

Film Inquiry

Submission No. 70.....

FILM FINANCE CORPORATION AUSTRALIA LIMITED

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

**Submission to
The House of Representatives Standing Committee on Communications,
Information Technology and the Arts
July 2003**

About the FFC

The FFC is the Commonwealth Government's principal agency funding the production of film and television in Australia. It is a wholly owned Government company, currently on a triennial appropriation of \$60.5 million per year.

Since its establishment the FFC has invested in 819 projects with a total production value of \$1.88 billion. These include:

- the box office hits *Crackerjack*, *Lantana*, *The Man Who Sued God*, *Rabbit-Proof Fence*, *Looking For Alibrandi*, *The Wog Boy*, *Chopper*, *Two Hands*, *Shine*, *Strictly Ballroom*, *The Adventures Of Priscilla: Queen Of The Desert*, *Muriel's Wedding*.
- high rating television dramas such as *White Collar Blue* (telemovie pilot), *Heroes' Mountain – The Thredbo Story*, *Blue Murder*, *Halifax f.p.*, *The Potato Factory*, *Brides Of Christ*
- award-winning children's television series such as *Thunderstone*, *Ocean Girl* and *Round The Twist*
- diverse and acclaimed documentaries including *Black Chicks Talking*, *Much Ado About Something*, *A Wedding In Ramallah*, *Railway Adventures Across Australia*, *Diving School*, *Year Of The Dogs*, *The Human Journey* and the large format *Antarctica*.

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1. EXECUTIVE SUMMARY

The Film Finance Corporation Australia (FFC) welcomes this opportunity to make a submission to the Inquiry into the Future Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries.

This submission deals specifically with the areas of production financed by the FFC (feature films, mini-series, telemovies and documentaries). However, the FFC also supports the submission of the Australian Film Commission, which covers a broader range of issues relating to film, animation, special effects and digital technologies, including broadband.

Australia's independent producers, directors, writers and all those who contribute to the production of Australian film and television programs have achieved a great deal over three decades with the assistance of government. When the resurgence of the Australian film industry began in the 1970s, filmmakers could barely have imagined how much would be achieved by 2003.

Australia now boasts more actors of international renown than any country other than the United States: Academy Award winners Russell Crowe, Nicole Kidman, Geoffrey Rush; Academy Award nominees Cate Blanchett, Naomi Watts, Toni Collette, leading actors Heath Ledger, Hugh Jackman, Guy Pearce, Martin Henderson, Eric Bana, Rachel Griffiths, Frances O'Connor, Rose Byrne. Not to forget our sought-after directors (the likes of Peter Weir, Baz Luhrmann, P.J.Hogan, Fred Schepisi, George Miller, Gillian Armstrong), our internationally celebrated cinematographers (three of whom have won Academy Awards), and the many world-class writers and editors who have come up through the ranks of the Australian industry.

The benefits to the Australian public of a successful industry are great. They range from the enjoyment and interest created by popular films such as *Lantana* and *Crackerjack*, to the economic benefits that accrue when high-budget American films such as *The Matrix* and *Star Wars* shoot in Australia using local cast, crew and facilities. At the international level, our films and filmmakers become global ambassadors for Australia, conveying the message that we are a creative and technically sophisticated country, not simply an exporter of natural resources and home to exotic animals and landscapes.

But despite the considerable achievements of our filmmakers, the industry is currently facing major challenges that will determine whether it flourishes or declines over the next decade.

One of these is the need to achieve structural change. The film production sector remains largely a cottage industry, with producers valiantly developing scripts on minute budgets and having little or no income to sustain them between films.

World events over the past few years – September 11th, the collapse of the Neuermark, and others – have seen producers' financial situation deteriorate even further. With the international pre-sale market collapsing and foreign distributors reluctant to commit in any meaningful way to independent films until completion, the avenues for distribution finance for Australian producers have greatly declined.

But it is not too late for the industry to take stock and move onto a more sustainable footing. There are many resources available to Australian producers that can be embraced and used to build a healthier industry.

The advantages Australia has at its fingertips include:

- actors of International renown
- directors acceptable to distributors worldwide
- crews equal in standard to the US and any European country
- a high quality production infrastructure
- government support through direct subsidy
- government support through local content regulations
- tax incentives for Australian films.

Australia would be in a stronger position to capitalise on these factors if it could unlock one of the most important aspects of the business – development (R & D). The FFC cannot fund development, but it supports and encourages the other federal and state funding bodies in their efforts to increase their development spend.

Producers need access to enough development funding to have a three-year corporate plan allowing for thorough development of scripts and interface with the international marketplace, to forge relationships and test receptiveness to their slates. The concentration of such financing would greatly increase the chance of strong stories with engaging characters coming to fruition.

In terms of production, the FFC believes that private sector investment is an important key for the long-term survival of the industry. Film production budgets have risen steeply since the mid 1990s, while government funding has remained relatively static. Without a shift in direction the inevitable result of this will be a decline in the number of projects produced, placing at risk the critical mass needed to sustain an industry.

