

Annexure 1



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Australian and Children's Screen Content Review
Department of Communications and the Arts
GPO Box 2154
Canberra ACT 2601

Submission of Netflix, Inc.

When Netflix launched in Australia in 2015, most Australians primarily watched television on free to air and pay TV networks. At that time, Stan and Presto had just entered the market, and Amazon's first original series was just released in the United States. Two years later, Australians have never had more options for where and how to watch television series and movies.¹ Netflix, Stan, Amazon Prime, Foxtel Now, ABC iView, SBS On Demand, Plus7, 9Now, Tenplay and Youtube Red all offer television series and movies to consumers over the internet. While the vast majority of Australians continue to watch television on free to air and Pay TV,² consumers are demanding choice in how and what to watch and the market is delivering.

The growth of internet TV is providing Australian consumers with more options in terms of how, when and where they watch their favourite movies and TV shows. It also is helping them to discover new favourites in an expanding roster of local and global content. Each streaming service offers something unique to Australians. Stan has invested in Australian originals like

¹ ACMA Communications Report 2015, "Viewers are now able to access more video content than ever before through a range of web-based services, applications and devices." *Available at:* <https://www.acma.gov.au/-/media/Research-and-Analysis/Report/pdf/ACMA-Communications-report-2015-16-pdf.pdf?la=en> (ACMA Report); and Bigger Picture: The New Age of Screen Content, showing more than 20 streaming services have launched in Australia. *Available at:* http://www.alphabeta.com/wp-content/uploads/2016/12/Google_Bigger-Picture-Report_Dec2016.pdf

² See, ACMA Report, Figure 3.6, showing share of time spent watching television (live or recorded) or professional online video content, in the last seven days.

Wolf Creek. Foxtel Now offers live, linear television. Netflix offers a growing catalogue of original and second-run content from Australia and all around the world.

Streaming services must offer compelling content to earn Australians' attention in the rapidly growing market. Netflix has been successful by finding the best stories from local producers, and offering them commercial-free, with unlimited viewing on any internet-connected screen for an affordable, no-commitment monthly fee. Netflix provides a personal experience that allows members to discover the most pleasing titles based on their personal preferences. To date and going forward, Australian television series and movies will be an important part of the Netflix catalogue for members in Australia and around the world.

The growth of streaming services has created an unprecedented demand for Australian content.

The openness of the internet and increasing robustness of consumer broadband connections has fueled the growth of streaming services. Unlike traditional distributors, which are reliant on exclusive access to broadcast spectrum or dedicated cables, streaming services are able to offer their service with just an internet connection. These lower barriers to entry for content delivery mean that more, diverse and competitive players can offer innovative platforms and business models to Australians, which is in turn, increasing demand for compelling content to fill those platforms.

The demand for content is growing with the increasing number of services around the world, all of which are looking for quality television series and movies to offer their customers. Australia makes great television series and movies and is well-suited to meet that demand. Screen Australia reports that it has seen "an explosion in the number of video-on demand services driving a steep increase in the amount of content commissioned specifically for

[streaming services].”³ Overall, there has been a 17% increase in drama production in Australia over the past five years.⁴

Streaming services around the world provide producers in Australia greater opportunity to license their content where previously there had been a more limited market. Streaming business models encourage demand for types of content that otherwise may not have found commercial success. Historically, television has been bound by a linear program schedule and reliance on advertising, which put a premium on airing content that will appeal to the widest audience during times likely to attract the most viewers. But online business models, such as Netflix’s, depend on consumers consistently finding amazing content to watch, not just at prime time, but whenever the consumer wants. Streaming services do not rely on getting millions of people to watch a single show at a pre-determined time; they derive value from the entire period that the content is licensed and available on the service. This gives streaming service customers opportunity to discover new content and enables streaming services to make deeper investments in new and innovative programming. As Australian producer of Netflix original series, *The White Rabbit Project*, John Luscombe explains, producing for streaming services offers a unique opportunity:

“You’re not trying to come up with a show that’s going to clean up a 7:30pm on Wednesday night on a free-to-air network in Australia. If you can get a hold of the audience...they’re going to renew you. It’s an exciting opportunity...They placed an extraordinary amount of trust in this program... They left us to our own devices creatively which was a fantastic way to work.”⁵

³ Screen Australia, Drama Report 2015/16. Available at: <https://www.screenaustralia.gov.au/getmedia/595410ac-1ee0-4aeb-a0bb-48716f0c8d7a/Drama-Report-2015-16.pdf?ext=.pdf>

⁴ See, Screen Australia, Drama Report 2015/16, showing \$694M in production spend in 2011/12 vs \$843M production spend in 2015/16.

