

Hollywood warms to China's new openness

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In this publicity image released by Columbia Pictures, Jaden Smith as Dre, left, and Jackie Chan as Mr. Han are shown in a scene from "The Karate Kid," a co-production between Columbia Pictures and China Film Group. (AP Photo/Columbia Pictures, Jasin Boland)

(AP) -- There's a new breach in China's great cultural wall and Hollywood is cautiously moving in.

Disney's announcement Monday that it will make "[Iron Man 3](#)" in partnership with a [Chinese company](#) is the latest sign that movie studios are warming to China's new [openness](#).

For decades, China has capped the number of foreign films it allows into

the country. Until recently, the limit was 20, but in February Chinese officials announced that they are increasing the quota to 34.

China said it will also allow foreign studios to garner a greater share of box office revenue. Foreign companies can now expect to earn 25 percent of their movies' [ticket sales](#) in China, up from between 13.5 and 17.5 percent.

The changes are a significant move for a [bureaucracy](#) that is leery of outside cultural influences and competition from foreign films. The change could affect everyone from action movie fans in Guangzhou to Hollywood's most powerful filmmakers.

The relaxing of China's strict rules comes at a price for U.S. studios. The world's most populous nation wants foreign studios to bring their moviemaking know-how to China by forming joint ventures with Chinese studios.

Still, Hollywood isn't gushing. In recent years, U.S. movie studios have developed a rocky romance with China. Chinese people adore foreign [movies](#), especially 3-D adventures like "Avatar," or more recently "Journey 2: The Mysterious Island." But studios have been jilted when Beijing has promised new openness only to reverse course. In Disney's case, many of its movies have made it into the country, but recent hit "Tangled," for instance, was stopped at the border.

In a recent interview, [DreamWorks Animation](#) SKG Inc. CEO Jeffrey Katzenberg summed up the industry's attitude: "The goal lines are moving all the time," he said. "Everyone is wondering how it plays out."

China has long kept up a barrier against foreign films - wary of insidious cultural influences while sheltering its own filmmakers. Officials last raised the annual cap on foreign movie imports as a condition of joining

the WTO in 2001. The recent increased foreign movie quota is a belated response to a trade dispute the U.S. won nearly three years ago.

Studios are patiently trying to make the relationship work, because of China's enormous potential. Box office revenue in China rose more than a third last year to \$2 billion, putting the country on pace to become the world's second largest movie market after the combined U.S. and Canadian region this year. It is expected to top \$5 billion by 2015. The U.S. and Canadian theatrical market, meanwhile, shrank two years in a row to about \$10 billion in 2011. So far this year, however, revenue at U.S. and Canadian theaters is up about 19 percent.

It's only a matter of time before China's movie-going market is the world's biggest, according to some industry-watchers. Whether it is the most profitable for outsiders is another question. In 2006, Warner Bros. pulled out of a two-year-old theater chain joint venture when Beijing changed the rules, suddenly disallowing the studio's majority stake. Late last year, production company Legendary Pictures' joint venture, which is set to make the movie "The Great Wall," hit a stumbling block when its Hong Kong-based partner failed to raise enough capital.

Entertainment lawyer Schuyler Moore says he has warned clients not to be overly optimistic in dealing with the country, and says it will take a year to see how China implements its new movie policy. Moore believes China's new openness is aimed mainly at boosting its own cultural industries.

"In the long term, it's no different than China trying to make aircraft and cars and everything else. Their goal is to have the expertise so they can displace Hollywood," he says.

Against that backdrop, companies like The Walt Disney Co. and Katzenberg's DreamWorks are entering a delicate dance.

Katzenberg traveled to China in mid-March to meet with [Chinese officials](#) about how the expanded quota rules would be applied. He also sought to work out details regarding the company's new joint venture in China, Oriental DreamWorks.

"(China) is big, it is the fastest growing and that's what makes it challenging," Katzenberg told The Associated Press prior to his trip.

Disney and its new partner, Beijing-based DMG Entertainment, didn't offer many details about their "Iron Man 3" project, although the companies say the movie will incorporate Chinese elements and be partly funded by DMG.

The DreamWorks' deal, announced in February, is for a joint venture studio based in Shanghai that is 45 percent owned by DreamWorks and 55 percent owned by its Chinese partners, capitalized at \$330 million.

Some analysts questioned whether it was worth it for DreamWorks to give up a 55 percent stake in the venture.

"It is not clear how well [DreamWorks](#) will do when it has to relinquish creative controls," said Janney analyst Tony Wible. "This just adds to some of the uncertainty with the deal. However, there is a good long-term potential, so the risk goes with the return."

China isn't just waiting for Hollywood to come running.

Last month, a key official in China's movie infrastructure, Yang Buting, appealed to Hollywood's finance community to enter new joint ventures in the country.

He once led the nation's primary distributor of foreign films, China Film Group, and now chairs a co-financing arm of the government, China

Mainstream Media National Film Capital Hollywood Group Inc., which set up an office in Beverly Hills, Calif., this year.

"I have a vision of an ideal version of film cooperation between China and the United States: Chinese or American stories, joint investment, co-production, joint cast and credits, distributed globally," he said at a conference in Los Angeles. The formula will "surely be a win-win miracle for both China and the U.S."

So far, co-productions have had mixed success. The 2007 Ang Lee-directed film, "Lust Caution," which paired Hai Sheng Film Production Co. and Universal Pictures' Focus Features group, won critical acclaim but failed to make its money back.

On the other hand, the retelling of the 1984 classic "The Karate Kid" by Sony Pictures and China Film Group in 2010 reinvigorated a franchise. Much of its success can be credited to the charming chemistry between its new star, Will Smith's son Jaden, and martial arts legend Jackie Chan, a well-established Hong Kong-born hit with Chinese audiences. The movie was a global hit. It cast China and kung fu in a positive light and grossed \$343 million worldwide.

Still, it is unclear whether new rules favor Chinese co-productions, or movies brought in under the new quota.

Based on a deal announced by Chinese Vice President Xi Jinping and U.S. counterpart Joe Biden, China will let in 14 more foreign movies a year as long as they are in 3-D or the Imax format. That lifts the number of foreign films allowed under the [quota](#) system each year to 34.

These foreign films will also share 25 percent of the box office receipts, up from 13.5 percent to 17.5 percent now. The rest goes to theater owners and the government.

While the new, higher cut is less than the 43 percent share China offers domestic movie studios, it still could be a better deal for Hollywood than being the junior member of a joint venture.

Meanwhile China's home movie market is dominated by pirated films. The fledgling market for legitimate online movie rentals is tiny.

One of the clearest beneficiaries of the rule change is Imax Corp., the big-screen movie company that licenses its technology for a share of ticket sales. Imax is hugely popular with Chinese movie fans. It receives about half of the studios' share of the box office for movies that end up on its screens in [China](#). As more Imax-format movies are let in, more films will contribute to its Chinese revenue going forward.

Still, CEO Rich Gelfond treads carefully.

"I'd say there's always country risk wherever you do business in the world," he says. "But by creating a win-win scenario where it's good for the Chinese partners, it's good for the Chinese consumer, and it works for Imax, we think we can minimize that risk."

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