

Submission to the Legislative Council Information Technology and Broadcasting Panel Regarding Intervention in the Movie Industry

10th April 2007

LC Paper No. CB(1)1298/06-07(05)
(English version only)

Dear Legislators,

I write to urge you to reject the HKSAR Government's request for funding approval to spend HK\$300m (or any amount) of public money to "*help finance film production*" and "*overcome the shortage of talent*" (in the film industry, not the Finance Bureau) as announced in the Financial Secretary's budget speech of 28-Feb-07. One can only imagine where the number 300 came from - perhaps he went to a preview of the recent [epic movie](#) about the Battle of Thermopylae?

The reasons that you should reject the request, along with the history of Hong Kong governmental intervention in this sector, are detailed in the attached article "[Lights, camera...budget](#)", published on *Webb-site.com* on 9-Mar-07, which forms part of this submission.

Put simply, Government financial intervention in any for-profit sector of the economy distorts the choices of economic participants and contradicts Hong Kong's commitment to free markets. It makes the economy less efficient and less productive at public expense. The ultimate extreme of that approach is a centrally-planned economy which our nation proved over 30 years from 1949 did not work. The movie industry should stand or fall on its own merits. Bankers and investors are better judges of viability than governments. HK is, after all, an international financial centre, isn't it?

The Government's argument that "other places do it" does not make it right. It is no surprise that the proposed fund has been quickly followed by requests from other sectors for funding, such as the TV production sector (see the letter from the eponymous head of Robert Chua Production House captioned "*Government must do more to support our television industry*" in the SCMP, 10-Apr-07). Where does it end? A Stockbrokers' Development Fund, perhaps? A Coffee Shop Guarantee Fund?

These views are not just mine. *Webb-site.com* conducted an opinion poll of its readers, and the [poll results](#) are attached. From over 600 respondents, 91% said the Government should not invest public money in movie production. 92% said the Government should stop granting guarantees of private companies' debts for movie production (through the [Film Guarantee Fund](#)). 89% said the movie industry should not receive special government treatment, relative to other for-profit sectors of the economy. Finally, when asked "*do you think the proposed movie fund bears any relation to the electoral system of Hong Kong?*", 68% said it did.

The poll message is beyond reasonable doubt, even with sampling errors. If you approve this money, then you will be approving a scheme which the public (who elected some of

you) opposes and which they believe is politically motivated.

Regards

David Webb
Editor, Webb-site.com

Poll results: Movie Fund poll

Current time:	01:17:53 31-Mar-2007
Closing time:	18:00:00 23-Mar-2007
Time remaining:	Poll closed

Introduction

The Hong Kong Government, in its latest budget, is proposing to spend HK\$300m of the public's money on movie production. See [the article](#) on Webb-site.com for details. What do you think? Is there something special about the movie sector that justifies government spending taxpayers' money to support it?

Questions

1. Should the Government invest public money in movie production?

Answer	Responses	Share
Yes	61	9.4%
No	587	90.6%
Total	648	100.0%

2. Should the Government continue to guarantee private companies' debts for movie production, through the Film Guarantee Fund?

Answer	Responses	Share
Yes	53	8.2%
No	593	91.8%
Total	646	100.0%

3. Should the movie industry receive special government treatment, relative to other for-profit sectors?

Answer	Responses	Share
Yes	70	10.9%
No	573	89.1%
Total	643	100.0%

4. Do you think the proposed movie fund bears any relation to the electoral system of Hong Kong?

Answer	Responses	Share
Yes	411	67.9%
No	194	32.1%
Total	605	100.0%

We look at the recent history of HK Government intervention in the movie industry, the land grants involved, and the proposal to throw HK\$300m of public money into private movie production. We urge LegCo to cut this scene from Hong Kong's script. Tell them what you think in our [opinion poll](#).

Lights, camera...budget! 9th March 2007

The recent [Hong Kong budget](#) speech by Henry Tang, while completely devoid of any structural reforms, was pleasingly short on new interventionist schemes. However, there is one that stood out like a bad scene from a B-movie and should be dumped by LegCo on the cutting-room floor. We refer, of course, to his [proposal](#) to establish a new fund to "help finance film production" and "overcome the shortage of talent" (in the film industry, not the Finance Bureau).

Mr Tang, who has obviously seen a few too many triad movies (the stories, we mean), would like to spend HK\$300m of the public's money on this, in an undisclosed timeframe. That's equivalent to \$50,000 for each of the 6,000 people in the HK film industry in 2001, the latest figure we can find.