⁵ Mumbrella, *White Rabbit Project: how to make a series for Netflix*, 9 December 2016. Available at: <https://mumbrella.com.au/white-rabbit-project-ins-outs-netflix-production-414523>

Netflix is an investor in Australian content.

Netflix is an active investor in television series and movies made in Australia. Netflix looks all over the world to find content that delights our members -- we look for great stories that bring our members joy. Australia has long been known for producing television series and movies that fit this bill. It is why Netflix Chief Content Officer, Ted Sarandos, committed to sourcing Netflix original content from Australia: "Australia has such a rich production infrastructure and great talent, both in front of and behind the camera. There's no reason we would not [commission] original shows for Australia."⁶

Netflix commissioned its first Australian Netflix Original, *Tidelands*, earlier this year. Netflix also recently announced its latest co-production with ABC, *Pine Gap*. But these are just two of the many investments Netflix has made in Australian production since we launched in 2015. Netflix partners with Australian creators to bring both original and second-run Australian television series and movies to our members around the world. This includes second-run Australian titles *Lion*, *Rake*, *Ms. Fisher's Murder Mysteries*, *Barbecue*, *Outback Truckers*, *The Code*, *Laid*, and *the Moodys*.⁷ Licensing second-run content provides a new window for Australians to access older Australian content otherwise not readily available to them. Acquisition of second-run Australian content also provides financial support to the Australian production industry and increased global distribution of Australian stories.

Netflix is increasingly focusing on exclusive original content. Netflix originals are chosen because we know they are what our members want to watch. This includes Australian Netflix original films, documentaries, series, and co-productions like *Tidelands*, *White Rabbit Project*,

⁶ The Sydney Morning Herald, *Netflix content boss Ted Sarandos open to ideas for original Australian shows*, 11 June, 2016. Available at: <http://www.smh.com.au/entertainment/tv-and-radio/netflix-content-boss-ted-sarandos-wants-your-ideas-for-original-australian-shows-20160610-gpgcjp.html>

⁷ The availability of titles varies market to market.

Tales by Light, Wanted, Pacific Heat, The Letdown, Cargo, Glitch and *Pine Gap*. When Netflix partners with an Australian network to co-produce a title, the Australian network is provided the first-run rights in Australia while Netflix distributes it as an original outside of Australia.

Netflix's investment in a co-production ensures global reach and larger production budgets. For example, after an investment from Netflix, *Glitch* was able to extend its production timeline.⁸ ABC said that working with Netflix delivered a "better outcome" for Australian audiences: "As a result of Netflix's involvement, there is more money being invested in *Glitch* to fully realise the creative aspiration of the series."⁹ In cases where Netflix is working with a local network, the investment from Netflix up-front increases the value of the local network's investment.

In addition to acquiring Australian television series and movies, Netflix makes use of Australia's world famous production and post-production infrastructure and talent. For example, Netflix original feature films *Casting JonBenet*, *First they Killed My Father*, and *Bright* have used Australian post-production services. Netflix originals have been filmed all over Australia, including in Queensland, South Australia, the Northern Territory, Victoria, and New South Wales. Netflix investments in Australian television series and movies, and use of Australian

⁸ The Sydney Morning Herald, *All rise: the deceased keep the mysteries alive in the new season of Glitch*, 7 September, 2017, "The Netflix investment afforded more time for production: What we pulled off last time was ridiculously crazy. We had a normal drama schedule, but a normal drama is three people talking in a room, and sometimes they get in a car and drive to a cafe....Glitch had CGI, stunts, period flashbacks, prosthetics, car chases, every episode was crushed full. And shot on location, using international actors. To put all of that into an Australian drama schedule was very difficult. We were operating like we were *The Slap*, but we weren't *The Slap*." Available at: <http://www.smh.com.au/entertainment/all-rise-the-deceased-keep-the-mysteries-alive-in-the-new-season-of-glitch-20170904-gyac1i.html>

⁹ The Australian, *TV Executives Find Big Glitch in ABC-Netflix Deal*. Available at: <http://www.theaustralian.com.au/business/media/tv-executives-find-a-big-glitch-in-abcnetflix-deal/news-story/8e299d4487468658b831b5daad8a4286>

production and post-production infrastructure and talent, help support the production industry.

Tidelands alone resulted in at least eighty jobs in Queensland.¹⁰

Netflix is an investor in Australian kids content.

