



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON COMMUNICATIONS,
INFORMATION TECHNOLOGY AND THE ARTS

**Reference: Future opportunities for Australia's film, animation, special effects and
electronic games industries**

THURSDAY, 24 JULY 2003

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Thursday, 24 July 2003

Members: Mr Pyne (*Chair*), Mr Hatton (*Deputy Chair*), Mr Baldwin, Mr Ciobo, Ms Grierson, Mr Johnson, Mr Pearce, Mr Sercombe, Mr Tanner and Mr Ticehurst

Members in attendance: Mr Baldwin, Mr Ciobo, Mr Hatton, Mr Pyne and Mr Sercombe

Terms of reference for the inquiry:

To inquire into and report on:

- (a) the current size and scale of Australia's film, animation, special effects and electronic games industries;
- (b) the economic, social and cultural benefits of these industries;
- (c) future opportunities for further growth of these industries, including through the application of advanced digital technologies, online interactivity and broadband;
- (d) the current and likely future infrastructure needs of these industries, including access to bandwidth;
- (e) the skills required to facilitate future growth in these industries and the capacity of the education and training system to meet these demands;
- (f) the effectiveness of the existing linkages between these industries and the wider cultural and information technology sectors;
- (g) how Australia's capabilities in these industries, including in education and training, can be best leveraged to maximise export and investment opportunities; and
- (h) whether any changes should be made to existing government support programs to ensure they are aligned with the future opportunities and trends in these industries.

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Committee met at 11.20 a.m.

CHAIR—Welcome, ladies and gentlemen, and members of the committee. I declare open this public hearing of the 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. The inquiry arises from a request to this committee by the Minister for Communications, Information Technology and the Arts, Senator Richard Alston. A public invitation was issued for written submissions, and more than 80 submissions have been received. This is the first public hearing of the inquiry. I have pleasure in welcoming members of Queensland's film, animation, special effects and electronic games industries; members of the public; and, of course, the witnesses who will appear before the committee today.

[11.21 a.m.]

BRAMLEY-MOORE, Professor Mostyn, Director, Queensland College of Art, Griffith University

LANG, Mr Ian William, Senior Lecturer, Film and Television, Queensland College of Art, Griffith University

MAYOCCHI, Mr David Thomas, College Manager, Queensland College of Art, Griffith University

CHAIR—I welcome witnesses from the Queensland College of Art at Griffith University. Although the committee does not require you to give evidence under oath, you are advised that these hearings are formal proceedings of the parliament and, consequently, they warrant the same respect as proceedings of the House itself. I have to remind all witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I also remind witnesses that the committee prefers all evidence to be given in public as opposed to in private session. However, at any stage you may request that the evidence you are giving be given in camera, and the committee will then consider your request. Do you wish to amend or add to your submission, or make some introductory remarks, after which we will move to questions?

Prof. Bramley-Moore—The reason that we have asked to appear here as a triumvirate is that we represent different sections of the operation. I am merely a management administrator type person when it comes to film, animation, games and so on. David controls money matters and is able to answer any questions about the resourcing of training in the areas being addressed, and Ian—needless to say—is much more of an expert than the two of us in the industries themselves. So, between us, we think that we can answer quite a few questions.

As an introductory comment, I would like to say that personally and professionally I am a painter, as it happens. So, although I have had some sway over many different areas of the arts, it is really during my period at Griffith University that I have had some involvement with film and animation. Looking across Australia, I would have to say that I have never known an area of academia where people will overclaim to such an extent across educational institutions and deliver so little in the way of actual vocational training—meaningful training. Film, animation and extensions—games and so on—are expensive areas to deliver. The way that we look at it is that there are really only a handful of schools across Australia who have the physical plant and staffing resources to actually deliver in these areas. One set of issues that concerns us is the need to upgrade to widescreen and high definition. That is something that maybe we should talk a little bit more about in a minute. I am glad to answer any questions.

CHAIR—Since you have raised the high-definition television, you might start talking about that. Yours was about the only submission that we have received from Brisbane and the Gold Coast that actually raised that as an interesting issue, so you might want to expand on some of the issues in the area of high-definition television.

Mr Lang—Since we have seen SBS and ABC largely abrogate their traditional responsibilities in training we really have not got a new generation of people who are equipped with high-definition skills from the training sector. We regard the failure of digitisation to take off in 2001 as a product of a lack of content and a lack of trained people who can produce content that will then be attractive so that consumers will buy high-definition television sets, 16:9 screens and so on. We think that it is not just a government problem; we think that it is a training problem in the take-up of digitisation. We are suggesting that DCITA may consider the granting of a proportion of licence fees to two, three or even four of the national vocational training schools as a one-off digital upgrade so that we can effectively train people in high-definition production and we can move towards a situation where entrepreneurial students in postgraduate courses may very well create intellectual property that will help us to self-fund these programs into the future, so we are not looking for a continuous handout.