The FFC is currently exploring ways to maximise the value of its limited funds by tapping into private sector investment, including the investors eligible for deductions under the 10BA tax incentive scheme.

The major outcomes that could be achieved through the local film and television production industry tapping into private sector investment are:

- an increase in the level of total annual production

- the development of viable, more professional film production companies through a higher volume of production
- a greater capacity, through the development of adequately resourced production companies, to develop strong scripts
- a greater capacity to produce some higher budget films featuring top Australian cast and directors with international appeal
- better access to international distribution and revenues, including co-production finance, through the increased capacity of the industry to support higher budget productions

Private sector investment is one part of the solution, but continued government support is also crucial. As a national market outside any natural trading bloc such as the Europe or North America, Australia needs strong and flexible support from government for film and television production now and in the future.

One of the potential risks to continued government support is the recent proliferation of multilateral and bilateral free trade negotiations in which Australia participates.

The current US/Australia Free Trade Agreement negotiations are a point of particular concern. As the world's leading audiovisual producer, the US believes it has much to gain by eroding regulation measures in other countries and is prepared to use the free trade negotiations with Australia to win precedents that could be used in negotiations with more lucrative markets in Europe.

However, the risk presented by the free trade agenda can be overcome by a strong commitment on the part of the Australian Government to preserve its ability to regulate in the area of audiovisual production to achieve cultural and social outcomes.

Given the importance of the film and television industry in establishing national identity, the Government is standing on firm ground when it asserts its right to maintain current regulations and to introduce new regulations in the future as the need arises. Future conditions may alter substantially with the take-up of digital technologies and the Government must protect its rights to respond to change.

A list of the FFC's recommendations to the Inquiry is contained in Section Six (p.23) of this submission.

2. THE CURRENT SIZE AND SCALE OF AUSTRALIA'S FILM INDUSTRY

- The Australian film and television production industry sits within an international industry dominated by a small number of diversified global production/distribution corporations, mainly headquartered in the US. The size of some of these organisations is indicated by the table below:

Top 10 entertainment companies worldwide ranked by 2001/02 revenue

| Rank | Company | Location | 2001/02 Revenue (\$ billion) |
|------|-------------------|------------|------------------------------|
| 1 | AOL Time Warner | USA | 38.234 |
| 2 | Walt Disney | USA | 25.400 |
| 3 | Vivendi Universal | France/USA | 24.500 |
| 4 | Viacom | USA | 23.222 |
| 5 | Bertelsmann | Germany | 17.800 |
| 6 | News Corp | USA | 15.200 |
| 7 | AT&T Broadband | USA | 9.800 |
| 8 | Comcast | USA | 9.674 |
| 9 | Sony | Japan/USA | 9.614 |
| 10 | Cox Enterprises | USA | 8.700 |

Source: *Variety*, August 26 to September 2, 2002.

- With the exception of the US and India, no national film industries exist without government support. Film subsidies in Europe have mushroomed to the point where government agencies within the European Union are outlaying in the vicinity of US\$1.85 billion per year¹ (including direct outlays and tax revenues foregone).
- Federal and state government agencies in Australia outlay in the vicinity of AUD\$140 million per year to the film and television industry². This is supplemented by tax-based assistance through the 10BA and 10B tax incentive schemes, as well as the new refundable tax offset for higher budget films shot in Australia.
- Australia has developed a multi-tiered production sector in recent years, with relatively low budget local film and television production (eg *Crackerjack*, *Lantana*, *Heroes' Mountain – The Thredbo Story*) taking place alongside an increasing amount of higher-budgeted foreign production (*The Matrix Reloaded*, *Star Wars*) and international co-production (eg *The Lost World*, *Farscape*). There are also a tiny number of higher budget Australian productions financed by foreign companies – most recently, *Ned Kelly* and *Moulin Rouge*.

¹ Source: *Variety Deal Memo*, February 24, 2003. This includes expenditure on training and archiving as well as production.

² *Film Agency Funding in Australia*, Australian Film Commission, 2002.

- Overall production levels in Australia have increased each year since the mid-1990s, with the greatest growth occurring in foreign and international co-productions. In 2001/02³:
 - Total expenditure on feature films and TV drama in Australia (including offshore production) was up eight per cent on the previous year, to \$662 million.;
 - The value of Australian drama production increased by seven per cent, to \$343 million.

2.1 Australian film and television production

- With its small population, and small revenue base, the Australian market cannot fully finance the more expensive program formats (typically feature films, mini-series, telemovies and documentaries). Producers of these formats generally rely to some extent on government assistance to raise their full budgets.
- The local production industry is characterised by boutique film production companies that are generally under-capitalised, and a handful of larger diversified production/distribution companies specialising in television production (eg. Southern Star, Beyond). Australian film and television programs compete for distribution and audiences with those of the major global entertainment companies.
- The local content quotas imposed on Australia's commercial television networks by the Government are vital to the health of the local industry. Without these, the networks could substitute American programs purchased at much lower prices for Australian programs. The current Free Trade Agreement negotiations between Australia and the US have created considerable anxiety within the production sector that the US will put pressure on the Australian Government to remove the quotas. However, our Government has stated repeatedly that it will not relinquish its right to regulate for cultural and social outcomes through such measures as local content quotas and production subsidies.
- Subscription (pay) television has also become a significant investor in production since the introduction of the requirement that pay TV drama channels spend 10 per cent of their total expenditure on new Australian programs. The Australian Broadcasting Authority (ABA) recently reviewed this regulation and the industry is awaiting a decision from the Government as to whether there will be amendments following the review. Also, the Government has yet to make its decision as to whether documentary channels should meet a similar requirement for local content.
- The FFC is a major source of finance for the local film and television production industry. In 2001/02, FFC investments triggered a production slate representing