History

It's worth pausing to remind you that the [Performing Arts Sub-sub-sector](#) of the 796-member Election Committee which chooses Hong Kong's Chief Executive has 10 votes, and the sub-sector overall (which includes Performing Arts, Sports, Culture and Publication) has 40 votes. There is an additional Election Committee vote held by the legislator for that sector.

The recent history of Government intervention in the film industry comes from the Film Services Advisory Committee (**FSAC**), [established](#) during the Tung dynasty, which [morphed](#) into the Film Development Committee during the current Tsang dynasty on 1-Nov-05. It all started with Tung's [1997 Policy Address](#):

"We will set up a [Film Services Office](#) to help the industry with production and location shooting issues. To help the development of this industry, a site designated for film production use has been included in this year's land disposal programme. In addition, the Secretary for Broadcasting, Culture and Sport will establish and chair a Film Services Advisory Committee to promote dialogue between the industry and Government."

The sub-plot

That sounds fairly innocuous, apart from the bit about allocating land that could only possibly be bid for by a few major studios who could then vacate existing land and apply to redevelop it. And that's what happened. In 1998, after a tender which received just 2 bids, the Government [sold](#) a 29,800 sq m piece of land known as Tseung Kwan O Town Lot No. 67 to a consortium company called Hong Kong Movie City Co Ltd (**HKMC**) for just

HK\$78m. The site allowed a plot ratio of 2 and hence a gross floor area of 59,600 sq m. At the time, HKMC was majority-owned by Shaw Holdings Inc. (37%) and its listed subsidiary, Shaw Brothers (Hong Kong) Ltd (**SB**, 0080) (35%), with 5 other members holding 28%. SB also controls the larger of the 2 local TV broadcasters, [Television Broadcasts Ltd](#) (0511).

Episode II



They came back for a sequel, however. In Tung's [1999 Policy Address](#), you won't find any mention of this, but if you dig deeper into the numerous [Policy Objectives Booklets](#) released on the same day, you will find one titled [Broadcast and Film Services](#), and there, the statement:

"To encourage infrastructural investment in film production, we shall make available a site for film production facilities in the 1999-2000 land sale programme"

Not just any piece of land but, it turns out, the site next to the first one. Who could possibly have a special interest in winning that? On 16-Aug-00, after a [tender](#) which attracted only 1 bid, the Government [sold](#) the site next door, Tseung Kwan O Town Lot No. 81, to [Hong Kong Digital Movie City Co Ltd](#) (**HKDMC**), for just HK\$18m. This site, half the size of its neighbour, had an area of 14,600 sq m and allowed an extra 29,200 sq m of floor area. You won't be surprised to learn that HKMC and HKDMC had common ownership. In Mar-02, the consortium was [restructured](#), with Shaw holding 95% (including the 35% still held by SB) and a private arm of China Star holding 5%.

The result is a combined site of 44,400 sq m (477,900 sq ft). Somehow even that has been enlarged, as it is now [quoted](#) as 523,000 sq ft, with a floor area of 1.1m sq ft. Now, a top-notch US\$180m 1.1m sq ft complex known as [Shaw Studios](#) (formerly Movie City) is almost finished. Meanwhile on 20-Oct-06, SB [received](#) Town Planning Board approval to

redevelop its Clearwater Bay site into about 920,000 sq ft of residential and commercial space, which might make you wonder - why didn't they just build their new Movie City on that original site? Whatever the reason, that wouldn't have allowed them to make a redevelopment profit.

Film Development Fund

But we digress. Let's get back to that poverty-stricken film industry, you know, the one that cannot afford US\$180m studio complexes and has no land to redevelop. Inbetween the two land sales, in his [1998 Policy Address](#), Tung announced a subsidy of \$100m for the Film Development Fund (**FDF**).

"To help our film industry keep pace with new technology and skills, we propose to set up a \$100 million [Film Development Fund](#) in 1999. This Fund will promote innovation by supporting projects aimed at enhancing the industry's professional and technological capabilities; stimulating the growth of creative productions; facilitating the use of advanced special effects techniques; and improving the skills of employees."

However, some filmmakers thought they could get the fund to finance their private productions. As the Government [clarified](#) on 22-Dec-99:

"The main purpose of the Film Development Fund is to finance projects that will benefit the long-term development of the Hong Kong film industry and serve the interests of the entire film industry. Film production applications which mainly benefit individual private companies instead of the entire film industry do not fulfil the vetting criteria for the Fund and are therefore not financed under the Fund."