As a consumer-driven subscription-based platform, Netflix invests heavily in Australian kids content because parents find value in Netflix as a source for children's entertainment. Netflix provides high quality content for kids that entertains and educates, commercial-free. Netflix has invested in a kid-friendly user interface and parental controls so members can feel confident that their kids are only watching content that is appropriate for them. About half of Netflix members have watched kids programming. This is why Ted Sarandos said that Netflix will "double down on kids and family programming".¹¹

Netflix has invested in a significant amount of kids content in Australia, both second-run licensed content and Netflix originals. Australia is one of the top locations for Netflix's original kids productions for both animated and live action programming. Netflix's Australian kids originals include series and co-productions *Beat Bugs*, *Botthersnikes & Gumbles*, *Kazoops!*, *Mako Mermaids: An H2O Adventure*, *Legend of Monkey* and the recently announced *untitled Motown project*.

Netflix's investment in Australian kids originals is testament that Australian kids content travels. Global streaming services allow Australian creators of kids programming to find audiences around the world. As *Beat Bugs* [producer] Josh Wakely said, "Bringing *Beat Bugs* to life on Netflix and having a platform to reimagine this universally acclaimed music for families

¹⁰ Statement of The Honourable Anastacia Palaszczuk, *Queensland secures 80 extra jobs with Australia's first Netflix series*, 16 May, 2017. Available at: <http://statements.qld.gov.au/Statement/2017/5/16/queensland-secures-80-extra-jobs-with-australias-first-netflix-series>

¹¹ The Wall Street Journal, *Netflix to Ramp Up Originals Targeting Kids*, 17 January, 2016. Available at: <https://www.wsj.com/articles/netflix-to-ramp-up-originals-targeting-kids-1453058812>

around the world is an exhilarating and rewarding experience”.¹² Australian kids content like *Beat Bugs* and *Kazoops!* entertains, educates, and showcases Australian creative talent and culture to families around the world.

Bringing content from Australia to Netflix members around the world.

In the past, Australian producers primarily distributed their content on local free to air networks or pay TV networks in Australia. Global streaming services now offer an additional platform for local producers to showcase their content and generate revenue, both at home and abroad. Screen Australia Chief Executive Graeme Mason has attributed Australian creators “reaching more audiences” to the rise of online services.¹³ Netflix, for example, is able to bring a popular Australian show and deliver it to audiences all around the world at the same time. For *Barbecue* filmmaker Matt Sayleh, global distribution on Netflix is “brilliant... [w]e made this as a global film so it was always our intention to share it as a global film as well.”¹⁴

For content that receives government support, additional financing from global distributors extends the value of the government’s investment and facilitates the goal of exposing Australian culture and creative talent. When *The Letdown* was licensed as a Netflix original outside Australia, the partnership not only added funding to Screen Australia’s investment, it also allowed audiences around the world to discover Australian content. Mike

¹² Media Week, *Beat Bugs Sydney Producer Signs Global Deal with Netflix*, 11 February, 2016. Available At: <http://www.mediaweek.com.au/beat-bugs-sydney-producer-signs-global-deal-with-netflix/>

¹³ The Sydney Morning Herald, film production down but TV Drama Booming New Screen Australia Report Reveals, 3 November 2016. Available at: <http://www.smh.com.au/entertainment/tv-and-radio/film-production-down-by-tv-drama-booming-new-screen-australia-report-reveals-20161102-gsgr78.html>

¹⁴ Broadsheet, *An Australian Film About Barbeque is Coming to Netflix This Month*, 4 August, 2017. Available at: <https://www.broadsheet.com.au/national/food-and-drink/article/australian-film-about-barbeque-coming-netflix-month>

Cowap, investment manager at Screen Australia said: “We’re thrilled that this uniquely Australian story will be seen both at home and abroad through Netflix.”¹⁵

Netflix members around the world have access to the best of Australian content. *Nowhere Boys*, which has won seventeen awards including best kids’ series at the International Kids Emmys (2015), multiple Kidscreen Awards, Australian Academy of Cinema Television Arts awards and Screen Producers Australia awards, is distributed by Netflix around the world.¹⁶ Australian producers benefit from the greater global demand for exclusive programming, international exposure of their work, and the additional revenue streams created by online distribution.

Members around the world who love Australian produced content will be able to find more of it because Netflix focuses on ensuring that our members are consistently able to find content they want to watch. Netflix organizes content into thousands of different genres and micro genres so that our recommendation algorithm can make highly personal recommendations. There are a number of micro genres that feature content produced in Australia. These genres range from the traditional, such as “Australian Crime Movies” and “Australian Comedies,” to the more specific and obscure, such as “Australian Movies Based on Contemporary Literature.” The exact titles available in each micro genre vary depending on what titles are available in a particular market. But the micro genres combined with the recommendation algorithm help ensure that consumers who enjoy content from Australia are presented with more.