³ Australian Film Commission, *National Survey of Feature Film and TV Drama Production 2000/01*.

about 32 per cent of the value of all Australian film and television drama produced in that year (including in-house series and serials production by the free-to-air networks).

- A relatively new but influential player in film and television financing in Australia is Macquarie Nine Film & Television, which entered the market for the first time in 2001/02 with a prospectus that raised \$23.5 million from private investors eligible for tax deductions under 10BA and 10B. Macquarie Nine raised \$20 million with its 2002/03 prospectus. In general, the Macquarie Nine offers give priority to television drama over feature films.

2.2 Offshore production

- Offshore production in Australia received a boost in 2002/03 with the introduction of the Government's 12.5 per cent refundable tax offset. Films with Australian expenditure of \$15-50 million must spend 70 per cent of their total expenditure in Australia to qualify, while films that spend more than \$50 million here do not have to meet the 70 per cent requirement. In most cases, the budgets of local film and television productions are too low to qualify for this offset (an exception to this was the UK/US financed feature *Ned Kelly*).

Currently only feature films, telemovies and mini-series qualify for the tax offset, but AusFILM – the body responsible for encouraging screen production in Australia – has called for the tax benefit to be extended to high budget television series. The Government is currently considering AusFILM's submission.

2.3 Program Categories Financed by FFC

- Producers of all the program formats funded by the FFC – feature films, telemovies, mini-series, and documentaries – are operating in a market where production budgets have increased markedly since the mid-1990s, while at the same time, international opportunities for financing and earning sales revenues have diminished significantly.

(i) Feature films

- Australian production budgets across all program formats, but in particular feature films, have risen dramatically since the mid-1990s. Factors contributing to the increase include:
 - greater use of 'marquee' elements (internationally recognised actors and directors) to maximise international and domestic sales potential;
 - high budget offshore productions (eg *The Matrix Reloaded*) pushing up the cost of local production (the average budget of a US studio feature is over US\$50 million);
 - an increase in below-the-line costs, particularly insurance premiums, location fees and delivery items (eg DVDs).

- Mitigating against this cost spiral to some degree is digital production technology and the potential it offers for reducing budgets. In 2002/03, the FFC signalled its support for Australian producers' efforts to explore digital avenues by investing in two low budget Australian 'digifeatures' from *Matrix* producer Andrew Mason.
- Another factor providing some relief for Australian producers unable to access international funds is increased interest from Australian buyers. Local hits such as *Crackerjack* and *Lantana* have awakened new competition amongst theatrical distributors in the domestic market to secure the rights to certain Australian films. Likewise, with domestic TV ratings for some Australian films exceeding those of US studio movies (eg *Looking for Alibrandi*'s recent ratings win over *Gladiator*), Australia's commercial networks have begun to get involved in the financing of local features (eg. Nine with *Dirty Deeds* and *Gettin'Square*; Ten with *Takeaway* and *Bad Eggs*).
- In a small number of cases, Australia's internationally successful actors and directors are returning to Australia to work. Oscar-nominated actor Toni Collette recently returned to film the FFC-financed feature *Japanese Story*, which has since been selected to screen at the Cannes Film Festival; Hollywood-based director Phillip Noyce (*The Bone Collector*, *Clear and Present Danger*) moved back to Australia in 2001 to make *Rabbit-Proof Fence*; Fred Schepisi (*Last Orders*, *Six Degrees of Separation*, *Roxanne*) plans to make *Hitches*, which will be his first Australian feature since the 1980s. The feature films these sought-after personnel work on are typically in the higher budget range (ie. over \$6 million) and have enhanced potential to compete in the international market.
- Lower budget Australian features without marquee elements are considered risky by the market and are finding it difficult to secure the co-finance needed to trigger FFC investment. These films must be supported, however, as it is from these projects that Australia's future talents will emerge.

(ii) *Television drama (mini-series, telemovies, children's drama series)*

- Australia's traditional overseas markets for adult drama (telemovies, mini-series) have been producing more of their own local TV drama since the mid to late 1990s, as well as buying more American programs, with the result that international sales of Australian programs have slumped.
- On the domestic front, Australian free-to-air broadcasters have become increasingly interested in co-financing local telemovies. They can premiere these movies on free-to-air, providing a potentially high-rating alternative to US theatrical movies that have been seen in cinemas, on video/DVD and pay television by the time they screen on free-to-air TV.

