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SCREEN SERVICES ASSOCIATION OF VICTORIA
SUBMISSION TO
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

Screen Services Association of Victoria
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1. INTRODUCTION

The Screen Services Association of Victoria Inc (SSAV) welcomes the opportunity to provide a submission into the House of Representatives Standing Committee on Communications, Information Technology & The Arts Inquiry into the Future Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries.

SSAV is the only state based organization that represents the "infrastructure" of the film, television and animation industries. Its members include special effects and post production facilities, audio post houses, equipment rental houses, studios, equipment suppliers, film laboratories, animation houses, specialist travel agencies and educational institutions.

The infrastructure provided by SSAV members services not only the "traditional" content producers of feature film, television, advertising product, but also creators of the new or "rich" media content including games , interactive television, online technologies, video on demand, mobile telephony . The infrastructure provides the technology for these content creators and its health is pivotal for growth across all media platforms.

The SSAV charter, mission statement and list of companies/members and other association activities can be found at www.screenservices.com.au

1.1 Outline

In response to the inquiry's terms of reference and identified central issue:

"What needs to be done to preserve and extend our position and distinctive voice in global film and electronic games production?"

SSAV's submission is limited to the film, television and animation industries, although there are synergies with and economic ties to the games industries.

And address the following Terms of Reference in order:

- b) the economic, social and cultural benefit of these industries*
- c) future opportunities for further growth of these industries, including through the application of advanced digital technologies, online activity and broadband*
- d) the current and likely future infrastructure needs of these industries, including access to bandwidth*
- g) how Australia's capabilities in these industries, including education and training, can best be leveraged to maximize export and investment opportunities*
- h) whether any changes should be made to existing government support programmes to ensure they are aligned with future opportunities and trends in these industries*

2. ECONOMIC, SOCIAL AND CULTURAL BENEFITS

Reference: b) the economic, social and cultural benefit of these industries

2.1 Background

The economic benefits are quantifiable and substantial. As stated in the National Survey of Feature Film and TV Drama Production 2001/02 the total spend in Australia in 2001/2002 of all drama production activity (feature films and TV drama; Australian, co-production and foreign) was \$662.2 million.¹ This figure has more than doubled in the last eight years. These figures do not include any multiplier effect. Nor does the figure consider the investment made by companies and organizations that offer facilities which service this industry sector in Australia and the export of these services directly into overseas markets.

Without question what these industries provide, above and beyond the economic benefit, are the social and cultural benefits. These cultural benefits can only be measured by our sense of who we are as Australians. What we watch on our television and cinema screens and increasingly on our computer screens, directly affects our sense of identity and our place in the world.

Our stories also serve to market us to the rest of the world as a strong and confident nation, secure in the knowledge of "who we are". And at the same time this industry is a source of employment and financial stability to many Australians. Many of us have invested substantially in infrastructure, often operating in silence behind the "bright lights" of production successes.

2.2 Local Production

A breakdown of the \$662.2 million shows that of this Australian feature film production constituted \$ 129 million and local television drama production made up \$ 207 million.² Over half of the production spend is on domestic or local production.

Government funding and regulation underpin this production. In 2001/02 the "core" slate of Australian features (those not fully foreign financed) had over 42% government sourced funding³. This has held at between 42% and 52 % for the last four years. Australian TV drama has had on a 5-year average 24% government sourced funding as a proportion of budget.⁴ It would be fair to say that this government funding is in most cases pivotal to a production being able to procure the balance of the funds required to fully fund the project.

In the case of TV drama the broadcasters are in many cases only driven to provide a proportion of the funding because of the local content regulations. Pay television operators are also bound by local content regulation. The removal of the rules would see "free market" economics at work.

¹<http://www.afc.gov.au/GTP/mpvaluesxspending.html>

² <http://www.afc.gov.au/GTP/mpfeaturesspending.html>
<http://www.afc.gov.au/GTP/mptvdramaspending.html>

³ <http://www.afc.gov.au/GTP/mpfeaturesfocusfunding.html>

⁴ <http://www.afc.gov.au/GTP/mptvdramafinance.html>

2.3 Local Advertising

The truth of this is evidenced already in the television advertising sector. In the years since the local content quota was reduced to 80%, the percentage of high budget advertisements produced in Australia for the Australian market has decreased significantly.

