

Supplementary Submission
Submission No. 103.....

**House of Representatives Standing Committee on
Communications, Information Technology and the Arts**

**Inquiry into the Future Opportunities for Australia's Film,
Animation, Special Effects and Electronic Games Industries**

This is a supplementary submission and Animal Logic is happy that it be made public.

By way of additional background and information:

The key element of this industry is Talent. Australia punches above its weight in producing talented individuals in this industry – creative and technical.

In the early 1990's it became clear that we were training talent for the benefit of foreign markets and employers – the oft quoted 'brain drain' or 'talent drain' suffered by many industries.

The lure of Hollywood – Mecca for the film industry – was and is understandable for those individuals capable of reaching the top of their profession or craft. In fact, it is to be encouraged.

The idea was to try to turn the one-way path into a 'loop', whereby these Australian individuals could return to Australia, when appropriate, to produce their work.

At the same time, there was a realization that we needed a mechanism to even out the cyclical peaks and troughs of the domestic production cycle. Attracting off-shore footloose production was seen as a way to do that.

This is why the development of world class infrastructure such as the studio facilities in Sydney and the Gold Coast has been a key to the industry's success in attracting off-shore production (see AFC statistics) and also allowed locally nurtured talent such as George Miller, Baz Luhrmann, Peter Weir, Gillian Armstrong, Phillip Noyce, PJ Hogan and others to bring all or significant elements of their Hollywood studio, foreign financed projects 'back home'.

Producing world class talent and providing world class infrastructure has generated significant economic and cultural benefit to Australia.

These observations are well understood in the area of physical production. They equally apply to digital production.

Around 90% of Animal Logic's work is generated offshore. The company provides a level of infrastructure and expertise that the local industry can utilize, but could not economically sustain on its own account.

For Animal Logic and such companies to be successful, they must be internationally competitive – just as the physical production elements of a production. The digital production sector is growing fast. It has increased from 13-25% of the UK total production spend in the last two years with an annual turnover of £1.39billion across film, commercials and broadcast production (unaware of a similar statistic for Australia).

Big effects movies are the flag bearers – but the level of digital competence required to design and execute such work also and increasingly empowers the telling of smaller stories. This is of increasing strategic importance to Australia's local industry.

Animal Logic provides much in-house training for its people. This role will grow. Technology is fast becoming ubiquitous. Talent and quality are the drivers for future success. This is not a new idea. Animal Logic now spends a great deal of effort in finding and keeping its talent base. The keys to doing that are essentially twofold: provide excellent projects to work on; and provide continuity of work. To nurture talent, the company needs to have a range of different projects and project types.

Currently, 12% of Animal Logic talent base is imported.

If there is uncertainty or breaks in project work the company necessarily stays more opportunistic in its recruiting practices – which means more international contract staff. It would be better to be able to continue to grow and retain the local talent base.

The aim is to establish and then maintain a critical mass from which to grow and cement a position in the world trade marketplace. This is legitimate goal for the industry, too.

As footloose projects become bigger and as international competition grows more fierce, the practice is emerging where producers will split a project and allocate its components to different territories according to their perceived advantage to the project. Digital production is fast becoming one of those components. It will not depend on the rest of a project being allocated to Australia. The digital production package includes digitally produced imagery, sound and editing services.

Cost and incentives are two deciding elements. As competition has grown, standards have risen worldwide. Project standards requirements will differ, depending on the format and market. Producers now correctly assume that their standards can be met by a number of countries. That aside, they then look for scale, availability and a cost advantage.

The key asset is Talent and it is mobile. To succeed, we need scale and availability. Without depth of scale, we will be passed over; considered too small to meet the required economies and tight schedules of larger productions. Without continuity of work we are unable to maintain a significant and stable talent base.

Australia needs to remain competitive. By successfully winning these digitally based projects to Australia we can again turn the potential brain drain into a loop and offer work to our own talent, funded by foreign capital. This is a growth sector, which is revenue positive and job creating.

By recognizing that this sector of the industry can now compete in its own right as well as in conjunction with the rest of the industry, we can establish a strategic opportunity to reduce the damaging effects of the traditional boom/bust cycle which has plagued the industry in the past.

A proposal: a tax rebate of 10% is available for individual projects with a local spend in excess of A\$1.5m and an enhanced rebate of 12.5% is available for aggregated digital production contracts where the total local spend exceeds A\$5million.

Rather than a belated, retrospective rebate after a long production period (often 1-2 years) it would be better still if the concession was available upfront or on a progressive basis during the course of production. This provides valuable cashflow to a production and an important level of certainty when negotiating and securing projects.

Such measures would enable us to compete more effectively with the initiatives of other countries, such as the sale and leaseback scheme in the UK and the Canadian labour rebate scheme.

The final model would depend on the imperatives of government policy. Animal Logic would be happy to work with government and the industry to establish the best mechanisms for taking advantage of these new and important opportunities for our industry.

Animal Logic

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