- Unlike adult drama, children's drama continues to attract interest from overseas buyers, although such opportunities are diminishing as overseas markets continue to gear up their own producers.
- Australia's free-to-air broadcasters typically pay a relatively small percentage of the production budget of FFC-financed adult and children's drama, despite the formats being very expensive to produce.

(iii) Documentaries

- Opportunities do exist to sell Australian documentaries to the international market and local producers have become increasingly adept at doing so.
- However, Australia is not well placed to take advantage of the increased international demand for 'high end' documentary series (eg *Walking With Dinosaurs*, *The Blue Planet*, *Elizabeth*), which are not being commissioned by Australia's broadcasters because they are considered too expensive. The result is that our local broadcasters are screening more foreign documentaries in their prime-time series slots.

3. THE ECONOMIC, SOCIAL AND CULTURAL BENEFITS OF THE INDUSTRY

Australia's independent producers, directors, writers and all those who contribute to the production of Australian film and television programs have achieved a great deal with the assistance of government over the past three decades.

The 'new wave' of '70s films (eg. *Picnic At Hanging Rock*, *My Brilliant Career*) was followed by such '80s blockbusters as *Mad Max* and *Crocodile Dundee*, and then the urban hits of the '90s, including *Strictly Ballroom*, *Muriel's Wedding* and *Shine*. The diverse styles and genres of recent box office hits – including *Lantana*, *Crackerjack*, *The Dish*, *Looking For Alibrandi*, *The Wog Boy*, *Rabbit-Proof Fence* and *Moulin Rouge* – demonstrate the depth of technical skill and creative talent within the Australian industry in this new decade.

In portraying ourselves to the world and each other, we inevitably choose images from Australian films. The major tributes in the Opening and Closing Ceremonies of Sydney's Olympic Games to such films as *Strictly Ballroom*, *Crocodile Dundee* and *The Man From Snowy River* showed the powerful contribution of film and television in defining Australian identity.

The benefits to Australia of having a successful production industry are diverse, ranging from the enjoyment and interest created by popular films like *Lantana* and *Crackerjack*, to the economic benefits that accrue when high-budget American films shoot in Australia using local cast and crew.

3.1 Australians Watching Australian Stories

There is no doubt that Australians enjoy watching Australian-made stories that capture their imagination. Whether it is a feature film on the big screen or a drama or documentary on television, our sense of cultural identity is strengthened by having access to Australian screen stories.

The table below looks at the combined theatrical and video audience for the four FFC-financed feature films that were released both theatrically and on video during 2001/02.

Table 3.1.1: FFC financed feature films released from 1 July 2001 to 30 June 2002.

| Title | Theatrical Market | | Video Market | | Total Audience |
|---|-------------------|-----------|----------------------|-----------|----------------|
| | Gross Box Office | Audience | Rental Units Shipped | Audience | |
| <i>Lantana</i> | 12,296,976 | 1,400,567 | 33,000 | 2,485,890 | 3,886,457 |
| <i>The Man Who Sued God</i> | 8,546,867 | 973,447 | 39,590 | 2,761,403 | 3,734,850 |
| <i>The Bank</i> | 2,519,895 | 287,004 | 18,750 | 1,255,500 | 1,542,504 |
| <i>He Died with a Felafel in his Hand</i> | 612,550 | 69,767 | 4,900 | 410,130 | 479,897 |
| <i>Let's Get Skase</i> | 225,009 | 25,627 | 4,800 | 441,936 | 467,569 |

The most successful title, *Lantana*, was seen by 3.89 million Australians in 2001/02, through its combined theatrical and video release. *The Man Who Sued God* was a particularly popular title on video, reaching a combined theatrical and video audience of 3.73 million Australians. The total audience for these films will rise still further as they screen on pay and free-to-air television.

Table 2.1.2 (below) looks at the audiences attracted by recently screened 'high end' television dramas (telemovies and mini-series). It features FFC-financed telemovies and mini-series that premiered on free-to-air TV in 2001/02.

Table 3.1.2: Ratings and peak audience numbers for FFC financed adult drama programs screened from 1 July 2001 to 30 June 2002

| ADULT DRAMA | | | | |
|---|---------|-------------------|---|----------------------------|
| Title | Network | Date of Screening | Peak Rating Capital Cities ⁴ | Peak Audience ⁵ |
| <i>Heroes' Mountain - The Thredbo Story</i> | Ten | 10-Mar-02 | 17-23 | 1,487,032 |
| <i>Do or Die</i> (Ep 1) | Seven | 8-Jul-01 | 12-18 | 1,234,856 |
| <i>Do or Die</i> (Ep 2) | Seven | 9-Jul-01 | 16-19 | 1,234,856 |
| <i>Halifax f.p 6 - Playing God</i> | Nine | 25 Nov-01 | 15-19 | 1,140,959 |
| <i>Halifax f.p 6 - Scorpion's Kiss</i> | Nine | 21 Oct-01 | 18-22 | 904,089 |
| <i>The Road From Coorain</i> | ABC | 3-Mar-02 | 10-16 | 952,230 |
| <i>Secret Bridesmaid's Business</i> | ABC | 9-Jun-02 | 8-16 | 819,336 |
| <i>Blue Murder</i> (Ep 2) | ABC | 1-Aug-01 | 21 (Sydney) | 413,557 (Sydney only) |
| <i>Blue Murder</i> (Ep 1) | ABC | 31-Jul-01 | 19 (Sydney) | 378,542 (Sydney only) |

Source: ratings from A.C. Nielsen

Almost 1.5 million Australians⁶ tuned into the most popular show – *Heroes' Mountain: The Thredbo Story*, a dramatic recreation of events surrounding the rescue of Stuart Diver.

