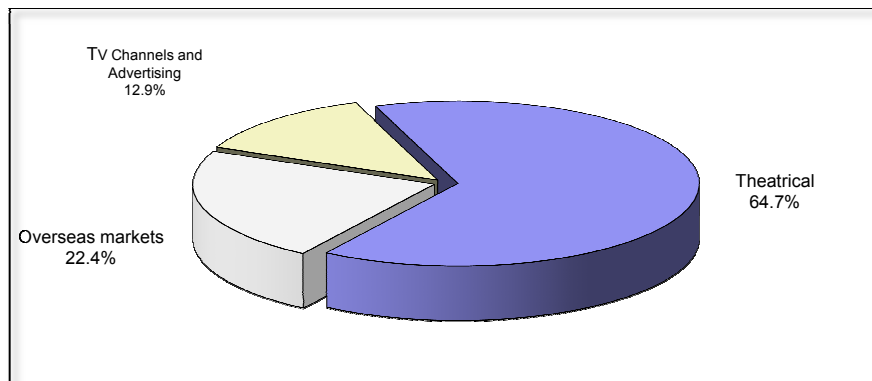


Executive Summary

- ✦ The question of China's openness in the global entertainment industry has often stirred debate and frustration within the media's executive community. Formats had been copied seemingly without consent, exporting movies had harsh limits on volume and censorship, while setting up any entertainment venture inside China for foreigners appeared fraught with headaches. However, in early 2010 China adopted an important WTO ruling, which means that much of these prior limitations are likely to change. We decided to investigate this further with the help of Chien-Han Huang, an expert in China's media legislation. As the primary author of this piece, Huang has used his considerable knowledge of the discussions currently going on internally in China to assess what kind of impact the WTO's ruling might have on the domestic Chinese market.
- ✦ One of the key differences in China, compared to say, the U.S., is that watching a movie is an entertainment luxury because the ticket prices are expensive. In 2010, the average ticket price went up to 40.4 RMB (around \$6.3), which is close to the standard (\$7.8) in the U.S. In fact, the ticket prices in some big cities, such as Beijing and Shanghai, are higher than the average U.S. ticket price. Buying a ticket, however, can be a hard task, because of the limited number of screens. This means a market structure where demand easily outstrips supply – a rarity in western film markets.
- ✦ One of the main drivers of cinema-viewing in China is the audio and video qualities found in movie theaters. The alternatives such as TV or monitor screens (where poor-quality pirated content can be consumed) cannot compete in this regard, and the result is a revenue-distribution split that is incredibly uneven.

Average Revenue Breakdown for a Chinese Film (2010)



- ✦ For foreign content-owners to really impact this market, they have to deal with the current regulations. In terms of foreign movies in China, these are limited by 4 areas: **Production**, where filmmakers are required to apply for government licenses; **Importing Films**, which is a state monopoly business that is exclusively managed by the China Film Group (CFG), the largest and state-owned studio, and are subject to government censorship as well as a quota system (20 movies through box office split deals, and roughly 50 foreign movies are

imported through buying outright rights); **Distribution**, which is exclusively operated by CFG and Huaxia Film Distribution Company; and **Exhibition**, where the annual screening time of foreign movies at theaters cannot exceed one-third of the total screening time.

- ✦ As a result, the industry is operating in a linear way between the production and theatrical exhibition sectors. To put it another way, the purpose of making movies in China is to supply theatrical markets. This implies that ancillary distribution windows and movie-related products have not been effectively developed. This is, however, set to change. Any relaxing of the regulations will encourage a competitive environment in domestic distribution, which will likely lead to a drastic rise in the number of theater screens – exacerbated by digital projectors that will undoubtedly lower P&A costs.
- ✦ With the deregulation in foreign films and the evolution of the market environment, aside from blockbusters, middle-budget and independent movies, as well as made for TV-movies and mini-series could have the chance to be circulated in the Chinese theatrical market. For instance, consider the six-part British comedy series, *The Trip*, which aired on BBC2 in the UK. A cut-down 90 minute version of this was later edited for cinemas and released theatrically in the US, Australia, Belgium, France, Netherlands, New Zealand, Sweden and many other markets. There are clearly certain types of TV shows that can be re-purposed for the cinema in China. International distributors willing to employ a more creative strategy could find this a lucrative market in future.
- ✦ Chinese media institutions have started to treat intellectual property rights seriously. This transformation was embodied in online video websites competitively bidding for the copyright of television drama series. In addition, more Chinese television stations have been willing to acquire and localize foreign TV formats. For example, broadcasted by Shanghai Dragon Television, *China's Got Talent*, the most popular program on Sundays in 2010, was adapted from *Britain's Got Talent*. These trends reveal that China's entertainment industries are slowly becoming more intellectual property friendly.
- ✦ It is worth paying close attention to the development of online distribution in China because the Internet is one of the major video consumption platforms for younger generations. Many video sites such as tv.sohu.com establish Hulu-like business models, incorporating paid and advertising-supported platforms. These websites circulate Chinese and foreign copyrighted TV drama series and movies. They may well represent a way in future to circumvent domestic TV broadcasters, who are subject to extremely strict government regulations. More and more international TV series may end up being available legally to the Chinese market via these video streaming sites.