"According to the Australian Bureau of Statistics, there were 318 businesses in the film and video production industry involved in making television commercials in 1999/2000. The ABS research indicates a contraction in this sector, with income from the production of commercials falling from \$258.1 million in 1996/97 to \$186.2 million in 1999/2000 – a 28 per cent drop".⁵

Prior to the relaxation of the advertising quotas these TVC's helped stimulate demand for skilled practitioners and leading edge technology. In a world in which Australian companies are increasingly foreign owned, even with quotas as high as 80%, little high end advertising is being produced by Australians and it is a significant loss, as it has in the past played a major role in underpinning the infrastructure of the industry. What appeared to be a small concession on paper has had a dire impact.

In addition to the economic impact is the cultural one, particularly of concern when considered in the context of certain demographics i.e. children's television. Currently there is a high saturation of foreign, particularly American, advertising placed around children's television programming. So not only are children viewing a large amount of overseas content, but they are also targeted by overseas advertising, which is not even re-voiced with Australian actors and Australian accents. This makes a very powerful cultural influence on an impressionable audience. The long term effect of this diluting of local identity within the current and future generations of young Australians is potentially very damaging. The preservation of an Australian identity in advertising content, as well as film and television content is vital and yet these areas at present are under increasing threat.

2.4 The Reality

Any reduction in local content rules will have a significant affect on film and television. Why would television networks buy local drama at \$250,000 to \$500,000 per episode when they can purchase US series (that costs US \$2 mill to make) for around \$25,000 per episode? In terms of animation, why would a network spend up to \$15,000 per minute for a 100% produced Australia product when it can purchase a half hour episode for example of the *Simpson's* (partially produced in South Korea) for around \$5,000?

US product returns costs, plus margin, in its own market. International sales are the cherry on the top. Local drama production will simply not survive and it must. Our industry is dependent on ongoing long form drama series. Our investment in infrastructure cannot stand idle, while we wait for intermittent local drama or that one offshore international production which may consider Australia as a cost-effective alternative.

The greatest current threat to the preservation and extension of our position and distinctive voice in global film and television production is the possibility of this government support being either watered down, held as is "stand still" or entirely traded away in the current FTA being negotiated with the US.

⁵ <http://www.afc.gov.au/GTP/mpads.html>

2.5 Recommendations

- Take the cultural industries “off the table” in the free trade negotiations
- “Stand still” of current support mechanisms be rejected outright as an unacceptable position in the negotiations

3. FUTURE OPPORTUNITIES

Reference: c) future opportunities for further growth of these industries, including through the application of advanced digital technologies, online activity and broadband

3.1 World's Best Practice

As illustrated in the above figures the Australian film, animation and special effects industries have continued to increase their share of the world market and achieved world acclaim for the quality of the product delivered. Australia and Australians have gained an international reputation for being able to provide high quality services.

To supply the infrastructure at "world's best" requires ongoing, costly capital investment and a commitment to skills development. To be able maintain and develop both the world's best practitioners and technology requires a consistent "base" level of high quality production or throughput. The services constantly reinvests in new technology and equipment. The investment supports the industry.

Australia would not be a key player in servicing this offshore production without the high standard of infrastructure and facilities offered by companies. Offshore producers would not consider Australia if our facilities were out of date and our standard of technical competence low and training incomplete.

The services and facilities are the backbone of the industry and play a critical role in securing off shore production and delivering it to the international market.

3.2 Growth Initiatives

Domestic production is supported by local content rules, by State and Federal funding and via private investment. Foreign or offshore production is attracted by a combination of the skills and facilities, locations, tax incentives and a cost effective exchange rate.

Australia, with the provision of 10BA as it applied in the 80's, was able to build an industry from which this "world's best practice" was able to develop. Despite its shortcomings it was the source rapid industry growth.