CHAIR—Why do you think it is that the Queensland College of Art is the only submitter appearing in these next two days that has actually raised high-definition television as an issue at all in the area of film, special effects, animation and electronic games?

Mr Lang—I think it is very clear. I know Mostyn is eager to answer this as well, but it is—

CHAIR—You can both answer it.

Mr Lang—We will probably have a complementary answer. It is the absolute basis of our submission. Griffith University is a university that is committed to complementary diversity. It has contemporary business studies that marry with law that mean we can have people who can come as producers and learn how to be top intellectual property lawyers at the same time. They are going to create intellectual property that will earn money for Australians and not just go overseas. We are a new university. This college is one of the oldest in Australia, at 115 years old, but we have been with the university system for 10 years now and we are terribly excited about how a new film school will be able to have different segments, different departments, feeding in so that we can get that absolute pollinating vitality that will create bright teams of people. That is different from the silo of an AFTRS and it is one that we think will complement the silo of the AFTRS.

Mr BALDWIN—Where do you draw the expertise to be able to teach the high-definition technology, given that is such new technology? Have you got people here that have been trained in that and have an ability then to teach it?

Mr Lang—We are going to be drawing on the industry. We are going to be launching a film school in Queensland. We are already Queensland's premier vocational film training institution. We are going to be launching an aggregated school in October this year, and we are going to be taking the best people from industry and rotating them through. We claim expertise in educational management.

Prof. Bramley-Moore—We think that something that shuts us out or tends to make it a more difficult proposition is not the expertise but the hardware. We have looked at the numbers, we are proposing to upgrade to widescreen, and we think that will probably cost us \$500,000 just in different monitors and cameras and so on. We think that the upgrade to high def will probably be \$1.5 million. It is the cost of it, more than the expertise. On the question of why we are raising it,

I would suggest that it is partly because we were determined, in making a submission, to address the terms of the inquiry rather than have a bit of a brag opportunity about the college. We really questioned ourselves pretty hard on that. The other thing that I would say is that of the three premier film animation training institutions in Australia—AFTRS, VCA and us—we think that probably AFTRS and VCA enjoy some funding largess that we do not enjoy and we have probably got our eyes a bit more closely on the bottom line. We are addressing the numbers and trying to work out where we get the money from.

Mr BALDWIN—Given that technology is a moving feast, how much interaction do you have with industry in identifying future needs and then addressing your courses and training and development to that orientation?

Mr Lang—Eighty-two per cent of our graduates have got jobs in the industry.

Mr BALDWIN—How many people who start end up as graduates?

Mr Lang—We have around 90 per cent of entrants completing.

Mr BALDWIN—That is very high.

Mr Lang—We have a small constituency there but a powerful one who get jobs and, more importantly, create jobs for others.

Prof. Bramley-Moore—It is interesting. Griffith University had a bit of focus recently on student retention. That is a key indicator of performance for a university. In that whole debate within Griffith, right across QCA our figures looked fantastic. They were very good. We have one of the highest retention rates. It is so difficult to get in. I think that, once the people are in, they are determined to glue onto the course until they get out.

Mr BALDWIN—Given that there is a separate degree called a communications degree, with a journalism aspect, do you have many links and interaction with those in the communications side of things, together with the film aspect, of what you are doing?

Mr Lang—Increasingly we do.

Mr BALDWIN—Whereabouts in Queensland? Is there a communications degree located within this campus?

Mr Lang—There are five campuses of Griffith University, serving over 25,000 students. Our turf is from here, where we are sitting, in South Bank to the state border of New South Wales, and that is the fastest growing urban conurbation in this country. Our charter is to educate those people and make sure that they get jobs. We will do whatever we can to ensure that they have access to the best teachers, the best professional industry people and the best technology so that Queensland can continue to be a vital part of the national training effort.

Prof. Bramley-Moore—One of the interesting differences between QCA, VCA and AFTRS is that we are a fully amalgamated part of Griffith University, whereas VCA is just affiliated with the University of Melbourne. So we are an effective component of Griffith University. The result

of that is that, yes, we do interact with these other people. For example, in the multimedia degree, we teach into that program. We provide the courses in the areas of our expertise.

Mr Lang—And so does our animation course.

Prof. Bramley-Moore—And animation as well.

Mr BALDWIN—Another part that I want to get on to is the electronic games industry and the direction that is going. How much interaction do you have with that specific cluster in developing people and product, and keeping up-to-date software so that the platforms students move across to are relevant to what they are being taught?

