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Reception Problems: TV Industry Clouds Google's Video Vision --- Tensions Are Rising Over YouTube Postings; CBS Talks Go Off Track

By Kevin J. Delaney and Matthew Karnitschnig
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Four months after snatching YouTube away from rival suitors for more than \$1.7 billion, Google Inc. has encountered a bigger challenge: finding allies in the television industry.

With television executives up in arms about the unauthorized posting of TV shows on the popular online video site, Google is searching for a way to dial down the tension. It sees that task as vital to YouTube's profit potential.

Until about a month ago, Google thought it might get a big boost from CBS Corp. The two companies were closing in on a multiyear deal to let YouTube users watch clips from CBS shows such as "The Late Show with David Letterman" and "CSI," and even to splice those snippets into homemade videos, say people familiar with the matter. The two companies also discussed ways to peddle CBS Radio advertising spots to Google advertisers. Under the deal, Google would have guaranteed ad revenue of more than \$500 million for CBS, these people say.

Google, of Mountain View, Calif., wants to continue to grow beyond its roots as a Web search engine and to find more places to sell advertising. YouTube is one such place. Because the site contains so many video clips, it also dovetails with Google's gargantuan stated mission of organizing all the world's information into searchable form. Global consumers are especially hungry for videos, particularly ones from hit TV shows.

But Google's relations with the big U.S. TV companies have grown frosty of late. Google was working on a deal last year with entertainment giant Viacom Inc., whose channels include MTV, Nickelodeon and Comedy Central. Now, Viacom has accused Google of copyright infringement and has demanded that YouTube remove some 100,000 clips of Viacom programs such as "The Daily Show."

NBC said last June that it would put promotional clips on YouTube and buy ads on the site. Last week, the general counsel of NBC sent Google a six-page letter demanding that it keep unauthorized content off the site, say people familiar with the matter. In addition, several film studios recently complained that Google runs ads and offers other support for Web sites that let viewers download movies illegally.

Now, the hoped-for deal with CBS has unraveled as well, say several people knowledgeable about the talks. The two companies couldn't agree on such important issues as how long the deal would run, one of these people says. Although the talks could be revived at some later date, for now Google and CBS intend to work together only on more modest initiatives.

Google's difficulties with television executives are the latest indication that its Web success won't be easy to replicate in media distribution and in TV and radio advertising. Although the current strife might eventually prove to be no more than hard-nosed negotiating, Google's attempt to cut deals with media companies seems to be turning into a long slog.

A YouTube spokeswoman says the company will continue to pursue partnerships. "We respect the rights of content owners and want to work with them to more broadly distribute their content" and to help them make money in the process, she says.

In the first years after its founding in 1998, Google mostly indexed other Web sites, and almost no one complained. But its more recent efforts to expand with initiatives involving news, books and video have sparked protests by many who hold rights to that material.

Google's plan to scan millions of books from university and public libraries into a database, for example, prompted the Authors Guild and five major book publishers to sue it for copyright violation. Google has been sued by several news organizations over its Google News service's use of headlines, article excerpts and

photos. Google has said in each case that it has respected copyright laws.

So far, none of the disputes have much slowed Google's growth. The company reaches hundreds of millions of consumers and hundreds of thousands of advertisers around the world. Its core online-advertising business is trouncing rivals, generating more than \$10 billion in revenue in 2006. Google reported \$3.1 billion in profit last year, and its stock-market valuation soared to more than \$140 billion.

For TV executives fretting about the future of their business, YouTube is both fascinating and terrifying. The popular Web site has brought online video to the masses, making it easy for anyone with a computer and an Internet connection to find and view clips ranging from home videos of pet tricks to TV shows like the "The Simpsons," which YouTube users post without permission from anyone.

The way TV executives see it, programming they own has contributed to YouTube's success. Thirteen of the 20 most-viewed YouTube videos in the month ending Feb. 15, for example, were professionally made. They included a clip of Ivanka Trump on ABC's "Jimmy Kimmel Live" and a local TV news report on lock picking.

