindar, are you there?

>> (Speaker off mic)

>> ADAM PEAKE: Say that again? I feel a bit silly holding the microphone to my computer, but it's kinds of working. I just was showing that you know there are now four IP exchanges coming out of Hong Kong.

>> PINDAR WONG: Yes, one more coming.

>> ADAM PEAKE: Okay. Five. And I was just showing one example just taken at random, which is the HKIPX.

>> PINDAR WONG: Sure.

>> ADAM PEAKE: Do you want to just briefly explain the model so we can understand what these five different organisations are doing?

>> PINDAR WONG: Right. I mean, the basic model here is it's -- the chief problem is how do you determine the price of intellectual property? How do you determine a price of an intangible asset? And so the Hong Kong approach is really to try and find buyers and sellers to create a market. Each of the five different platforms has a different focus, although in the broad categories, they are designs, copyrights, patents, as you've seen on the Web site.

So the question is as Hong Kong can -- can Hong Kong help as a financial center basically provide the legal confidence with this initiative as a government initiative to have buyers and sellers of IP come and use Hong Kong as a place to do their transaction?

Right now, this is -- at least it feels to me very similar to the very early Internet service provider era. We don't know which model will work. In fact, no one does. But what we're try to go do is to say if you do have a virtual good, then perhaps establishing markets and the technology to establish markets is a way forward. The reason why the kompu gacha experience is so very interesting is because it exhibits all the classical problems of Internet Governance, both in terms of crisis and also complexity. And so since these issues are so complex, one way to address that complexity is to see basically what can happen if you establish markets. And Hong Kong, as you know, is open. We have very good Internet access and the rule of law. That is why we found the approach as mentioned this afternoon by several players, do the users own any property?

If so, how is that? How do you establish price, currency, others? I think those are the answers we are trying to answer in Hong Kong.

>> (Speaker off mic)

>> ADAM PEAKE: Are these platforms provided by private companies or by the government?

>> PINDAR WONG: No, the government provides the level playing field and the framework, and Hong Kong, again, we are very entrepreneurial. Every one of the providers has a slightly different approach. But again, what we are trying to do here is very simple. At some point, China will become a net IP exporter, and Hong Kong, I think we see a role for ourselves to try to facilitate the export of IP to common law economies. So that's something that we can facilitate. The question is we have -- do we have the international relationships? Yes, we do. Do we have the Internet infrastructure? Yes, we do. The question is is this the future of growth? And I think it's a very interesting question. Most developed economies now are having problems getting their economies to grow. For example, in Japan is very famous, now in Europe.

So the difference in the trading of Internet intangibles or virtual goods is that it creates a win-win situation.

Just because I share my IP with you -- and Jay, I think you from Creative Commons knows this best -- doesn't mean I lose anything. Whereas when you trade physical goods and clamor over physical resources, then you have this conflict. And that is why this trading, the experiments in trading virtual goods within these game economies, I think there's a tremendous amount to learn, if only because they share all the classical problems that are demonstrated in Internet Governance, complexity in crisis, and yet there is a huge economic potential.

>> ADAM PEAKE: Thank you very much, Pindar. I think that's a very helpful way to probably end the session as we're now over time. So thank you very much to you for joining, and sorry for the hassle in reaching you, but it's good to hear your voice in the end. Sorry we couldn't see you. And to all the other panelists, thank you very much. And great. Hopefully we see you in Bali and beyond. Thank you.

(Applause)

\*\*\*\*\*\*\*\*

This text is being provided in a rough draft format. Communication Access Realtime Translation (CART) is provided in order to facilitate communication accessibility and may not be a totally verbatim record of the proceedings.

\*\*\*\*\*\*\*\*