Mr Mayocchi—We have recently changed the technology in our animation degrees towards the 3D Max software, which is the games industry software. In relation to your earlier question ‘How do we keep up?’ we are looking at where our graduates are getting jobs and we are talking to them. If, as you say, the software or hardware that we are using is not aligning then we change the software, because we are really committed to making sure our graduates are useful to the industry and getting them to those positions.

Mr BALDWIN—Do you have access to development kits for the Xboxes, PlayStations—the vast array of names that these things have?

Prof. Bramley-Moore—Brisbane City Council is buying these development packages, and so it is via that route that we would have access to them.

Mr BALDWIN—Do you currently have access, or in future you will have access?

Prof. Bramley-Moore—I am no expert in this area. I know from talking to Brisbane City Council that they were funding the purchase of, I think, five of those packages.

Mr Mayocchi—Our animation degree is not a specific games industry degree, so the skills that we are putting into the industry are not the full set of industry skills. They have the animation aspect, which includes drawing and the linking between scenes, but there are other specialist disciplines within the university that are able to provide some of those skills.

Mr BALDWIN—Do you have a specific course within the degree based on games development?

Mr Mayocchi—No.

Prof. Bramley-Moore—Not at QCA.

Mr BALDWIN—Would you look at introducing that if there was enough demand?

Prof. Bramley-Moore—Yes, we would, although I think the reality is that Griffith would present the degree because it would encompass more than just the skills that we address at QCA. What we do that is in high demand in games—this is talking for QCA—is animation.

Mr BALDWIN—That links again with the people who are doing information technology or software degrees. Do they have much involvement in what you are looking for as a final end product, so they are studying not just how to develop software but how to develop software for market need?

Prof. Bramley-Moore—Griffith is pretty good at facilitating this level of communication. Just within the last couple of years, for example, the faculty committee structure really was not servicing our needs, so we created the new creative arts, music and media faculty board. The academic committee that we work to is a committee that addresses the creative arts and the cultural industries. That is the forum for a lot of these discussions. We think it is a really bad idea if a degree gets up that is under-resourced, and we have the resources within the university to do it. The creative arts, music and media board is a facilitator of that. That is one of the advantages we derive from being part of an amalgamated university.

Mr HATTON—I want to come back to modes, methods and standards. You have indicated your views in regard to high-definition television. It is my observation that very few people in Australia understand just what a step up HDTV is from what they see now and what they are seeing on their DVDs, because there are very few sets available and because we have not had much broadcast yet. Therefore, it is very difficult to understand what you are really talking about and why it might be so expensive. Can you give us some examples of the difference in definition between a standard TV presentation now, using DVDs and going to HDTV and what problems that creates for you in the school?

Mr Lang—I think most consumers really find it very difficult to understand the difference between HDTV and standard definition TV, even when it is broadcast, if they only using standard definition receivers. In our teaching of storytelling and content production it will not influence us highly. Where it would have a fantastic influence, if we can work at even a small capacity in a high-definition product, would be our ability to use the films to enter film festivals around the world that effectively only accept films now on 35 millimetre prints. We could then take Australian-made product and have it seen in some of the most important showcases around the world—showcases that are currently denied to us because we cannot produce at the level of 35 millimetre film because of the cost. With high definition, instead of 35 millimetre costs going out the door to labs and to stock providers, we could produce at virtually 35 millimetre quality and, as we move to some multiplexes with a satellite delivery for screening, we may be in a very good position to become a hub for a limited form of narrowcasting ourselves. I think in that way we can help drive the take-up of high definition in the wider market by providing content.

Mr Mayocchi—To complement that, high-definition television is like 35 millimetre film—it is like sitting in a cinema. Although DVD players certainly improve the quality on a standard definition television, the jump is that significant.

Prof. Bramley-Moore—I was interested to see in VCA's submission that they were worried about the same thing—the cost of this quantum leap in equipment. They are looking at the bottom line—they know that it is important to turn out people ready for the industry and to ensure that good product that is coming out of the school can be screened. If we do not make this jump, we could have a fantastic product produced by a final year student or a postgraduate student but they would not be able to get it on television because people will not look at it.

Mr HATTON—Currently the video cameras that you are using are pretty standard digital cameras?

Mr Lang—Correct.

Mr Mayocchi—There are DVCAM format, which is an educational/professional format but not broadcast quality any longer.

Mr HATTON—We are just starting to see the Blu-ray technology into the field. So, instead of 4.7 gigabytes on DVD, we will be looking at something in the order of 27.9 gigabytes using Blu-ray, which just uses a blue laser. But that increased density also allows you to effectively film in HDTV and to be able to put that content onto disk. The first cameras are just started to come on the market. Have you looked at that? They are extremely expensive, because it is just starting. Have you made an assessment of what you need to do there?