Copyright law compels YouTube to remove all videos to which it or its users do not hold rights -- provided it receives a complaint from the owner. Media companies regularly issue such complaints, and YouTube readily complies with them. But YouTube users often put similar clips back up the next day.

Some TV companies have considered suing Google over copyright infringement, perhaps by arguing that YouTube's removal of the clips doesn't shield Google from liability. It isn't clear how courts would respond to that approach. At present, media companies say they want to keep the conflict from boiling over into a barrage of lawsuits.

"The way to resolve this is not by suing people quickly but working together to create legitimate business models that respect copyrights," says Paul Cappuccio, Time Warner Inc.'s general counsel. "Yet we will sue those who are irresponsible."

Major media companies have established their own video sites that offer, free, such popular network shows as "Lost" and "24." But those sites are not nearly as popular as YouTube is for watching videos. In recent months, several media companies, including Viacom, General Electric Co.'s NBC network, and News Corp.'s Fox network, have discussed pooling their content to create a rival to YouTube. Yesterday, Viacom announced an agreement to license hundreds of hours of TV programming to an online video service called Joost, which competes with YouTube.

"The problem the media companies have in dealing with Google is that we're not in a position of strength," acknowledges a senior executive at one of the companies.

Google's difficulties with TV companies began in earnest in January 2005. In an effort to create a searchable database of dialogue and images from TV shows, Google had begun recording TV programming, in some cases without notifying the channels themselves. Executives at CBS, Walt Disney Co.'s ABC and Warner Bros. television, a unit of Time Warner, among others, asked Google to back off, citing possible copyright violations. Google ultimately abandoned the practice.

Over the past year, it has made some headway with media companies. Last summer it announced a deal, which has since expired, to distribute video from Viacom's MTV Networks over the Web. It struck a deal with News Corp. to provide search technology and to broker ad sales for its MySpace site, guaranteeing \$900 million in ad revenue for News Corp. over the next three years. It reached agreements with music labels such as Warner Music Group Corp. to license music videos. It is currently working on a deal to offer video from the British Broadcasting Corp., according to people familiar with the matter.

The announcement in October that Google had agreed to buy YouTube rekindled the tension. YouTube had avoided copyright litigation with big media companies, but Google executives decided they needed to sit down with executives at those companies.

Hours after the announcement, Google Chief Executive Eric Schmidt met with Viacom representatives in New York. Later that week, he and Google's vice president for advertising sales, Tim Armstrong, flew to Los Angeles to meet with executives at News Corp.

Google's message: The company is a friend to content owners. Google told media executives it was planning to put in place a digital "fingerprinting" system to identify copyrighted audio and video clips posted on YouTube, and that such a system would enable it to remove material or to share ad revenue with owners.

At the beginning of the Viacom talks, Mr. Schmidt floated the idea that Google might be willing to guarantee as much as \$500 million in ad revenue over several years to license Viacom's video, according to three people involved in the talks. Under the terms discussed, Google would pay Viacom about 70% of any

advertising revenue generated by Google from Viacom's videos, these people say. In exchange, Viacom would agree not to sue Google over copyright issues.

Google withdrew its payment offer almost immediately, according to two people close to the Viacom camp. Viacom Chief Executive Philippe Dauman wanted to talk about control of advertising sales and technical matters before negotiating about money, these people say.

Mr. Schmidt visited Viacom's New York offices at least twice, but during other negotiating sessions, different Google executives backed away from some of his proposals, the three people involved in the talks say.

Google changed its position on some issues largely because of financial demands Viacom was making, according to two people familiar with Google's position. At one point, Viacom demanded minimum payment guarantees approaching \$1 billion, these people say. A Viacom spokesman says the company never made such a demand.

Some at Google questioned whether paying so much to Viacom made economic sense, according to the people involved in the discussions. The main value of a deal was indemnification from copyright lawsuits, says one of these people, and the video provided by Viacom might not have attracted enough advertising to cover the minimum payments. Online-video advertising is expected to be worth \$775 million this year, just a fraction of the overall online ad market.

