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Introduction

Setting the scene

1.1   Shortly before the Australian nation became a reality in 1901, four thousand people crowded into the Melbourne Town Hall to experience a state-of-the-art presentation. Entitled *Soldiers of the Cross*, the program of lantern slides, hymns, and sermons was filled out by the new medium of film.[1]

1.2   By 1906 Australians had become cinema innovators, producing what was claimed to be the first continuous narrative feature film in the world, *The Story of the Kelly Gang*.[2] The cinema became so popular that in 1927 the *Royal Commission on the Moving Picture Industry in Australia*[3] reported there were 1,250 picture theatres in Australia, £25,000,000 was invested, 20,000 people were employed in the industry and 'annual attendances at picture shows were estimated to be 110,000,000', in a nation of little more than six million people.[4]

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1   G. Shirley & B. Adams, *Australian cinema: the first eighty years*, Angus & Robertson: Sydney, 1983, p. 13.

2   ibid., p. vii.

3   Parliamentary Paper 227 of 1926-1928.

4   Australian Bureau of Statistics, *Australian Demographic Trends*, Commonwealth of Australia: Canberra, 1997; catalogue no. 3102.0.

1.3 In the century that followed, the Australian film industry has gone through cycles of boom and bust.[5] This has led to ongoing attempts to find effective and appropriate policy settings: a quest that has recurred often in the history of motion picture production and distribution in Australia. For example, since the 1910s, there have been 33 different types of assistance initiatives for the Australian film industry.[6]

1.4 The most significant development in policy occurred in the early 1970s. From that time sympathetic bi-partisan policies by successive federal and state administrations have fostered Australian stories for Australian (and international) audiences, attracted international productions and sustained a high-level skills base. As a result, the Australian film industry has enjoyed a renaissance of sorts over the past 30 years.

1.5 Despite these policies, the foreign domination of Australian cinema screens has remained. In 1927, foreign films dominated Australian screens, with over 90 per cent of them coming from Hollywood and only 5 per cent from Australia.[7] In 2003, according to the Australian Film Commission (AFC), 9 per cent of films screen in Australia originated in Australia, with 65 per cent coming from the United States of America.[8]

1.6 The number of foreign-produced films released in any one year outnumbered those produced domestically. But the 1927 *Royal Commission* suggested another reason for the success of foreign films: 'These pictures are of a very high standard of production generally, and the Australian public taste will continue to demand this high standard'.[9] In 2003, the AFC observed: 'Whatever happens at a corporate level, it is still the product that drives the business'.[10] The failure of Australians to consistently produce film products that audiences want to watch (in addition to fewer

5 2003 appears to have been a 'bust year' for Australian film and television judging from newspaper reports that have suggested a 'crisis' in the film and television industry. See for example, G. Maddox, 'Film industry hits eight-year low', *Sydney Morning Herald*, 18 November 2003. This has been reflected in evidence to this inquiry. For example, see Ambience Entertainment et al, submission no. 100, Allanbank International, submission no. 57, Cr J. Grew, Gold Coast City Council, *Transcript of Evidence*, 25 July 2003, p. 3 and Mr J. Lee, Cutting Edge Post, *Transcript of Evidence*, 25 July 2003, p. 16.

6 D. Gonski, *Review of Commonwealth Assistance to the Film Industry*, Commonwealth of Australia: January 1997, p. 99.

7 The *Royal Commission on the Moving Picture Industry in Australia*, Parliamentary Paper 227 of 1926-1928, p. 15.

8 AFC, *Get the Picture Online*, 'What Australians are Watching', viewed 7 May 2004 at http://www.afc.gov.au/gtp/wcfilmxcountry.html.

9 *Royal Commission on the Moving Picture Industry in Australia*, loc. cit.

10 AFC, 'The cinema industry in Australia: Structure and key players, 2002' in *Get the Picture Online*, viewed at http://www.afc.gov.au/gtp/wcessaystructure.html on 7 January 2004.

foreign productions being made in Australia) is said to be the basis of the apparent lack of success recently for Australian films and the downturn in the local industry.[11] While Australians remain enthusiastic cinema patrons and eager adopters of new entertainment technologies,[12] they will not support unappealing programs.