Mr Mayocchi—We have been talking to Sony about the cost of high-definition television. As I say, we are working in DVCAM format. We can go widescreen for that for \$50,000 a camera. If we want to go high definition, we are looking at \$130,000 to \$180,000 a camera. For a television studio with three cameras you are trebling the cost.

Prof. Bramley-Moore—That gives you an insight into the hardware costs. It is a race that we have got to keep up with. VCA has got to keep up with it, AFTRS has got to keep up with it, but these are pretty daunting numbers when you look at cameras, monitors and everything.

Mr Mayocchi—We are not looking at turning over the entire holding that we have in film and television to high definition tomorrow. It will not be a sudden stop. We have about \$3 million currently invested in equipment—lightning and studio kits. It would not make sense to write that entire cost off immediately. That equipment is perfectly suitable for students working in, as I say, educational or corporate production through to perhaps the third year of their course. But if you are looking at somebody who has a very well written documentary that is producible for television, it would be good to be able to provide that on high-definition format so it could be shown to Australian and international audiences. We are currently blocked out of that.

Mr HATTON—And, so far, you have had no assistance whatsoever and there does not look like there is any assistance forthcoming in terms of covering those costs?

Prof. Bramley-Moore—I would have to say that Griffith has been a very benevolent institution. The facilities we are sitting in today are a sign of that. They are committed to these cultural industries. Looking down the road at the conservatorium of music, we see that it is the same. Griffith has been very good to us and funds us at a rate that is very reasonable, given the context of university funding levels. We have a proposition to go to widescreen. The university is funding a new chair; we are advertising for a new chair. To put in context the cost of that: funding a professorial position for five years is \$1 million to \$1½ million. We need that figurehead appointment. The cost of going to widescreen is another \$500,000. I think we are asking the university to cough up \$1.5 million in an upgrade of equipment, and that does not even take us to high definition.

Mr HATTON—What you are faced with are orders of magnitude beyond what you could ever normally expect.

Prof. Bramley-Moore—Yes.

Mr HATTON—We have seen the government take direct action with regard to private industry—that is, the current broadcasters—and SBS and the ABC, and we have seen the series of difficulties they have had, even with being assisted in that way. Do you think it is critical that the government develop a package to directly assist schools such as yours as well as the industry?

Prof. Bramley-Moore—Yes, we do. We have a lot of international fee-paying students, but I would suggest we are never going to be able to raise these kinds of numbers out of the money we can get out of fees.

Mr HATTON—What percentage of your students live overseas?

Prof. Bramley-Moore—We take about 80 across our various programs in film and we take about 30 in animation. These are averaged-out figures. Of the 80 about 20 are international, and of the 30 animators about 10 are international. I say one other thing there: we have only thanks to Griffith, but I think the order of magnitude is pretty severe. We also think that, rather than give 20 institutions a little bit of money, it is going to be necessary for someone sooner or later to work out which is the list of people who are really genuinely in this area—

Mr HATTON—and to target it.

Prof. Bramley-Moore—and to target it. It would be better to fund somewhere between three and six well than to fund 20 at a level that is really not going to make a lot of difference.

Mr Lang—That is right. Such a package is not just money into a black hole; that is going to help us become self-funding or to at least move towards that.

Mr HATTON—You have indicated that you would then participate at a much lower cost, because you just cannot afford to do 35 mil.

Mr Lang—That is right.

Prof. Bramley-Moore—We do 16 mil, interestingly.

Mr HATTON—You are still doing that?

Mr Lang—We are the only people in Queensland offering a university degree on 16-mil film. That is why people come from Norway, from Sweden, from Korea and from America to study here.

Prof. Bramley-Moore—But 35 mil is beyond our—

Mr Lang—We cannot justify educationally spending money on 35 mil, and it is sending money out the door. But we have been able to produce at least nine documentaries for broadcast over the last seven years from academics and from students, so there is a genuine commitment to vocational outcomes that can be seen on screen.

Mr HATTON—Let me ask another question that has a bit of complementarity to it, in terms of not just covering other disciplines but also using other technologies. What have you been doing with MPEG-4 and its derivatives, like DivX, in using those technologies and teaching those technologies at the school? Also, have you been influenced by what the Japanese are doing, particularly in the anime movement? There has been a great deal with MPEG-4 and DivX in the student body, in that anime area, and some of the hand drawings I saw outside almost express part of that culture.

Mr Lang—The Japanese anime movement is a very powerful one, and the animation department here had a conference recently about that. The development of Griffith's first multimedia degree has meant that students have widely embraced streaming where bandwidth is available. The key problem for our students is accessing reasonable amounts of hosepipe to be able to get their products streamed. We are using interactive training through our extension learning programs that does involve documentary segments, character driven animations and even little screensavers being sent through Net sources. Critically, the idea of bandwidth is really holding us up. Like many universities, we are awaiting even better compression technologies so that everybody can have reasonable access and equity.