By year's end, discussions between Google and Viacom had stalled. "It just got to the point where it was clear we weren't getting anywhere," says one of the people involved. Contact between the two companies has since been limited to their lawyers, this person says.

Nevertheless, talk of the big numbers Google had originally floated in the Viacom negotiations fueled expectations at other media companies.

By late fall, some Google executives were pursuing a large-scale licensing deal with CBS, in hopes that it would lead to similar partnerships with other media companies, say people familiar with the matter. The new president of CBS's Interactive division, Quincy Smith, had worked closely with Google and Mr. Schmidt in his previous job as an Allen & Co. banker.

CBS's split from Viacom last year had left it with a television network and local TV and radio stations. With the broadcast-television business flat and radio declining, CBS chief Leslie Moonves was eager to shake up the company's old-media image. In October, CBS had struck an agreement to make some CBS video available on YouTube, in exchange for a share of ad revenue.

CBS and Google began discussing a more sweeping video-licensing deal. They also kicked around an idea for Google to sell CBS Radio ads to Google's advertiser clients.

Mr. Schmidt made plans to fly to Las Vegas for the Consumer Electronics Show in early January, where he hoped to join Mr. Moonves onstage to announce a deal, according to one person aware of the plan. The Saturday before the show, Mr. Moonves was presented with an outline for an agreement, but he said he could not sign off on it, according to several people familiar with the matter. Mr. Schmidt canceled his trip, and YouTube Chief Executive Chad Hurley appeared with Mr. Moonves, announcing an online contest with CBS pegged to the Super Bowl.

Negotiations continued, but the two companies couldn't agree on a number of crucial matters, according to several people knowledgeable about the talks. For example, Google was pushing for a five-year deal, while CBS wanted a shorter one, one of these people says. In addition, some CBS division heads were reluctant to sign off on a deal, this person says. The discussions stalled, although the two companies have continued talking about smaller-scale initiatives, say the people familiar with the talks.

Media companies have grown impatient with Google for not fully implementing its "fingerprinting" system to identify copyrighted work. But Google sees the technology as imperfect and worries that rolling it out now would be problematic, says one person familiar with the matter.

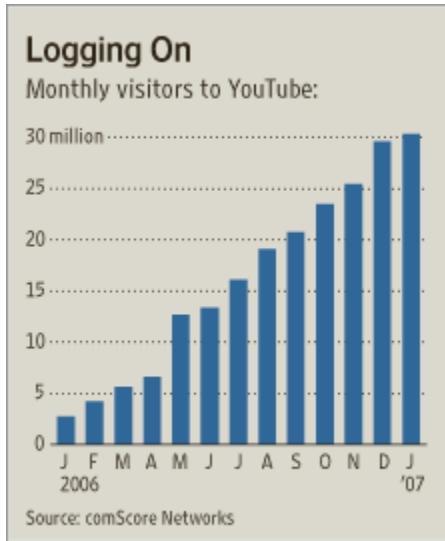
"Of course there are copyright concerns there," said Mr. Schmidt last month. "But we have answered those by saying we're working very hard on fingerprinting technologies." Putting the technology to use, he said, is "a hard problem."

Earlier this month, after Viacom demanded the removal of more than 100,000 video clips from YouTube, its chief executive, Mr. Dauman, said: "We have been quite indulgent to this point. We cannot continue to allow YouTube or Gcommercial agreement."

Media companies have also complained that Google accepts online advertising from sites that allow users to

illegally download films. Two weeks ago, Google told the companies that it would take measures to halt that, say people familiar with the matter. But, as of yesterday, a Google search for "download movies" prompted ads for sites that offer access to illegal downloads.

Mr. Schmidt said late last month oogle to continue to profit from our content without a reasonable that he was sure Google "will eventually do some very significant deals" with TV companies, but suggested that none were imminent. "I'm not in a great hurry on this issue," he said. "It's more important to get it right."



Eric Schmidt



Philippe Dauman

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