During the same period (2001/02), the highest rating FFC-financed documentary was the two-part *In The Shadow Of The Shark*, which achieved a peak audience of 1.1 million viewers. The documentary *Kimberley Cops*

⁴ These are the lowest and highest peak household ratings recorded in the capital cities.

⁵ Peak audience shows the maximum number of viewers across all capital cities who tuned into the program.

⁶ This is the peak audience, which indicates the maximum number of viewers across all capital cities who tuned into the program.

attracted just over 986,000 viewers, and 900,000 viewers tuned into the most popular episode of the series *The Battleships*.

3.2 Critical Acclaim

Popular appeal is not the only measure of the value of the local industry. The critical acclaim generated by Australian programs on the festival circuit creates valuable recognition of Australia as a creative contributor to culture at the global level.

A recent example of such achievement was the FFC-financed feature film *Beneath Clouds*, made by first-time feature director Ivan Sen. While *Beneath Clouds* played mainly to small, arthouse audiences in Australia, Sen was selected by the prestigious Berlin Film Festival as the recipient of the Premiere First Movie Award in 2002. The film's lead actress Dannielle Hall also won the Berlin Festival's New Talent Award for Best Young Actress.

Commenting on the award to Sen for *Beneath Clouds*, the Berlin jury declared the film to be "an outstanding work that utilises all cinematic elements with great discipline and artistry to touch our souls".

Australian films have won many top international awards. Listed below are FFC-financed films which have won awards, or been selected to screen, at the world's most prestigious festival, the Cannes Film Festival:

- 1996 *Love Serenade*, winner Camera d'Or [d. Shirley Barrett]
- 1992 *Strictly Ballroom*, winner Prix de la Jeunesse [d. Baz Luhrmann]
- 1994 *The Adventures of Priscilla, Queen of the Desert*, winner Prix du Publique [d. Stephan Elliott]
- 1999 *Amy*, winner Prix Education Nationale and the Grand Prix Cannes Junior [d. Nadia Tass]
- 1999 *Siam Sunset*, winner Rail d'Or [d. John Polson]
- 2003 *Australian Rules*, winner Prix Special du Jury prize at Cannes Junior [d. Paul Goldman]
- Other FFC films selected to screen In Competition at Cannes: 1993 *Frauds* [d. Stephan Elliott]; 1997 *The Well* [d. Samantha Lang]
- FFC films screened in Un Certain Regard at Cannes: 1993 *Bedevil* [d. Tracey Moffatt]; 2003 *Japanese Story* [d. Sue Brooks]

Australians have also won two Academy Awards for their work on FFC-financed Australian films:

- 1996 Geoffrey Rush, Best Performance by an Actor in a Leading Role: *Shine*
- 1994 Lizzie Gardiner and Tim Chappel, Best Costume Design: *The Adventures of Priscilla, Queen of the Desert*

3.3 Australians Working on Foreign Productions

It is a reality for national film industries around the world that their most successful creative talents (particularly actors, directors and cinematographers) are often recruited by Hollywood once they have made a successful feature film. The positive side of this inevitable talent drain is that such accomplished Australians – eg Cate Blanchett, Toni Collette, Peter Weir, Russell Crowe, Baz Luhrmann – earn international acclaim for their country through their work on overseas productions. This positive international profile can have spin-off benefits for Australia in a wide range of fields from investment and tourism to diplomatic relations.

The table below tracks recent the international projects of key creative personnel who have worked on Australian films financed by the FFC.

Table 3.3 High profile international productions produced/released 1 July to 31 Dec 2002, featuring Australians who have worked on FFC financed films.