Mr HATTON—But there is an anomaly in this: DivX and MPEG-4 are terrific in terms of new compression, but you actually need a lot of computer horsepower to be able to do it.

Mr Lang—That is accurate.

Mr HATTON—Certainly it is very time intensive if you create a high-definition product within that. But they allow you to actually stream that material more effectively over current copper wire and so on. Part of your submission talks, very importantly, about that bandwidth problem. In terms of access to the rest of the world—pushing out product from Griffith and pulling in students from elsewhere—how important is it for us to make the step up in order of magnitude to fully utilise what we have got?

Mr Lang—We have to future-safe our graduates by, first of all, stockpiling good intellectual property, good program product. At this stage, there is not enough copper in the earth to provide twisted pair lines to everybody who wants that. So we are committed not just as Australia but as a globe to silica based media being our distribution lines. But that is still some way off.

Mr Mayocchi—The university's network is probably as good as you can get in Australia, so that is not holding us back.

Mr Lang—No, it is reception.

Mr Mayocchi—I guess it is like a series of freeways which do not connect to the rest of the world.

Mr HATTON—So internally you have got those really fast pipes. Are you linked into the Internet too, in terms of the developments that have been happening worldwide and shifting material at high speed between universities, or are you locked out of that?

Mr Mayocchi—There is a project underway that will connect the university into the GrangeNet, the high-speed network, running under the bridge to QCA and along the freeway through to the Gold Coast.

Mr Lang—Griffith has one of the few supercomputers as part of its establishment, but at the moment it is largely used for scientific research and data processing. There is no doubt that we would have equal access, if we would wish, to high-speed animation broadcasting, where you are working at high definitions. The key issue here is consumers' reception of this material. In some ways, digitisation has meant a downgrading in image resolution if people are to be able to effectively utilise material. Even thinking about telemedicine, the people who are most in need of telemedicine are probably going to have the slowest computers. There is no point in overdeveloping a product. What we are talking about is sharpening our intellectual property development skills, so that we have got a tremendous content basis and good content makers that will then be able to drive the rest of the technology rather than us forever following the technology.

Mr HATTON—Chair, I would like to return to this, but I would like to give the other members a chance, too.

CHAIR—We can pursue some of these questions over lunch. Are there any other questions?

Mr CIOBO—You made reference to R&D and some of the various funding models and government assistance models that apply overseas. Would you care to expand on that?

Prof. Bramley-Moore—Could you be a bit more specific?

Mr CIOBO—Could you expand on some of the other models that you believe work successfully that Australia could look at adopting?

Mr Lang—One of the key ways that Germany was able to push forward its young film-makers of the 1960s and seventies was by a television program on ZDF which was called *Das Fernspielen*. It was a television slot that opened at nine o'clock and finished whenever the film finished. We got Werner Herzog and Fassbinder out of that. You did not have to be German to get into *Das Fernspielen*; you could be an Australian. In fact, a colleague of mine, Richard Lowenstein, went over after doing *Dogs in Space*. At this stage, the broadcasters have made no commitment to young Australian film-makers by giving them slots. We are saying: 'How about it, SBS? How about it, ABC? How about a little *Das Fernspielen* for us too, and for our graduates, so that they can get a window for their work?'

Prof. Bramley-Moore—I think we need to be more proactive in going to industry and coming up with good research projects. We have been talking with Cutting Edge recently about putting together a linkage grant possibility addressing some specific things to do with *Big Brother*, for example. In the past universities have been a bit hesitant about getting into those sorts of areas, but I think there are possibilities in Queensland for interaction between the university and the

industry where the industry will get definite outcomes—we are not wasting the money that they are putting in; we can actually use funding prospects for research across the country to get some really good results. I think they are there to be got.

Mr CIOBO—I was reading here about *Fat Cow Motel*—and I have not seen that—but is that the type of thing you are talking about? Is that a successful example?

Mr Lang—We are yet to see how successful it is going to be. It is the first multiplatform release program. It is a tremendously innovative approach, and I think it is going to be the first of a raft of these. When we have seen three or four of them, we will be in a better position to judge. But we have to do it, we have to keep up.

CHAIR—The secretary informs me that there is a show on SBS called *Eat Carpet*. Does that fit the bill of what you are talking about?

Mr Lang—No. It is too short. It is also an experimentally based program that runs seven-minute to even 15-minute long segments but it has a very small audience share. What we are looking for with the multichannelling that the ABC has recently reneged upon—and we would like to see it reinitiated—is university providers and film school providers being able to put some of their best students' work up as part of that multichannelling. It is just obvious. It just has to happen, and we would like DOCITA to help accelerate that process.

Mr CIOBO—In terms of incorporation of the private sector into the program you are offering, is there much by way of scholarships and collaborative exercises where you are getting outside funding coming in or indeed students themselves are?

