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Inside Hollywood's Embrace of Saudi Arabia

By **Matt Pressberg** Apr 05, 2018 11:08 AM PDT

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A top Saudi Arabian official, Crown Prince Mohammad bin Salman, has been meeting this week with Hollywood executives such as Fox chief Rupert Murdoch and Disney chairman Bob Iger to discuss ways to work together, including possible investments in slates of films. The talks could lead to a win-win deal: For Hollywood, the wealthy kingdom is both a source of cash and a market potentially worth \$1 billion that was, until recently, closed to movies. The Saudi leadership, meanwhile, hopes to use a Hollywood alliance to seed its own entertainment industry and reduce its dependence on oil.



Crown Prince Mohammad bin Salman. Photo by AP

But beneath the surface, there are some complicating or just unusual factors, as could be expected when two vastly different cultures come together. The Information spoke to six people directly involved in the courtship between Hollywood and Saudi Arabia who portrayed a delicate dance. Each side is trying to maximize what it can get in the deal while minimizing anything that might sour the relationship. The people spoke to The Information on the condition that they not be named due to the sensitive nature of the negotiations.

THE TAKEAWAY

- Saudi Arabia is likely to invest in slates of Hollywood films
- Kingdom is following a similar strategy to China

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Here are some of the motivations on both sides, potential sticking points and other things to look out for.

Price Paid

Saudi Arabia has reportedly **already agreed** to buy a \$400 million stake in Endeavor, the parent of the WME-IMG talent agency. How the Saudis decide to continue to spend their money remains unclear, for now.

But based on conversations with multiple insiders, likely deals include ones where Saudi interests help finance major studio films in exchange for an inside look at the industry, developmental expertise and possibly local distribution rights. That’s similar to the approach taken by Chinese companies like Huayi Bros., which finances 25% of every movie produced by STX, cushioning the blow when films disappoint. In return, Huayi gets first crack at distributing STX films in China. An individual with direct knowledge of discussions between Hollywood execs and Saudi Arabia said that’s the basic game plan there as well.

Saudi Arabia is also interested in residency programs for its aspiring filmmakers and talent exchanges to accelerate the growth of its own film industry, but “those exchanges will only happen if the Saudis pay for them,” said one insider, who mentioned slate finance deals as the likely compensation. Given the size of the market in China, Hollywood had a major incentive in bringing Chinese filmmakers into the fold. That same incentive doesn’t exist with Saudi Arabia’s smaller market.

Homegrown Industry

The Hollywood push is part of Saudi Arabia’s Vision 2030 plan, the brainchild of Crown Prince Mohammad bin Salman, also known as MBS. Saudi Arabia lifted its 35-year cinema ban last year (with AMC Theatres planning on opening the country’s first movie theater later this month) and plans to invest \$64 billion in entertainment over the next 10 years, part of which includes a \$10 billion film initiative. The effort has been cast as part of MBS’ plan to modernize Saudi Arabia. The same thinking drove Saudi Arabia’s investment in SoftBank’s Vision Fund, which has poured tens of billions of dollars into tech investments in the past year or so.

But there’s a more immediate concern for the kingdom that goes beyond a desire to appear less restrictive: Saudi Arabia’s leadership wants its wealthy citizens to spend their entertainment money at home instead of in places like the United Arab Emirates and Bahrain, two individuals with knowledge of its thinking told The Information. One individual close to members of the Saudi royal family

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suggested the value of consumer spending by Saudis outside the kingdom—much of which is entertainment and leisure-related—could be as high as \$25 billion a year. Cinema executives believe the Saudi box office could reach \$1 billion a year, larger than Spain and Italy. Lifting the cinema ban will help, but the Saudi leadership's long-term plan is to develop a Saudi-owned-and-operated entertainment economy that reduces the incentive for its citizens to splash their cash overseas, an individual with firsthand knowledge of its thinking said.

There are more than 30 million people in Saudi Arabia, most of whom are young and all of whom live in a climate ideal for indoor recreation. Saudis are avid Netflix watchers (the streaming service recently premiered "Collateral," which stars Saudi actress Ahd Kamel), and there's clear demand for more filmed entertainment, insiders said. As the country looks to reduce its dependence on oil, an increase in domestic spending on entertainment could ease the transition.

China Blueprint

An individual with knowledge of the conversations told The Information that Saudi Arabia's long-term plan borrows from the approach China has taken in its relationship with Hollywood. China has used Hollywood movies to fuel its growing film industry and to pressure its homegrown creators to step up their game. And that's been effective, as Chinese movies, including many inspired by Hollywood blockbusters, are taking a bigger share of its box office—to the detriment of American films.