| Australian | Role | International Production/s (produced/released 1 July-31 Dec 2002) | FFC credits include |
|-------------------|-----------------|--|---|
| Toni Collette | Actor | <i>The Hours, About a Boy</i> | <i>Muriel's Wedding, Dirty Deeds</i> |
| Naomi Watts | Actor | <i>The Ring</i> | <i>Strange Planet</i> |
| Martin Henderson | Actor | <i>The Ring</i> | <i>Kick</i> |
| Cate Blanchett | Actor | <i>Lord of the Rings – The Two Towers, Heaven</i> | <i>Thank God He met Lizzie, Oscar and Lucinda</i> |
| Miranda Otto | Actor | <i>Lord of the Rings – The Two Towers</i> | <i>Doing Time for Patsy Cline, Dead Letter Office</i> |
| David Wenham | Actor | <i>Lord of the Rings – The Two Towers</i> | <i>The Bank</i> |
| Hugo Weaving | Actor | <i>Lord of the Rings – The Two Towers, The Matrix: Reloaded</i> | <i>Priscilla Queen of the Desert, The Interview</i> |
| Andrew Lesnie | Cinematographer | <i>Lord of the Rings – The Two Towers</i> | <i>Doing Time for Patsy Cline</i> |
| Rose Byrne | Actor | <i>Troy, Star Wars – Attack of the Clones</i> | <i>Two Hands, The Goddess of 1967</i> |
| Joel Edgerton | Actor | <i>Star Wars – Attack of the Clones</i> | <i>The Hard Word, Praise</i> |
| Susie Porter | Actor | <i>Star Wars – Attack of the Clones</i> | <i>Welcome to Woop Woop, Two Hands</i> |
| Paul Brincat | Sound Engineer | <i>Star Wars – Attack of the Clones</i> | <i>Love in Ambush, Hildegard</i> |
| John Polson | Director | <i>Swim Fan</i> | <i>Siam Sunset</i> |
| Christopher Doyle | Cinematographer | <i>The Quiet American</i> | <i>Rabbit-Proof Fence</i> |
| John Scott | Editor | <i>The Quiet American</i> | <i>Map of the Human Heart, Rabbit-Proof Fence</i> |

| | | | |
|-------------------|---------------------|--|--|
| Geoffrey Rush | Actor | <i>Frida, The Quiet American, The Banger Sisters</i> | <i>Shine, Lantana</i> |
| Rachel Griffiths | Actor | <i>The Rookie</i> | <i>Muriel's Wedding Cont.</i> |
| Cont. Louis Nowra | Writer | <i>The Widowmaker K19</i> | <i>Cosi, Map of the Human Heart</i> |
| Noah Taylor | Actor | <i>Tomraider 2</i> | <i>The Nostradamus Kid, He Died with a Felafel In His Hand</i> |
| Alex Dimitriadis | Actor | <i>Ghost Ship</i> | <i>Heartbreak Kid, Head On</i> |
| Roger Ford | Production Designer | <i>The Quiet American</i> | <i>Sirens, Rabbit-Proof Fence</i> |
| Baz Luhrmann | Director | <i>Alexander the Great</i> | <i>Strictly Ballroom</i> |
| Dion Beebe | Cinematographer | <i>Chicago</i> | <i>Praise</i> |
| David Lee | Sound Recordist | <i>Chicago, The Matrix - Reloaded</i> | <i>Muriel's Wedding</i> |
| Luciana Arrighi | Production Design | <i>Possession</i> | <i>Oscar and Lucinda</i> |
| Eric Bana | Actor | <i>Hulk, Troy</i> | <i>Chopper</i> |
| Kestie Morassi | Actor | <i>Darkness Falls</i> | <i>The Hard Word</i> |
| Emily Browning | Actor | <i>Darkness Falls</i> | <i>The Man Who Sued God</i> |
| Jill Bilcock | Editor | <i>Road to Perdition</i> | <i>Muriel's Wedding, Head On</i> |

3.4 Offshore Production

Another benefit of having a healthy local production industry is that it fosters the creative talent and infrastructure that makes Australia an attractive location for high-budget offshore productions. In 2001/02, a total of \$216 million was spent by foreign drama productions in Australia.

The table below lists some of the recent foreign productions filmed in Australia.

Table 3.4: major offshore productions shot in Australia in 2002

| Title | Format | Production Company | Location |
|-------------------------------|-----------|---------------------------------------|----------|
| <i>Farscape Series 4</i> | TV series | Jim Henson Co/Sci Fi Channel | NSW |
| <i>George of the Jungle 2</i> | Feature | Walt Disney Pictures | Qld |
| <i>Ghost Ship</i> | Feature | Warner Bros/Village Roadshow Pictures | Qld |
| <i>Hollywood</i> | Feature | Ramu Enterprises | Qld |
| <i>Inspector Gadget 2</i> | Feature | Walt Disney Pictures | Qld |
| <i>Junction Boys</i> | Telemovie | Orly Adelson Productions | NSW |
| <i>Lost in Oz</i> | TV pilot | Warner Bros Television/ Coote Hayes | Qld |
| <i>Peter Pan</i> | Feature | Revolution | Qld |

| | | | |
|-----------------------------------|-----------|--|-----|
| | | Studios/Sony/ Universal | |
| <i>Road</i> | Feature | Varma Corporation | SA |
| <i>Seconds to Spare</i> | Telemovie | Carlton America | Qld |
| <i>The Great Raid</i> | Feature | Marty Katz Productions/ Miramax | Qld |
| <i>The Kelly Gang</i> | Feature | Working Title/Universal | Vic |
| <i>The Matrix Revolutions</i> | Feature | Silver Pics/Village Roadshow/Warner | NSW |

4. FUTURE OPPORTUNITIES FOR FURTHER GROWTH IN THE FILM AND TELEVISION PRODUCTION INDUSTRY

4.1 Tapping into Private Sector Investment

The FFC is exploring ways to maximise the value of its limited funds by tapping into private sector investment.