This inquiry needs to understand that the level of support currently available for local production is insufficient to allow for any future substantial growth. The experience of many SSAV members is that the current level of local production on all media platforms cannot support the quality and size of infrastructure required for "world's best". The statistics provided from the National Survey of Feature Film & TV Drama Production 2001/02 and quoted in the Information Paper clearly show that the growth of Australian (read local) feature film & TV drama only increased by little more than 6% between the period 2001-2002 and 2000-2001

There is a need to ensure that local production is not only maintained (providing a stable base for a sustainable industry), but that it grows to enhance the opportunities for service companies to invest in additional high quality infrastructure. Such infrastructure directly supports and assists in delivering to the offshore producers. Without domestic and offshore production developing concurrently, exponential growth in this industry is unachievable.

To preserve and extend our global position and our distinctive voice both local and foreign production must be increased.

The Australian creative industry sector is one recognized internationally. It takes visionaries and great "political will" to look beyond one element, such as employment, economics or cultural identity and focus rather on the entire creative sector. Creative content is the future of Australia; we will continue to be exporters of our creative content with ongoing support.

3.3 Recommendations

- Support the extension of the 12.5% tax offset for Television Drama Series Production including the “bundling” of programmes to reach the \$15 million threshold.
- Extend the Film Licensed Investment Companies Schemes (FLICS) and review its structure of investment to attract greater interest.
- Introduction in Australia of a similar scheme to the UK, France and other European countries where a small proportion of the “box office” take is returned to the industry to fund local Australian production. An alternative would be a small percentage of lotto revenues.
- Ongoing and increased funding to the Film Finance Corporation Australia
- Consider infrastructure specific incentives, given the high cost of and rapidly changing technology such as accelerated depreciation or as was available in the ‘80’s, an immediate investment deduction in excess of 100% of the cost of capital investment.

4. FUTURE INFRASTRUCTURE

Reference: d) the current and likely future infrastructure needs of these industries, including access to bandwidth

4.1 Broadband

To be competitive on an international scale the film, television and animation industries must be able to move large quantities of data around the globe at an economically attractive rate. The cost of bandwidth is a key impediment in this creative content industry, with the digital post production area particularly affected.

Incumbent telecommunications providers base their current costs and charges on the model of "steady" streams of data. Unfortunately these industries use large amounts of data that are distributed in bursts. These companies find it difficult to be globally competitive under current business bandwidth pricing packages.

Lowering of the cost of bandwidth for the sector as a whole will also improve the ability of the sector to network various companies and teams. Many Australian post-production practitioners and animators consider relocating to other international production centres as opportunities are becoming limited without access to bandwidth. Retaining this skills base enhances Australia's international competitiveness in this field of post-production. At the same time it also ensures that our practitioners will be able to contribute those high levels of skills to local productions, improving their overall production values.

Post-production companies cannot purchase infrastructure without production demand. The extent to which the Australian creative content industry can contribute is inextricably linked to the cost of delivery. It directly impacts on our ability to compete on a level playing field in a global marketplace.

4.2 High Definition Television Roll Out

SSAV members supported and committed to the Government's visionary High Definition Television Policy. SSAV members geared up on the basis of the original policy timetable. They invested tens of millions of dollars gearing up for the roll out. High-end infrastructure including equipment and services were introduced to support the delivery of high definition creative content.

The production of high definition programmes and willingness to fund such programmes by Australian broadcasters has been very slow. Consumer take up will be driven by access to high definition programming. At present the ability to view or "enjoy" high definition programming is extremely limited. The delay in the broadcasters commissioning high definition programming leaves infrastructure under utilized and this will make the necessary ongoing reinvestment in the technology economically unviable in the immediate future.

To maintain "world's best practice", SSAV members need to be able to service the production of high definition product. We need to speed the process and ensure the broadcasters accept the additional costs and challenges of delivering high definition programming to an audience who still remain unaware of its strengths.

4.3 Recommendations

- SSAV supports any changes in the regulatory environment that would lead to more internationally competitive broadband access and pricing, particularly for the industry's high end users.
- SSAV recommends Film Industry Broadband Resource Enterprise (FIBRE) receive adequate extension funding to be able to continue to develop an aggregated, demand based, ultra broadband network to enable the technical and creative talent in the Australian film production and post production industries to collaborate, working co-operatively locally, to compete globally.
- No further changes are made to inhibit the timing and the introduction of HDTV and a "media" education campaign be launched to fully explain the benefits of HDTV to the public.
- Modify the triple casting requirement of the "free to air" broadcasters. A replication of the same content on all channels appears to be not the most attractive option for either broadcaster or viewer. The analogue/standard definition stream could remain the same, while the HD channel is permitted to present some separate HD content and advertising. This would give the broadcaster a much more economically attractive HD model, whilst at the same time offering the consumer some exclusive HD product and more powerful incentive to invest in the new technology.