The Saudi kingdom would also like to use Hollywood to help establish its own entertainment industry, using its films to drive traffic to theaters and to inspire a new generation of Saudi filmmakers. Former DMG Entertainment motion picture group president Chris Fenton, an industry veteran with close ties to China, is in talks to lead the kingdom's \$10 billion film initiative. And just as it did with China, Hollywood is happy to help Saudi Arabia, for the right price.

Insiders likened MBS' visit this week to Hollywood to one made by Wanda Group Chairman Wang Jianlin in 2016, where Los Angeles Mayor Eric Garcetti introduced him to a room full of some of the most senior executives in Hollywood who were zealous to pay tribute to a deep-pocketed benefactor.

Big Opportunity

The Saudis recognize that they are negotiating with Hollywood at a time when the relationship between Hollywood and China is on shaky ground. Hollywood has been hit by a crackdown in cross-border entertainment investment from China, and while there are several studio

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financing deals that remain active, the situation continues to deteriorate, an individual close to negotiations between Hollywood and China said. At the same time, the ascension of trade czar and China hawk Peter Navarro in the Trump administration has further raised tensions.

The Chinese government recently brought its media and entertainment censorship body more firmly under the control of the Communist Party, which could lead to a reduction in the quota of imported films allowed in, two insiders said. China is also increasingly reliant on local movies to boost its box office. That would reduce the importance of the Chinese market to studios, and could make Chinese companies less inclined to invest in Hollywood films.

As a result, an influx of Saudi cash would be even more valuable, with top entertainment execs a lot more interested in courting it. Although the Saudis haven't deliberately timed their push to coincide with China's pullback, an individual close to them said that the timing is fortuitous.

Less Leverage

Saudi Arabia will almost certainly censor films that play in its market, but the relatively small size of its audience—especially compared with China—should limit the degree to which it can influence the content Hollywood produces. One insider said China knew from the start that it was going to become the world's biggest movie market, so it successfully used that as leverage. It's a reason there hasn't been a Chinese villain in a major studio blockbuster in years.

Saudi Arabia has a smaller population than Poland, so the threat of having films blocked in that country—or the decision to make movies knowing they'll never play in Riyadh—isn't as consequential for studios.

Tight Fisted

The Saudi delegation learned from China's free spending and is looking to avoid some of its early mistakes. Wanda's \$3.5 billion purchase of Legendary Entertainment in January 2016 was a catalyst for the country's crackdown on cross-border entertainment deals and remains a bugaboo for Chinese investors. Saudi Arabia is also conscious about coming across as a careless or unsophisticated spender, an individual with knowledge of the kingdom's thinking said.

Hollywood shouldn't look at the Saudis with the same "predatory" mentality it did in the past with aspiring movie moguls from places like China and the United Arab Emirates, that individual said, or it risks jeopardizing some potentially huge investments. He questioned whether Hollywood has come to that realization yet.

Hollywood Backlash

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Saudi Arabia's record on human rights and its treatment of women is expected to become a point of contention in Hollywood, which is still struggling to address what has been exposed during the "Me Too" movement. Although MBS has positioned himself as a reformer and lifted the country's longstanding ban on female drivers, it remains unclear whether men and women will sit together in country's new cinemas. AMC CEO Adam Aron said Wednesday that he doesn't expect theaters to be fully segregated by gender, although there could be separate showtimes for single men and families.

Some protesters have already made their feelings known about Hollywood's courtship of Saudi Arabia during MBS' visit. Those protests are likely to get louder as deals are signed, one of the insiders predicted.

Saudi Too

There could also be a backlash in Saudi Arabia. While MBS has consolidated power, he has enemies at home who could seek to challenge him, including cousins and other elites who were detained under his orders at Riyadh's Ritz-Carlton. His aggressive reforms could also inspire a reaction that shakes up the country's politics and puts an alliance with Hollywood on the backburner, an individual close to members of the royal family said. And even absent that type of backlash, the Vision 2030 plan is expansive and includes initiatives in areas like sports and technology. The entertainment aspect of Vision 2030 may not be the top priority, that individual said.

This Time Is Different

This isn't the first time that Gulf money arrived in Hollywood with lots of fanfare but a mixed record. But an individual with experience working in the country said leaders on both sides have a different level of optimism this time around, believing that the rapprochement between Hollywood and Saudi Arabia will lead to real money flowing in and a legitimate new consumer market. The direct involvement of MBS raises the stakes for Saudi Arabia, and with Hollywood facing hurdles due to its rocky relationship with China and well-funded competition from streaming services, it seems equally motivated to ensure the deals are a success.



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You may also have noticed that most Hollywood blockbusters now feature an Asian sidekick, including the last two Star Wars movies. Asian actors will take any break they can, given