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GAPP INTRODUCES REFORMS TO THE PUBLISHING INDUSTRY

Introduction

On 6 April 2009, the General Administration of Press and Publications (**GAPP**) issued its *Guiding Opinions on Further Accelerating the Reform of the Press and Publication System (Opinions)*. The Opinions summarize the history of reform in the PRC publishing sector to date, and reiterate the need for further reforms to optimize the current market environment. They also set out a roadmap and the primary policy considerations for this process.

The Opinions follow the joint promulgation on 26 March 2009 by the Ministry of Finance, State Administration of Taxation, and General Administration of Customs of the *Notice on Tax Issues to Support the Development of the Cultural Industries*. The notice introduces a series of preferential tax policies for publishing organizations, which apply from 1 January 2009 to 31 December 2013.

Primary Roadmaps for Reform

1. Restructuring of Non-profit Press and Publication Organizations

At present, the majority of press and publication entities in China are categorized as non-profit and "institutional" in nature, although in practice the situation has become convoluted, as the majority of publishing houses are actually commercially driven. After the reforms described in the Opinions, only a limited number of distinctly public institutions will be maintained, namely, the People's Publishing House, the Braille Publishing House and a few minority language publishing houses. All the others will be restructured into limited liability companies, joint-stock corporations or other forms of enterprise. Financial subsidies and other policies will be introduced to facilitate this process.

The Opinions require that the restructuring of all regional publishing houses and publishing houses operated by universities or colleges is completed by the end of this year. The deadline for publishing houses operated by central government departments to be restructured is the end of 2010.

Restructured enterprises will be eligible for benefits such as fewer restrictions on what types of publications they are permitted to produce, and greater availability of International Standard Book Numbers (**ISBN**) and International Standard Serial

Numbers (**ISSN**). Pursuant to *State Council Notice No. 144*, such enterprises will also be exempted from corporate income tax during the period from 1 January 2009 to 31 December 2013.

2. Merger of Media and Publication Groups

The Opinions voice the GAPP's encouragement and support of the merger of publishing organizations. This is consistent with the overall goal to have six or seven large-scale, well-known publishing media groups in China within the next three to five years. The government anticipates that each of those groups will own more than RMB 10 billion in assets, with an annual turnover of at least RMB 10 billion. Industry consolidation is expected to enhance competitiveness and enable PRC publishing houses to compete with international media groups.

3. Introduction of Private Capital

Notwithstanding the current prohibition on private investment in the publishing sector, private publishers do play a significant role in China. They do so outside the law by "buying" or "renting" ISBN and ISSN from state-owned publishing houses. Such arrangements are explicitly prohibited by law but have proliferated and, indeed, prospered over the years. The Opinions acknowledge for the first time the positive role of private publishing companies (although they do not comment on the illegal use of ISBN or ISSN). They also state that any private investment should be strictly regulated. According to the Opinions, a number of pilot projects will be set up to develop feasible models for cooperation between private and state-owned publishing enterprises.

4. Encouragement of Overseas Investment

The Opinions support the development of a strategy for outbound investment projects in the publishing industry. They also encourage the export of copyright licenses and publications, as well as the establishment of publishing entities overseas by Chinese investors.

Our Analysis

1. The Opinions portend a tectonic shift in the legal and policy framework of China's publishing sector. There is widespread recognition that the current system is unable to foster the growth of commercially viable domestic publishing houses. For example, there is no legal basis upon which such non-commercial entities can conduct mergers and acquisitions. Restrictions on publishers operating across different publishing sectors (e.g. books, newspapers and electronic media) and geographical areas is also hindering overall growth. Introducing private investment and transforming non-profit and institutional press and publication organizations into commercial enterprises will have a significant impact.
2. Strengthening the position of domestic players is emphasized throughout the Opinions. In part, this is motivated by the government's desire to enable these

companies to grow and to withstand not only the perceived cultural threat posed by foreign media companies in China, but also to expand into overseas markets. A key aspect of this process is consolidation. Specifically, the Chinese government expects that companies which are unable to compete will be dissolved or forced to merge with more successful enterprises. To attain this objective, in addition to restructuring and strengthening state-owned publishing houses, the Opinions allude to future reforms which will facilitate the entrance of private capital.

3. It is important to note that "private capital" in PRC official parlance usually refers only to domestic private investment, rather than foreign investment. Given the prevailing theme in the Opinions of strengthening domestic players, it is unlikely that foreign investment will be granted any type of meaningful role in the near future. In a recent interview, one GAPP official envisaged that private investment in the publishing industry would be similar to that in China's television sector. That is, private companies may be permitted to create various forms of content, but any publications they produce will be subject to strict monitoring and censorship.
4. Ultimately, the Opinions represent an attempt by the GAPP to strike a difficult balance. Clearly unsatisfied with the current publishing system, it is attempting to introduce further reforms to strengthen the domestic industry, while retaining government control over published content.

Conclusion

While the Opinions lay out a roadmap for future reforms, the specific regulatory structure to support them has not yet been formulated. The exact extent of those reforms is also in doubt, particularly with regard to private capital and foreign participation. Prompt action is needed by the GAPP to clarify the nature and scope of the reforms in line with the principles set out in the Opinions. In this way, domestic and foreign investors will have a clearer idea of how to proceed with their investments in the publishing industry.

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