

# Explanatory Memorandum on the Film Co-production Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the People's Republic of China

## **Title of the Treaty**

Film Co-production Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China.

Command Paper: 3877

## **Subject Matter**

The purpose of the co-production agreement is to provide an official framework under which film producers in both countries can share financial, technical and creative resources to enable them to make their films and qualify for national support measures in their own country.

It allows co-productions to be made under the Agreement and to allow UK co-producers and their counterparts in China to realise the benefits that stem from the Agreement.

## **Ministerial Responsibility**

The Secretary of State for Culture, Media and Sport, the Rt. Hon. Sajid Javid MP, has responsibility for the policy underlying the Agreement and for implementing its provisions. The Secretary of State for Foreign and Commonwealth Affairs has overall responsibility for policy relating to the UK's relations with China.

## **Policy Considerations**

The overall aim of having co-production agreements is to secure increased inward investment for the UK and encourage cultural cross-fertilisation by enabling film makers from both countries to work together using their respective strengths and facilities to create films that are culturally relevant to both countries. The agreement also enables films made jointly by UK producers and their Chinese counterparts to qualify as films with "national" status in both the UK and in China, meaning that they are thus eligible to apply for any national incentives offered by either country.

The agreement will help to maximise the potential of the film industries in both countries, including the infrastructure, the film culture, film-making facilities, locations and a suitably skilled workforce. Development of these film industries will be mutually beneficial to both countries, particularly in respect of the growth and competitiveness of their film industries and the enhancement of their film cultures.

A co-production relationship with China will generally facilitate smooth passage through the legal issues around working together, and help foster economic opportunities for UK producers, given them access to the Chinese market and funding sources. More specifically, films made through this Treaty will be exempted from the Chinese quota system, which only allows 34 foreign films a year access to the domestic exhibition market.

However, the benefits for the UK in working with China extend far beyond the financial: in addition, the strategic importance of the BRIC countries, fostering relations through the powerful medium of film, enhancing our soft power, tourism, and the way China's complementary locations enhance the UK's inward investment offer should also be considered. Production companies in both countries see the potential for films that appeal to their audiences as well as in the international marketplace. China has a rapidly growing film industry and an appetite to partner with UK companies and talent for further growth, to the benefit of its infrastructure and international marketability. A film made under this agreement will be certified as a British film. Such qualification is important as it is one of the eligibility criteria for receiving film tax relief in the UK and is also important for the selective support available from the British Film Institute and other Lottery funded screen agencies. The eligibility criteria of these bodies include a requirement that a film is wholly or substantially capable of being certified as a British film.

Whilst the agreement sets in place criteria for films to be certified as British, it is important to note that approval as a British Film under the co-production agreement does not mean that the film is automatically entitled to tax relief.

### **Financial**

The main cost is in the UK Film Tax Relief (FTR). The lower end estimate is based on one UK-Chinese film co-production with a budget of between £1 million and £3 million and where the UK contribution is between 40% and 60%. This gives an average UK spend of £1 million, of which 80% would be allowable for tax relief purposes, costing £0.2 million (at 25% relief). The upper end assumes 2 UK-Chinese co-productions per year with a total UK expenditure of £2.5 million each per annum (£5 million per annum in total). The potential estimated total cost to the Exchequer ranges between £0.2 million to £1 million per annum.

The monetised benefits reflect additional UK expenditure incentivised by the treaty. The portion of the total UK FTR expenditure which has been incentivised by a treaty is assumed to range from £0.25m to £2.5m p/annum.

### **Implementation**

The co-production agreement will be implemented by means of an Order in Council to be made under the Films Act 1985. The Agreement shall enter into force on the date of receipt of the later of the two written notifications by which the parties shall notify each other through diplomatic channels of the completion of respective internal and legal procedures required for entry into force of the Agreement.

### **Consultations**

In 2004 and 2005, the Department for Culture, Media and Sport (DCMS), in consultation with the UK Film Council and the UK film industry, conducted an 18 month comprehensive review of its co-production treaties. As a result of this review, the then Secretary of State Tessa Jowell announced on 28 February 2005 the UK's intention to develop a new package of bilateral co-production agreements, which deliver maximum economic and/or cultural benefits to the UK. China is a "Tier 1" priority engagement country in the British Film Institute's International Strategy.

The treaty with China is the twelfth to be signed. The United Kingdom also has similar co-production agreements with Australia, Canada, France, Jamaica, New Zealand, South Africa, India, Israel, Palestine, Brazil and Morocco.



**The Hon Ed Vaizey MP**  
**Minister of Culture, Communications and Creative Industries**