Film not out yet on DVD? You can find it in China

Despite crackdowns, nearly all movies sold there are counterfeit.

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BEIJING -- American video stores have new-release sections. Chinese video stores have not-yet-released sections.

On a recent weeknight here, four people entered a neighborhood shop, where a clerk escorted them through a back door to a closet-sized room. Floor-to-ceiling shelves brimmed with some of the latest Hollywood movies, including "Ratatouille," which had just reached Chinese theaters a week earlier and wasn't due out on DVD until January. Also filling the shelves were entire seasons of such popular American TV shows as "Entourage" and "Grey's Anatomy."

Each disc was bootlegged, selling for as little as $1.33.

Closed off from the rest of the store, the room looked hidden. But it's secret to almost no one here -- least of all this group that included two entertainment lawyers from Washington and Hong Kong as well as two representatives of the Motion Picture Assn., the film industry's biggest trade group.

They were there to show a reporter the notorious black-market DVD store, Beijing Yongsheng Century International Cultural Co. It has been raided so often -- 14 times since 2005 -- that it's acquired the nickname "Dan's Shop," after Dan Glickman, chief executive of the Motion Picture Assn. of America.

The store is symbolic of Hollywood's frustration with piracy in the vast and potentially lucrative Chinese market. It epitomizes everything the American film industry considers unfair about the country: a government that turns a blind eye to the flourishing black market while restricting imports of movies, DVDs and music.

About 93% of the movies sold in China are counterfeit -- black-market discs are sold in stores and by legions of roaming vendors who peddle them at subway stations and from their bicycles. Some make home deliveries.

In 2005, the most recent year for which figures are available, the global film industry lost about $2.7 billion in potential sales to underground DVD sales and Internet movie downloads in China alone, according to research conducted by LEK Consulting on behalf of the Motion Picture Assn. The toll fell most heavily on China's own filmmakers and distributors, while the six American studios that are members of the trade group lost $244 million.
But the U.S. studios see China as a potentially huge market for their films and are lobbying hard to make the country improve copyright protections.

"There is some improvement, and some enforcement acts have been taken, but by and large the number of pirated product on the street hasn't dissipated at all," Glickman said in a phone interview from Hong Kong, where he was meeting with senior government officials. "It's just this constant challenge for us."

Representatives of the Chinese agencies that oversee the film industry declined interview requests.

The Bush administration this year has lodged two complaints against China with the World Trade Organization, accusing the Asian nation of failing to uphold international law by inadequately protecting copyrighted movies, music and software. The office of the U.S. trade representative alleged that import restrictions and lax law enforcement, including high thresholds for prosecution, have allowed counterfeiting to flourish in China. The case is pending.

In public statements through the New China News Agency, officials say they have made significant progress on intellectual property rights issues.

The Supreme People's Court said courts at all levels last year heard 769 criminal intellectual property rights cases, a 52% increase from 2005, and sentenced 1,212 people, a 62% jump.

In one-high profile copyright crackdown last year, the government seized 58 million pirated CDs, DVDs, computer programs and books. A big-time CD maker and smuggler in southern China was sentenced to life in prison.

The increased enforcement is obvious to film expert Yin Hong, a professor at the School of Journalism and Communication at Tsinghua University in Beijing. Until recently, he said, most DVD stores sold pirated discs almost exclusively, but now many in Beijing and Shanghai sell only licensed discs.

"This is much better than in the past," Yin said. "But China is such a big country with such a huge population that things are very complicated and hard to manage."

The entrenched political, economic and cultural issues make the prospects of a legitimate Chinese marketplace for DVDs highly unlikely.

Some DVD replicating facilities licensed by the government are culprits in piracy, according to one report that examined the effect of movie counterfeiting on China's economy. The 2006 study -- by the Chinese Academy of Social Sciences' Center for American Economic Studies and its Institute of World Economics and Politics -- found that the 774 registered production facilities had the capacity to make far more discs than are licensed.