Film Guarantee Fund

Then on 17-Oct-02, the Government went a step further towards direct funding of private film projects, when a [consultation paper](#) was [published](#) proposing to set aside \$50m of the FDF for a [Film Guarantee Fund](#) (**FGF**). Providing loan guarantees is a favourite Government way of claiming not to be subsidising an industry while at the same time being liable for its losses. They've done it with various funds for Small and Medium Enterprises too. On the FGF, they said:

"This is a loan guarantee scheme. The Government has no intention to invest or take part in film production," the spokesman emphasised.

It's always good to emphasise these things, so that we remember them 5 years later. Thankfully, the FGF had various strings attached, including that at least half the cast and crew must be HK permanent residents, the film company has to bear at least 30% of the budget, the FGF would only guarantee 50% of the loan provided by a financial institution on a risk-sharing basis, up to a maximum of HK\$2.625m, and the film company had made at least 3 films for commercial theatrical release in the last 10 years. Finally, your name had to begin with "X". Alright, we made the last criterion up, but the rest are true, and it kept the numbers down.

The latest [progress report](#) shows that 10 applications were made from Apr-03 to Oct-06, all of which received loan guarantees, of which 1 never drew the loan and the other 9 did, for a total guarantee commitment of \$20m. An 11th project was approved on 29-Jan-07. As a result of this low usage, on 14-Dec-04, the FSAC [reallocated](#) \$20m of the \$50m back to the FDF, which by then was almost empty. In Mar-05, LegCo [approved](#) this and relaxed the experience criterion to 2 films in 10 years.

The [list of film loans guaranteed by the FGF](#) shows that the 11 loan guarantees have gone to just 7 companies, with 4 of them receiving two guarantees each. Two went to Mandarin Films Ltd, owned by [Mandarin Entertainment \(Holdings\) Ltd](#) (0009). Another two went to Panorama Distributions Co Ltd, owned by [Intelli-Media Group \(Holdings\) Ltd](#) (8173). One went to One Hundred Years of Film Co Ltd, owned by [China Star Entertainment Ltd](#) (0326). Another went to Brilliant Idea Group Ltd, which was 50% and is now 95% owned by Mei Ah Entertainment Group Ltd (0391). So 4 of the 7 recipients, and 6 of the 11 loan guarantees, went to subsidiaries of listed companies, which have other sources of finance, like the stock market, for example. Taxpayers will be glad to know that their money is on the line to support these listed companies.

On 18-Oct-05, the Government gave the FSAC a new name, the Film Development Committee (**FDC**), and stopped chairing it, instead appointing Jack So Chak-kwong, the Managing Director of PCCW Ltd (0008), which runs a pay-TV service.

Then, in the latest [Policy Address](#) on 11-Oct-06, Executive Producer Tsang announced that he would upgrade and again rename the FDC, without changing its initials, to the Film Development Council, "mainly comprising members of the film industry", as before.

The present

And that synopsis brings us up to the present, or if you prefer, the gift, of HK\$300m of taxpayers money for the new Film Development Council to play with. It makes Tung's \$100m look like a trailer for the main feature. We've gone all the way from simply facilitating movie shoots by closing roads or renting shooting locations, to direct funding of movie production. And still, the Government denies it is a subsidy - listen to Joseph Wong, Secretary for Commerce, Industry and Technology, [speaking](#) on 7-Mar-07:

"I would not categorise this support as subsidy. In a sense it is a limited support in the form of investment..."

Oh really? According to the [press](#), Wong says the Government will invest in movies up to 30% of the production cost. Now either they are going to pick and choose the movie projects, becoming an active movie fund manager, or they are going to invest in every movie which meets certain criteria, in which case all they are doing is lowering the overall cost of making movies in HK at taxpayers' expense. In the former case, movies which don't get the funding will be at a competitive disadvantage to those that do. In either case, it distorts the economy.

Two thumbs down

The movie industry should stand or fall on its own merits. There is no justification for such blatant intervention in any for-profit sector of our economy. If a movie is worth making, then it should find its own funding in the free market. If it succeeds, its backers will make a profit, and if not, they won't, but the Government has no business throwing public money at it, or picking and choosing winners. As we have shown, the local movie industry has a number of listed companies, large and small, and is perfectly capable of finding and funding its own way.

And if they get their hand-out, where are these movie makers going to film their movies? Well don't forget Shaw Studios, which has a brand new and very expensively constructed studio on very cheap land. Some of your money may end up being spent on renting their studios.

What do you think?

Your opinion counts! Do you agree or disagree? Take part in our [Movie Fund opinion poll](#), and we will send the overall result to Legislators who are being asked to approve this plan.