¹⁵ Screen Australia Media Release, *From Award-Winning Comedy Showroom Pilot to Full Series: The Letdown Starts Production*, 16 June, 2017. Available at:

<https://www.screenaustralia.gov.au/sa/media-centre/news/2017/06-16-the-letdown>

¹⁶ If.com.au, Netflix Swoops Nowhere Boys, 19 July, 2017. Available at:

<http://if.com.au/netflix-swoops-nowhere-boys/>

Netflix recommendations also work to ensure members around the world are presented with Australian produced content that they are likely to enjoy. For example, a Netflix member in Germany who likes horror films may be recommended the Australian Netflix original zombie film, *Cargo*, when it comes on the service. Netflix's recommendations allow Australian content to find its ideal audience around the world.

Cultural policies in the digital age.

The growth of streaming services is driving unprecedented demand for great television series and movies. Streaming services compete with each other, free to air, and pay TV services for the best content to attract viewers. This encourages Australian producers to create great content that meet the growing global demand. This virtuous cycle organically ensures that the Australian production industry is supported and that Australian content is seen by audiences everywhere.

Streaming services are investing in Australian content because Australians make great television series and movies that viewers in Australia and around the world want to watch. Netflix invested in *Tidelands*, *Pine Gap*, *Beat Bugs*, and *Kazoops!*, along with all the other Australian Netflix original series, films, co-productions, and second-run licensed titles because they are high quality productions that bring Netflix members joy.

Australia has talented creators whose content is already being distributed all over the globe on streaming services. But reflexive application of regulations built for a market with limited organic demand, or predicated on technical or resource scarcity, can disrupt this virtuous cycle by distorting consumer-driven content buying decisions that have spurred growth of Australian content production and global distribution.

Growth in demand for global content is not unique to Australia. Content production around the world is growing and regulators are confronted with similar questions about how to adapt to shifts in market conditions. Last year, for the first time, foreign sources accounted for more financing of Canadian English TV production in Canada than either free to air or pay TV providers,¹⁷ and Canadian film and television production grew by 5%.¹⁸ This growth was predicted by the Canadian Radio-Television and Telecommunications Commission when it declined to apply content distribution obligations to streaming services and reduced obligations on traditional players:

“the market will ensure programming diversity, especially in a system characterized by maximum choice and flexibility for consumers. In such an environment, services must necessarily differentiate themselves from others and provide programming of interest to Canadians in order to maintain or grow their audiences.”¹⁹

As two Canadian producers recognized: “what we’ve realized in this era – this so-called Golden Age of TV – is, if you can make really great stuff, you will sell it. And you will make money off of it. So it’s become a creative meritocracy, more so than it’s ever been.”²⁰

That said, government support for content production can help secure Australia’s place as an attractive market for production of film and television. But Australia’s funding mechanisms

¹⁷ Michael Geist, *The Netflix Effect?: Foreign Sources Outspend Canadian Broadcasters and Distributors for English TV Production*, 16 March, 2017. Available at: <http://www.michaelgeist.ca/2017/03/netflix-effect-foreign-sources-outspend-canadian-broadcasters-distributors-english-language-tv-production-funding/>

¹⁸ Canadian Media Producers Association, *Profile 2016*, Film and Television production increased 5% year over year in 2016, to \$2.61B dollars and the volume of foreign service productions in Canada is on the rise, it increased by 42% in 2014/15 and a further 1.7% in 2015/16. Available at: <http://www.cmpa.ca/sites/default/files/documents/industry-information/profile/Profile%202016%20EN.pdf>

¹⁹ The Let’s Talk TV Decision in 2015, reduced quotas for free to air and Pay TV services and continued the exemption for streaming services.

²⁰ Globe and Mail, *Orphan Black producers see bright future for Canadian TV*, 7 October, 2016. Available at: <http://www.theglobeandmail.com/arts/television/orphan-black-producers-see-bright-future-for-canadian-tv/article32296865/?ord=1>.

have not yet adapted to reflect how Australians are increasingly watching more content online. Currently, Australian production incentive programs discriminate based on distribution channel. Producers are ineligible for certain incentives if they wish to make television series, or use a streaming service to distribute their content. There is a missed opportunity to better support producers who wish to target their content to audiences using streaming services.

Conclusion.

Netflix investments in Australia are significant. The Australian Netflix original co-productions and productions, as well as all of the second-run Australian content available to members around the world, provide organic financial support and global exposure to Australian creators. Netflix helps to bring Australian stories to our members around the world, supporting a virtuous cycle of content investment and innovation in Australia. The Internet is central to this inquiry. Unrestricted competition, broader distribution, and innovation have led to greater investment, higher quality production, and broader distribution.

Respectfully Submitted,

Josh Korn
Manager, Global Public Policy
Corie Wright
Director, Global Public Policy
Netflix, Inc.