Prof. Bramley-Moore—It is a pretty complex question really. All the courses at QCA have industry placements so there is a flow of students going out to work in industry in Queensland and right across Australia. We do not have a lot of scholarships. We have prizes coming in; we certainly get some sponsorship like that.

Mr Lang—New York universities.

Prof. Bramley-Moore—We recently got a couple of prizes. We are experimenting with sending students overseas. We have connections with Ithaca College in Burbank in Los Angeles and with the California State University. This next semester we have sponsorship from a private company—a car dealership actually—to send a student to do an internship in Hollywood. We have the capacity to send two students a year to Hollywood to do internships in animation and screen production. We can basically select an appropriate company in Hollywood for them to go and work with. We are trialling that, for example.

Mr CIOBO—But that is all post graduation.

Prof. Bramley-Moore—No, they are undergraduate students. In the second semester this year we are sending someone to Hollywood for that. We could have sent two. We will probably send two next year. We have similar capacity with the California State University. They are very strong in animation and screen production as well. We are well connected with the other arts colleges.

CHAIR—So I take it culturally there is not a reticence towards doing that.

Mr Lang—Absolutely not. We are totally committed to working with industry. Australia is different from America in that we do not have the same degrees of support privately. AFTRS and VCA are both members of the international association of film schools called CILECT. I am a corresponding member of that, and our aim is to make the Queensland College of Art the third member in Australia of CILECT. That literally would put us into a club where we can do exchanges with the best national film schools from around the world. I know that particularly post September 11 they are increasingly interested in doing business with us.

Mr HATTON—It is my view that the current white elephant that we have with HDTV will possibly crowd out the enormous diversity we could have if people plumped for standard definition, as has happened in a lot of other countries. Because you would have so many channels available you could have experimental film culture developed at a relatively low cost. The standard of teaching that you could provide for that, as you are at the moment, would feed in. How important is it that the ABC have backed right off on that because they say they do not have the dough and that outlet isn't there for your students?

Mr Lang—That outlet wasn't there for our students before the debacle. It will take an attitudinal shift from the national broadcaster, not just a rationale that funding has stopped those new digital stations. I think it requires policy shift and I think that our students demand and deserve broadcast exposure for work that is in fact in many cases taxpayer funded in the first place.

Mr HATTON—So they did not have it before and they have not got it now, but there is less chance, if those digital channels do not open up again, isn't there, whether it is their SBS or not?

Mr Lang—I think you are putting an either/or argument, and I am not sure it needs to be polarised that way. As an educational institution, we need to maintain flexibility with regard to the market, and we believe in a market driven model. We are not going to tell the market what to do. We will train people to work in high definition, if that is the way it is going, and we will train them to work in producing top quality standard definition, if that is the way it is going. Perhaps there is a way we can run both.

Mr HATTON—But at the moment we have not got the standard definition outlets?

Mr Lang—No, we have not.

Mr HATTON—The other thing I wanted to ask related to the work you have done using the cut-out technology. You are cutting corners and doing things a lot faster there. How much of your work is object oriented? How much of the work you are doing will be using extensible markup language for the Internet and so on, which is becoming the new standard that is being developed?

Mr Lang—I think this is a really important challenge for all tertiary providers, and I think that perhaps universities like Griffith that are diverse are better placed than most to bring in their IT departments—that had in fact started to fail—as part of the team. We are bringing law into it and we are bringing business skills into it, and this is just as important. We are going to be

bringing in our IT people and all the people who are working in our computer services, particularly as Griffith has a very well-established extension program that uses the Internet already, marking up all sorts of materials, not just film and television program and content materials. Most of the university's curriculum is in the process of being reinterpreted for a digital age.

CHAIR—Thank you very much. I am mindful that we are having lunch with you as well, so we will be able to pursue some of these issues over lunch, but I know that there were some questions we wanted to get on the record so that we could use them better in our report and deliberations. Thank you for appearing today. We might get back in touch with you if we have any further questions.

[11.58 a.m.]

DEO, Mr Shainiel Nischal, Chair, Queensland Games Developers Cluster

CHAIR—Welcome. I do need to inform you that the committee does not require you to give evidence under oath, but I should advise you that these hearings are formal proceedings of the parliament and consequently they warrant the same respect as proceedings of the House. I remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament, and I also remind you that the committee prefers all evidence to be given in public. At any stage, however, you may request that your evidence be given in camera, and the committee will then consider your request. You might wish to add to or amend your submission and also you would be welcome to make any opening introductory remarks.

Mr Deo—I do not have anything further to add to my submission.

