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## Hollywood Seeks New Business Terms with China

U.S. studios' priority is increasing their share of Chinese box-office receipts

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LOS ANGELES—Hollywood will soon have its first chance in five years to change the terms of doing business in China, a politically fraught opportunity for studios to reap billions more from their most important foreign market.

The current U.S. agreement on releasing films in China—a sweeping set of terms dictating the number of releases, marketing restrictions and the percentage of ticket sales that flows back to the studios—was announced on Feb. 17, 2012, with authorities agreeing to renegotiate the terms in five years.

Any deal struck this year will likely cover a period in which China surpasses North America as the world's No.1 movie market. The stakes couldn't be higher for Hollywood, which is counting on China's growth to pick up the slack of a stagnating domestic market and falling home-entertainment revenue.

Government officials and industry representatives have begun preliminary work on the negotiations, which come amid mounting political uncertainty between the U.S. and China. During the last negotiation, studio chiefs focused on increasing the number of movies let into China each year. This time around, they are looking beyond that quota to Chinese marketing restrictions, distribution rules and ticket-revenue splits that they say have kneecapped their ability to make money in the market.

In the past five years, China has become a first-tier theatrical marketplace that still adheres to developing-market terms, said Jean Prewitt, chief executive of the Independent Film and Television Alliance, a trade association for independent production companies. "I think it's time it opened up," she said.

U.S. studios' top priority in the talks, according to several executives, is increasing their share of Chinese box-office receipts from the current 25%. The rest goes to state-backed distributors and theaters. Most other markets offer studios more generous splits, with 40% being the international average.

The 2012 agreement raised the number of foreign movies that could be imported on a revenue-sharing basis to 34 in any given year, from 20. Those 34 slots have been enough to cover most

high-profile studio releases, said several executives who don't see raising the quota as a top priority of the renegotiation.

Besides, they said, Chinese authorities have already been flexible with the quota when the pressure is on to show year-over-year growth. Last year, the country let in 39 titles on a revenue-sharing basis, a majority of which came from Hollywood's six major studios, adding five extra movies toward the end of the year to boost the box office. Analysts in China say an expansion this year is likely, too.

No other major foreign market's box-office terms are negotiated by top-ranking government officials, but China has become so dominant that studios have no choice but to play by its rules. China's box office grew to about \$6.6 billion last year from \$2.7 billion in 2012. The North American box office has stayed relatively flat in recent years and reached \$11.4 billion in 2016. To tap the Chinese market, Hollywood must submit films for approval by state censors, sometimes editing out objectionable content at their request, and wait to hear when a movie will be released, sometimes receiving only a couple of weeks' notice.

The IFTA has been working with the United States Trade Representative office on the 2017 review since last summer, in preparation of formal talks between the U.S. and Chinese authorities starting in late spring or early summer, said Ms. Prewitt.

The Motion Picture Association of America, which represents the six major studios and weighs in on the USTR talks, said in a statement that the 2012 agreement "provided American businesses with greater access to the Chinese market." The MPAA added: "We look forward to working with the administration to continue building on this progress."

President Donald Trump's election put the negotiation work on pause, since a number of top-ranking USTR jobs remain unfilled.

Mr. Trump's pledge to review China trade policies casts a long shadow on the talks. Some executives are worried that Chinese President Xi Jinping's representatives could use the Hollywood negotiations as retaliation for Mr. Trump's rhetoric against longstanding political and economic deals between the two countries.

Mr. Xi negotiated the current quota when he visited the U.S. as China's vice president in 2012. His trip, which included taking in a Los Angeles Lakers game with California Gov. Jerry Brown and Hollywood power broker Jeffrey Katzenberg, doubled as an introduction for U.S. authorities. Vice President Joe Biden represented the U.S. in the talks.

China's efforts to expand its own film industry will also play a role in the negotiations. The country recently passed a "film industry promotion law" that goes into effect on March 1. The legislation promotes investment in movies, instructs actors to follow a strict moral code and says foreign films that "[hurt] national feelings" won't be accepted for release.

China enforces several other requirements to give its local productions an upper hand, and studios want those strictures re-examined in the trade negotiations.

For starters, studios have their eye on changing rules that allow Chinese authorities to “stack” Western movies and release several on the same day, which can cannibalize ticket sales.

Studios have also grown annoyed with blackout periods that forbid Hollywood movies during holidays and other popular moviegoing times in China, and executives said they want more advance notice when Chinese authorities date a film for release.

The rise in online streaming since the last negotiations makes it likely that China’s restrictions on television and video-on-demand services will also be on the table, said Ms. Prewitt.

Among her organization’s concerns: China requires producers to censor an entire television season at once, which encourages piracy since it eliminates the chance to air individual episodes in China soon after they premiere in the U.S.

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