1.7 Australian product makers are still eager to move into new areas of opportunity. The Committee was told, for example, that in the 1980s, Australia was at the forefront of another technological revolution: the development of the first commercial computer games.[13] Australian game producers and game products compete in a global market, dominated by producers and products from the United States. As is also the case for film, Australia's game producers and their products will be able to compete on a global market only with the support of sympathetic policies. However, this inquiry revealed that, unlike the local film industry, Australia's game industry receives modest levels of state and federal government support.

The policy task

1.8 A question facing Australia's audio-visual industries since 1927 to today, has been how best to ensure that Australia has a viable audio-visual industry that tells enticing Australian stories to Australian audiences, and also wins production opportunities and audiences in a global market. The evidence to this inquiry indicated that, despite the reports and initiatives over the years,[14] the fundamental requirements for Australia's film industry and electronic game industry have remained the same as those identified by the 1927 *Royal Commission*:

- capital;

- suitable stories;

- equipment and personnel; and

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11 S. Hall, 'Oz films hard to swallow', *Sydney Morning Herald*, 8 November 2003; V. Roach, 'Have Aussie film-makers lost the plot, *Daily Telegraph*, 22 August 2003; D. Dale, 'Dramatic tension', *Sydney Morning Herald*, 31 October 2003.

12 The AFC reports that in 2003 there were 90 million cinema admissions. The average between 1998 to 2003 was 89 million. As well, in 2002, 89% of homes had a video cassette recorder while 24% had a DVD player. AFC, *Get the Picture Online*, viewed 14 May 2004 at http://www.afc.gov.au/gtp/fastoverview.html.

13 Mr M. Bishop, Multimedia Victoria, *Transcript of Evidence*, 28 August 2003, pp. 28–29.

14 See Mr D. Gonski, *Review of Commonwealth Assistance to the Film Industry*, January 1997, for a listing of various reports and inquiries, over many years.

- sufficient avenues of distribution.[15]

1.9   The task that faced this Committee is to identify the policy initiatives the Australian Government can implement, that will nurture the Australian film and game industries in an increasingly globalised economy. The initiatives aim to position Australia's film and game industries to take advantage of the opportunities emerging in the 21st century, but avoid production of games and films that will not attract sufficient audiences.

1.10   The evidence suggested there are substantial opportunities for our audio-visual industries.[16] The evidence also suggests success lies in highly trained, highly skilled and creative professionals, telling compelling stories, developing engaging games and producing what the market wants, rather than in increasing levels of protection and subsidy. Capital will follow and the problems of distribution will be overcome as technology advances and linkages and reputations develop. The policy recommendations made by the Committee are based around these considerations.

The inquiry

1.11   On 1 April 2003, the then Minister for Communications, Information Technology and the Arts, the Senator Hon. Richard Alston, asked the Committee to inquire into Australia's film, animation, special effects and electronic games industries.[17] Apart from an examination of the present state and rationale for the film and game industries, the terms of reference invite the Committee to address significant matters of public policy and to make recommendations on the most appropriate policy responses to the challenges and opportunities facing the audio-visual industries.

Conduct of the inquiry

1.12   The inquiry was advertised nationally in *The Australian* on 16 and 30 April 2003 and submissions were invited from the general public. In addition, over 204 invitations to make submissions were sent to interested individuals and organisations. As a result, 104 submissions, and 121

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15   The *Royal Commission on the Moving Picture Industry in Australia*, op. cit., p. 12.
16   This will be considered in detail in Chapter 4.
17   The detailed terms of reference appear on p. xi of this report.

exhibits were received. The Committee held 13 public hearings and conducted 15 inspections.[18]

Scope of the inquiry

1.13   The Committee has taken a wide view of the media covered by the terms of reference. 'Film' is regarded as including not only motion picture features shown in cinemas, but documentaries shown in cinemas, and programs for free-to-air and subscription television broadcast, such as documentaries, drama programs, television feature films, animated productions and children's programs. All formats (mini-series, feature film, one-off programs, video and traditional film) are encompassed by the terms of reference, as is animation of all types, whether traditionally drawn characters or those that are now computer generated.

1.14   Sometimes 'special effects' is interpreted narrowly to refer to 'practical effects', such as lighting and smoke, whereas 'visual effects' refers to computer generated or assisted effects.[19] The Committee proposes to use 'special effects' as most audiences would understand it: to refer to effects that are added to a scene to augment or enhance what is being photographed or to create the scene in part or entirely synthetically. 'Special effects' then refers not only to smoke, lighting, prosthetics, models, and simple image manipulation, but also to the processes of computer generated or augmented image manipulation and creation.