The FFC currently contributes, on average, 50-65 per cent of the budget of programs in which it invests, with the remainder coming from distributors, sales agents and broadcasters. It is seeking to reduce the level of its contribution to 30-40 per cent of budget, which would spread FFC funds across a greater number of projects and generate a higher volume of total annual production.

As it is difficult to leverage more finance from market partners such as distributors and sales agents, the FFC is looking towards partnerships with private investors eligible to utilise such tax incentive schemes as 10BA.

The 10BA tax incentive scheme was the main vehicle for financing film and television in the 1980s. It was intended to support a sustainable industry but through lack of checks and balances, the opportunities it offered were sometimes abused and investors were ultimately left disillusioned. However, there is now a very real opportunity to use 10BA in its current form in a way that would provide the appropriate checks and balances – that is, by aligning 10BA investment with the FFC.

Starting in 2003/04, the FFC is trialling a financing model whereby it will put up a distribution guarantee of 60 per cent of the finance provided by private investors (eg. investors eligible to claim 10BA tax deductions). This model is most likely to appeal to high net worth individuals willing to put their funds at risk with the incentive of a minimum guarantee.

The success of this funding model will depend partly on developing positive perceptions in investment circles regarding private investment in film and television. Having a reputable and experienced body such as the FFC providing

guarantees is likely to assist in turning around any negative perceptions that date back to the 1980s.

Secondly, the fact that the FFC's annual appropriation from Government is capped (currently at \$60.5 million) will provide a natural cap on the total amount of any funds raised for co-investment with the FFC under 10BA. This was not the case in the 1980s, when the scheme provided much higher rates of deduction than it does currently.

It is essential for the FFC to have the support of its shareholder, the Commonwealth Government, in pursuing this film financing route. The Ministers for Communications and the Arts, who have responsibility for the FFC, have given their initial support for piloting the new financing model. The FFC will also be seeking meetings with other Government portfolios this financial year, including the Tax Office, to generate further support for its innovative financing proposals.

The major outcomes that could be achieved through the local film and television production industry tapping into private sector investment are:

- an increase in the level of total annual production
- the development of viable, more professional film production companies through a higher volume of production
- a greater capacity, through the development of adequately resourced production companies, to develop strong scripts
- a greater capacity to produce some higher budget films featuring top Australian cast and directors with international appeal
- better access to international distribution and revenues, including co-production finance, through the increased capacity of the industry to support higher budget productions

4.2 Flexible Government Support

As discussed earlier in this submission, no national film industries, with the exception of the US and India, exist without government support. Film subsidies in Europe are now to the point where government agencies within the European Union are outlaying in the vicinity of US\$1.85 billion per year⁷.

As a national market outside any natural trading bloc such as the Europe or North America, Australia needs strong and flexible support from government for

⁷ Source: *Variety Deal Memo*, February 24, 2003. This includes expenditure on training and archiving as well as production.

audiovisual production now and in the future. Government support currently includes the following measures:

- (i) direct subsidy
- (ii) local content regulations for free-to-air and pay television
- (iii) tax incentives for film and television production

Without these support measures the Australian industry would not have achieved the success it has to date and without their continuation, the industry is unlikely to flourish in the future.

One of the potential risks to such support measures is the proliferation of multilateral and bilateral free trade negotiations in which Australia participates. The current US/Australia Free Trade Agreement negotiations are a point of particular concern. As the world's leading audiovisual producer, the US believes it has much to gain by eroding regulation measures in other countries and is prepared to use the free trade negotiations with Australia to win precedents that could be used in negotiations with more lucrative markets in Europe.

However, the risk presented by the free trade agenda can be overcome by a strong commitment on the part of the Australian Government to preserve its ability to regulate in the area of audiovisual production to achieve cultural and social outcomes.

Given the importance of the film and television industry in establishing national identity, the Government is standing on firm ground when it asserts its right to maintain current regulations and to introduce new and different regulations in the future as the need arises. Future conditions may alter substantially with the take-up of digital technologies and the Government must protect its ability to respond to change.

A refusal to 'trade away' the ability to regulate cultural mediums such as film and television is a stance being taken by many other countries outside the US, particularly France and Canada. Maintaining the Australian Government's commitment to flexible regulation in the face of such pressure will be a key to the future success of the industry.

5. CHANGES TO EXISTING GOVERNMENT SUPPORT PROGRAMS TO ALIGN WITH FUTURE OPPORTUNITIES

While the FFC fully recognises the value of the significant support measures currently provided by the Government for the Australian film and television industry, we wish to take this opportunity to recommend some fine-tuning of existing mechanisms.

5.1 Regulate Pay TV Documentary Channels

Subscription (pay) television has become a significant investor in Australian feature film and TV drama production since the introduction of the requirement that pay TV drama channels spend 10 per cent of their total expenditure on new Australian programs. However, there is no such regulation in the case of pay TV documentary channels.

The FFC made a submission to the ABA's Investigation into Expenditure Requirement for Pay TV Documentary Channels in October 2000, and to the ABA's Review of Local Content on Subscription Television in 2003, recommending in both submissions the introduction of an expenditure requirement for documentary channels. We wish to restate this position as no decision on this matter has yet been announced.