CHAIR—In the submission that was made, Paul Lucas, who is the minister in this area in Queensland, alluded to the model for this industry that is being followed in England, Hong Kong, France and Canada, and I am wondering what they are doing that in Australia we are not doing and whether we might be able to pursue some of those angles. Would you like to expand on the submission?

Mr Deo—The major thing is that these countries have strong industry bodies that have successfully lobbied their governments to provide funding to attend international conferences, which is where most of the deals are done. Most of the publishers attend these conferences, and these countries increasingly have had stands at them and all the developers are invited to exhibit their products at those stands. The other thing they have been doing is funding trips to other countries to see what they are doing right and how their industry is working more efficiently than others.

CHAIR—Is it your contention that the Australian industry has really grown up on its own, without the government providing this kind of support?

Mr Deo—Yes, without a doubt. But in just this last year a number of the state governments got together and provided some funding to establish an Australian stand at E3, which was on a month or two ago.

CHAIR—What is E3?

Mr Deo—E3 is the Electronic Entertainment Expo. It is a major conference where publishers, developers and the public get together to see what new products are coming out, and it is held in LA.

CHAIR—To be the devil's advocate for a moment: if the industry has done as well as it has on its own—and clearly it is doing well and growing, and we are seeing that through the submissions and just the beginning of our taking of evidence—then why would the government

now choose to enter the field and play a more substantial, interventionist role, like, say, Canada, when without the government the industry has done as well as it has? I just throw that onto the table.

Mr Deo—Considering that most of the other countries are starting to support their industries, we are going to be at a disadvantage if we do not have similar support. The major reason is that we do not have indigenous publishers in Australia that can operate on a global scale. Most of the other countries do, and it is usually publishers that commission products. We need assistance to get our people over to the major conferences so we can meet with the publishers face to face. Without that, it is going to be increasingly difficult for the smaller players to get along, to grow their companies and to get deals. The other reason is that we are in a transition phase. Our industry has probably required teams of 10 to 20 people in the past, but now that is growing and we see teams of up to 60 people working on projects. Without some of the incentives or initiatives that I mentioned in my submission, such as stimulating investment, we will not have the resources to match the other countries. We will be falling behind if we do not.

CHAIR—Could you explain what the Electronic Games Cluster actually does in a practical sense?

Mr Deo—The cluster has been operating for only the last nine or so months. It is not incorporated at this stage. The members get together on a regular basis and discuss issues we have. We invite government officials along as well, and we let them know what issues we are facing and we try to work out solutions to these problems.

CHAIR—It is Queensland government initiated, is it?

Mr Deo—Yes, it was initiated by the Queensland government and the Brisbane City Council.

CHAIR—And there are representatives from the industry as well?

Mr Deo—Yes. The majority of the cluster is made up of industry representatives, but there are government members as well.

CHAIR—Are people like the Queensland College of Art involved in it too?

Mr Deo—Not at this stage, no.

Mr BALDWIN—You talk about providing support for going to the E3 conferences. Do you encourage these people to apply for export market development grants?

Mr Deo—Another thing we are trying to do is address skills and training issues and make sure our members know about all of the grants available to them.

Mr BALDWIN—But you specifically asked for government support to get people to this offshore convention for exposure and to hopefully pick up work. Have you informed them about export market development grants?

Mr Deo—Most of them do know about those grants, yes.

Mr BALDWIN—What more would you like the government to do, if it is already providing that financial support and service?

Mr Deo—We need to put Australia—as opposed to individual companies—on the map. When you look at how many developers Australia has compared to, say, America, we are not in the same league as them. We need to brand Australia as a good place to develop games so that we can get some more of publishers' attention, get them to come out here, get them to recognise that Australia is a good place to develop games.

Mr BALDWIN—In my experience I find that most companies seeking offshore markets want a minimal amount of government intervention—and not interference—in what they do. Do you think that government support would influence any offshore publishing house to be involved or do you think that they purely select on the basis of capability and availability of product?

Mr Deo—They do select people based on their capabilities. We are a relatively young industry here in Queensland as well. We have a lot of smaller companies who probably cannot get to these conferences. The grants that you mentioned can help them get there, but they probably cannot secure the booth space to get the maximum exposure. These conferences have various areas where you can exhibit. The areas that are affordable to these smaller companies are probably hidden away around the corner.

Mr BALDWIN—Given that you have taken the initiative to develop a cluster, are you as a government putting on exhibition space in these exhibits?

Mr Deo—At the latest conference that we went to, Australia as a whole put on an exhibit space, which was the Technology Australia exhibit.

Mr BALDWIN—One of the areas of your submission was to do with the access to the PS2 platforms. Are the development kits only available in Victoria?

Mr Deo—Yes.

Mr BALDWIN—Why is that so?

Mr Deo—Because it has been the state government that has provided the funding. The way this works is that the Game Developers Association of Australia has negotiated a deal with Sony to make these kits available, but they require funding from other sources. The Victorian government has got behind the program and has provided funding for a number of kits.