1.15   'Electronic games' refers to games that are played using an electronic device, or 'platform'. There are a number of different platforms: personal computers that play CD-Rom or DVD-Rom games, or both; consoles, such as the Sony Playstation2, the Microsoft Xbox and the Nintendo Game Cube. There are also handheld devices, such as the Nintendo GameBoy, mobile telephones or personal digital assistants (PDAs) that are used to play electronic games.[20] 'Electronic games' also refers to the games played over the internet, using personal computers or consoles, in which many thousands of people participate. These are the so called massively multiplayer online games (MMOG).[21]

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18   See appendixes A-C for details.
19   This distinction was drawn to the attention of the Committee by Mr C. Schwarze, CEO/VFX supervisor of Complete Post (communication with secretariat, 14 July 2003.)
20   Allen Consulting Group, *Game Industry Development Strategy*, 8 October 2003, p. 4.
21   Mr R. Straw, Multimedia Victoria, *Transcript of Evidence*, 28 August 2003, p. 32; 'Micro Forté demos big world: New platform revolutionizes online gaming by allowing up to 500,000 players to co-exist on a single shard,' viewed at http://www.microforte.com/news/pr1.htm on 8 January 2004.

Structure of the report

1.16   In Chapter 2 the Committee addresses terms of reference (a) and (b). The current size and scale of Australia's audio-visual industries is examined, as well as the economic, social and cultural benefits of these industries, insofar as they relate to the film industry. The size, scale, and benefits of the electronic games industry are addressed in Chapter 3. Also in that chapter is a brief review of the quality of the information that is available on the film and electronic games industries.

1.17   In Chapter 4, the report examines the future opportunities for further growth of the film and game industries. This involves an examination of the application of advanced digital technologies, online interactivity as well as broadband: term of reference (c).

1.18   The future of Australia's creative industries will be built on the capacity to develop, grasp and use new technologies. In Chapter 4, the report also examines the current and likely future infrastructure needs of the audio-visual industries, including access to bandwidth and the skills required to promote growth (term of reference (d)). An essential element in ensuring that industry has access to skilled professionals is an education and training system capable of meeting the demands of the audio-visual industries. This matter, addressing term of reference (e), is also examined in Chapter 4.

1.19   Through technological development, the boundaries between formerly distinct technologies and their content, are breaking down. Media and their content are merging into new systems of production and distribution: 'convergence'.

1.20   Cross-platform content creation is removing the boundaries between the traditional (for example film) and new media (electronic games). Practitioners from the traditional and the new media genres increasingly engage with each other, in order to produce content that is attractive to the market. Convergence is also apparent in the evolution of product delivery systems. Cinema, television, DVD and video tape are familiar delivery systems. Soon, motion pictures will be delivered over the internet, to televisions, adding another, hybrid delivery system.[22] Technological

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22   On 6 December 2003, Australian company Sharman Networks, announced its peer-to-peer file sharing program, Kazaa, would be used to distribute full length feature films over the internet (N. Manktelow, 'Kazaa's premiere', *Sydney Morning Herald*, 6 December 2003). Some Australian telecommunications companies, such as TransACT in the Australian Capital Territory, provide a video on demand service originating from a third party. The new delivery technologies have not gone unnoticed by Hollywood. BBC News, ('Online movies promised by 2005', 20 November 2003), reported that according to the head of Hollywood's Motion

convergence, however, gives rise to skills convergence: the skills required to produce one genre are now often used in the production of another.

1.21 Technological, content and artistic convergence will be fostered best if there are links between different audio-visual genres that allow the potential of each genre to be explored fully. The strength and effectiveness of these links is crucial to the development of the audio-visual industries. The linkages that underpin the convergence of technology and audio-visual genres (term of reference (f)) is addressed in Chapter 5.

1.22 The success of Australia's creative industries, their capacity to maximise export and investment opportunities (term of reference (g)), will rest upon appropriate public policy settings. Chapter 6 focuses on public policy as a vital contributor to the future success of Australia's audio visual industries. Term of reference (h) invites the Committee to consider whether any changes to existing government support programs should be made to ensure they are aligned with opportunities and trends in Australia's audio visual industries. The final chapter addresses this issue.

Picture Association of America, Mr Jack Valenti, by 2005 movies will, after exhibition in the cinema, be delivered online to the home television screen, via the internet.