The lucrative business of producing the illegal DVDs, which avoid royalty payments and taxes, is a strong incentive for the government-approved facilities that make legitimate DVDs to use the extra capacity to supply the black market.

Other pirated discs in China are made in illegal factories in the southern province of Guangdong or smuggled in from Hong Kong and Macao.

Censorship also fuels piracy. China blocks the import of many films, based on their content. That leaves the black market as the first opportunity for audiences to watch Jackie Chan's "Rush Hour 3" -- reportedly banned from theaters for its depiction of a Chinese organized gang family -- and the only way to see the uncut version of Taiwanese director Ang Lee's sexually explicit film, "Lust, Caution."
"The restrictions on the release of new foreign films in cinemas give pirates a temporary market monopoly," said Michael C. Ellis, director of the Asia-Pacific region for the Motion Picture Assn.

The association and other trade groups advocate more rigorous government enforcement against piracy and stiffer penalties. They cite government cooperation as playing a pivotal role in helping other piracy-friendly areas such as Hong Kong and Taiwan put a stop to it.

That strategy, however, ignores the significant differences between China's young economy, which has vast income gaps between urban and rural residents, and the economies of Hong Kong and Taiwan, where consumers have more discretionary income, noted Yin, the professor. Hong Kong and Taiwan also are smaller and more tightly regulated.

Executives for Warner Bros. and Sony Pictures Entertainment say there's nonetheless a business opportunity among the 550 million urban Chinese who, like their American counterparts, share a passion for big-screen TVs and home movies. These newly affluent consumers are willing to pay a slight premium for a decent quality DVD that doesn't abruptly quit in the final chapter of the film, like pirated discs sometimes do.

The challenge: First establish legitimate distribution channels, then teach consumers where they can buy the licensed DVDs.

"Let's start telling people, this emerging middle class, that real product is great, real product is the best quality," said Matt Brown, an executive vice president at Sony Pictures Home Entertainment.

Both Sony and CAV Warner Home Entertainment Co. -- a Shanghai-based joint venture between Warner Bros. and China Audio Video, a publishing house affiliated with the Ministry of Culture -- are working separately toward creating outlets for legitimate DVDs.

Both sell licensed DVDs through Wal-Mart Stores Inc., the French supermarket chain Carrefour and the Chinese bookstore chain Xinhua. They also sell through Joyo Amazon, a Beijing-based online bookseller that delivers discs the next day. Sony promotes new DVD releases through popular Chinese movie websites such as Mtime.

Warner Bros., the first Hollywood studio to release a DVD version of a film in China on the same day as its U.S. theatrical release, has developed an elaborate pricing and timing strategy to beat pirates to market with DVDs of movies such as "Happy Feet."

"We're a long way from the tipping point," CAV Warner managing director Tony Vaughn said. "But the momentum is in the right direction."

Now it's not alone. Paramount Pictures and DreamWorks Animation SKG officials traveled to Beijing last week to announce that the studios would sell bargain-priced DVDs through CAV Warner's 20,000 retail outlets in 50 Chinese cities. The new releases will retail for $2.75. This is the first time that Paramount's legitimate DVDs, such as "Transformers," will be sold in China.

Still, creating a legitimate DVD market remains a tall task.

The five-story Silk Street Market is one of Beijing's biggest counterfeit bazaars. Booths bulge with cheap knock-off clothing, eyewear, shoes and watches, and clerks hawk their wares in five languages to the tourists who arrive by bus.

One booth offers licensed DVDs on its shelves, with holograms etched into the plastic shrink-wrap as proof of authenticity, and they're purely window dressing. Customers flip through stacks of DVD sleeves on the front counter, then place their orders for bootleg discs that clerks retrieve from the back.
Customers don't bother walking the aisles to inspect the collection of licensed merchandise.

And why should they? A legal copy of Sony's "Spider-Man 2" sells for $4.68, while a bootleg copy of the newer "Spider-Man 3" goes for $2.

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