5. CAPABILITIES

Reference: g) how Australia's capabilities in these industries, including education and training, can best be leveraged to maximize export and investment opportunities

5.1 Training

If Australia is to maximize the benefit of the investment it has made in the education and training of its graduates in the film, television and animation industries then it must continue to support all recommended measures for growth.

Many graduates, particularly from the Victorian College of the Arts, AFTRS and others have gained recognition internationally. Many of these developed their skills on local productions.

We are seeing some current graduates relocate overseas as we cannot provide sufficient opportunities for them to gain experience in Australia. This creative brain drain will have a long-term impact on the Australian creative content industry. Many experienced practitioners in visual effects are "head hunted" and relocate to other production centers where opportunities are greater and more lucrative.

Economic growth and the creation of new jobs are crucial. The ability to train and 'up-skill' within this significant industry sector is critical to maximizing export and investment opportunities. If we lose the skill base overseas before it can be utilized within our own content creation industries we are certainly not maximizing on our training investment.

Additional support for internships /apprenticeships/attachments within the industry would assist to bridge the gap between the undergraduate skill base and the required industry skills. This is a particularly difficult industry to "break into" and any support in this area would be without doubt beneficial.

5.2 Recommendations

- ABC is funded for additional internships in specialized fields, to return it to the pre-eminent position it once held in the industry as a training institution and a significant source for professionally trained industry practitioners.
- Review apprenticeship and internship opportunities especially designed for the creative content industry sector, taking into consideration the nature of employment in the sector.
- Adopt a whole of government approach for the film, television, animation and games industries. The ability to deliver creative content on a diverse range of media platforms must be concurrently supported.
- Australia's highly acclaimed educational facilities be given sufficient financial assistance to ensure training programs are of the highest standard to deliver "world's best" and to cover all the varied technical and creative disciplines that drive the creative content economy.

6. GOVERNMENT SUPPORTED PROGRAMMES

Reference: h) whether any changes should be made to existing government support programmes to ensure they are aligned with future opportunities and trends in these industries

6.1 The International Export Marketplace

SSAV members proactively seek to sell their services in the international marketplace. Many spend several years developing relationships in new markets, particularly in Asia and specifically in China and Korea. The ability to export creative content skills and services is essential to the growth of the sector. SSAV members have been successful in achieving growth in the export of their services and would benefit greatly from further government support of their export initiatives.

6.2 Taxation

The delivery of clear and consistent tax policy is essential for industry growth.

It is important that the ATO work with industry bodies and other relevant bodies to produce clear and concise guidelines, policies and processes to ensure that the taxation support mechanisms are marketed successfully to both the local and overseas markets. ATO representatives should be available to attend as part of industry delegations to overseas markets to provide supportive encouragement to international producers. These representatives could also act as facilitators with any dealings with the ATO.

Once a taxation support policy is adopted it is in the interests of all parties to make sure that it functions correctly. There is no gain if the ATO takes the view that all support mechanisms are a potential loss to the revenue and treats them as such. Once in place the mechanisms need to be clearly endorsed. The return on these taxation concessions is an Australia that gains both culturally and economically.

6.3 Recommendations

- Increase the total funds available for Export Market Development Grants. Current “refinements” to the system appear to be means to “eke” out the static amount of funds available in the face of an increasing demand by business for those same funds.
- Ensure Austrade Business Development Managers have appropriate knowledge and skills to assist in expanding in film, television, new media export opportunities.
- Allocate specific taxation representatives to the film, television and animation sector as direct support for the industry, including attendance at world film, television and animation markets to “sell” the tax benefits as part of the whole package.
- Lower the tax rate to 25% (as per the capital gains tax for individuals) for returns made on film investment in addition to the 100% deduction available for funds invested under 10BA.