As an important player in our media environment, pay TV documentary channels should be subject to content regulation by the same rationale that applies to pay TV drama channels and free-to-air broadcasters.

Despite increasing revenues from both subscriptions and advertising, the pay TV documentary channels have expressed, in discussions with the FFC, an unwillingness to collaborate in the co-financing of Australian documentaries, saying that they have little or no real budget to do so. It appears that their overseas-based parent companies frequently control the commissioning budgets of these subsidiary channels and are unwilling for them to invest in local production.

The only contribution by Australian pay TV channels to FFC-financed documentaries has been in the form of acquisition after production (which is usually cheaper than investing before production). Acquisition prices are low – usually under \$3000 per hour, and rarely above \$6000 per hour, whereas the production budget of a one-hour documentary usually ranges from \$250,000 to \$450,000.

It is useful to compare the contribution of the (regulated) pay TV drama channels with the (unregulated) documentary channels. Pay TV's total investment in FFC-financed drama (features and TV drama) has been approximately \$22.6 million, plus an additional amount for acquisitions. By contrast, pay TV's total expenditure on FFC-financed documentaries during the

same period has only been about \$144,000. The free-to-air networks also spend much more on documentary: in the last financial year (2002/03), the free-to-air networks expended \$4.09 million on FFC-financed documentaries.

These comparisons shows clearly that left to their own devices, the documentary channels will go for the much cheaper option of imported programming.

We have a vibrant documentary production sector in Australia making, on average, 600 hours of programming annually, on a wide range of subjects encompassing all the program niches sought by pay TV channels. Australian documentaries are internationally acclaimed and sell to the world's major cable and free-to-air broadcasters, including the BBC and Channel Four (UK), ZDF and Arte (Germany), PBS (US) and NHK (Japan).

Australian documentaries have the potential to rate highly with Australian audiences. Programs such as *Railway Adventures Across Australia*, *Shadow of the Shark*, *Diving School* and *The Human Journey* have achieved particularly high audience levels, peaking at 1.5 to 2 million viewers each.

Considering all the above, the FFC recommends that a minimum expenditure requirement of no less than 20 per cent should apply to pay TV documentary channels. The 20 per cent expenditure requirement should yield a minimum of 10 hours of new eligible programming per documentary channel in the first year, moving to 20 hours in the following two years.

5.2 Extend the Tax Offset to Television Production

In 2002, the Australian Government introduced a 12.5 per cent refundable tax offset for feature films, telemovies and mini-series with a minimum Australian expenditure of AUD\$15 million. The offset was welcomed by the Australian film and television industry and has boosted the production of foreign feature films in Australia.

The offset does not apply to television series. Also, the 'bundling' of telemovies and straight-to-video films in order to meet the minimum expenditure requirement is not permitted.

According to AusFILM, the body responsible for promoting Australia as a production location, bundling telemovies, and requiring the same 70 per cent Australian spend as in the feature film legislation, would reverse the substantial decline currently occurring in the production of television series and telemovies by foreign producers in Australia.

According to independent analysis commissioned by AusFILM⁸, the extension of the offset would be revenue positive for the Australian Government (contributing between AUD\$25 million and AUD\$41million in net terms to the annual budget 'bottom line'). In other words, it would be at no cost to Australian taxpayers and would have substantial additional benefits for the Australian economy.

Offshore television production provides valuable training and greater depth and continuity of business for the Australian production and post-production industry. On this basis, and taking into account that the AusFILM data shows no cost to Government, the FFC supports the extension of the 12.5 per cent refundable tax offset to large budget television series and bundled telemovies.

The FFC notes, however, that it is critical to distinguish between Australian film and television programs (eg. *Lantana*, *Crackerjack*, *Heroes' Mountain*, *The Postcard Bandit*), and offshore programs produced in Australia (eg. *Star Wars*, *Inspector Gadget 2*). While both types of production have value for Australia, it is only the Australian film and television programs – the Australian stories – that deliver the cultural and social outcomes the Government is seeking to achieve through its Film Program.

Consequently, support for the local production industry should remain the Government's first priority.

⁸ AusFILM commissioned this research from the Allen Consulting Group in 2002/03.

6. RECOMMENDATIONS

- (i) Encourage private sector investment (eg.10BA investment) in Australian film and television programs through Government endorsement of private sector partnerships with the Government-owned Film Finance Corporation Australia (FFC).
- (ii) The Australian Government to have an ongoing commitment in free trade negotiations to protect its right to regulate audiovisual production to achieve social and cultural outcomes – now and in the future.
- (iii) A minimum expenditure requirement of no less than 20 per cent to apply to pay TV documentary channels. The 20 per cent expenditure requirement should yield a minimum of 10 hours of new eligible programming per documentary channel in the first year, moving to 20 hours in the following two years..
- (iv) The 12.5 per cent refundable tax offset for feature films, telemovies and mini-series with a minimum Australian expenditure of AUD\$15 million to be extended to large-budget television series and bundled telemovies.

**Film Finance Corporation Australia
July 2003**