Mr BALDWIN—In your submission you say that the kit is currently only available to Victorian developers. It does not say it is because the Victorian government is financing them. The inference is that it is a restricted access, only to Victorians.

Mr Deo—No, it is because the funding has come from the Victorian government.

Mr BALDWIN—How much funding does the Victorian government put in, do you know?

Mr Deo—They have had eight kits, so I would say in excess of \$250,000.

Mr BALDWIN—If the Victorian government has put it up, why should the Commonwealth then favour Queensland over Victoria? If the Victorian government has seized the initiative to attract industry to invest in Victoria, why wouldn't the Queensland government—and there is normally a fiercely competitive environment between Queensland and Victoria—seek to do the same for its people?

Mr Deo—There was a package that was announced two days ago, I think. Queensland will be providing some funding, but probably not the same as Victoria at this stage. What would be good is if the federal government could match the funding that the states provide to increase the number of kits available.

Mr CIOBO—The games industry cluster is obviously an association for those that are in the industry. Do you charge subscriptions?

Mr Deo—Not at this stage. As I mentioned, we are not incorporated at this stage so there are no subscriptions or anything like that.

Mr CIOBO—It would seem to me that Australia has a fairly good reputation for the development of games and electronic arts. For example, companies like that are performing internationally and really holding their own. I am just not convinced about why there needs to be any form of government support. In the short term it always looks attractive, but the United States farming sector is a prime example of what happens in the long term when an industry becomes inefficient through government assistance.

I just fail to see the coherent argument about why it is necessary for government to step in and provide resourcing when, from what I can see, there is strong demand in the sector for talented individuals graduating from universities, for example. We went on a tour this morning and heard of some animators dropping out of their courses halfway through to go and set up their own production houses and then having fantastic success. What is the example of market failure you are talking about that limits the ability of this industry to continue to develop?

Mr Deo—One of the reasons we need assistance is that this is mainly an export market. Last year I think there were sales of \$110 million, and \$100 million of that was from exports. The other thing I mentioned was that we are at a transition stage, where the size of teams required is going to be two or three times what is required now. The most important thing you could do is stimulate investment so that the industry can look after itself and not be reliant on government funding per se.

Mr CIOBO—Be a market maker, as such?

Mr Deo—Yes. The other thing I mentioned is that we are a young industry and we need skills and training so that our members are more professional, can deliver a project on time and know how to manage a project. Those things are lacking at the moment. Those are probably the two things we need to do to enable our industry to stand on its own two feet and not rely on government funding over the long term.

Mr CIOBO—I am sensitive to what you are saying, but I cannot see that it is any different from any other industry. For example, eight out of 10 businesses fail because they lack business

skills. It is a regrettable situation, but it is one that is common to every industry and not particular to this industry. Obviously, the Commonwealth is not able to step in to each and every industry and do that. In terms of the teams of people, I am interested to know: is there a willingness and an ongoing commitment by the very large, successful operators within Australia to bring on board staff who are locally educated and locally trained or is there increasingly a focus on trying to attract offshore talent?

Mr Deo—The larger guys take on a lot of overseas talent. The reason for that is that we are a young industry and we do not have the depth of talent. We have lots of people who might have one or two years experience or who might be graduates from one of the courses that concentrates on games, but they probably do not have at this stage the experience required to work on some of the larger projects that the larger players are getting hold of.

Mr BALDWIN—Did I hear you saying that the universities are not teaching them enough specifics about game development?

Mr Deo—No, not at this stage. I can see their point of view too; they want to provide their students with a broad range of skills, but games require a specific skill set and the graduates do not have those skills. They probably need a good six months in upskilling time. It is usually in the larger players' best interests to attract overseas talent.

Mr CIOBO—What efforts have the cluster you are involved with made to communicate industry's needs to those institutions that run courses?

Mr Deo—We held a round table meeting three months ago and we got together a lot of the major players—training institutions, universities—and had preliminary discussions on what skills we require. On a national scale, the GDAA is trying to put together a list of requirements so that people developing games programs can have a look at these requirements and try to match them as best they can.

Mr CIOBO—There is a willingness on behalf of industry?

Mr Deo—Yes.

Mr CIOBO—Terrific.

Mr BALDWIN—I wanted to ask about the development in the size of these teams to 40 to 60 people and the need to be competitive because of cost structures. Given that probably the easiest model to use to reduce costs is payroll tax relief, are you providing that to the Game Developers Association?

Mr Deo—Are we providing that?

Mr BALDWIN—As a state government?

Mr Deo—Not at this stage.

Mr BALDWIN—You are looking for federal government assistance in an area in which you do not know how to present that model for support or assistance. You talk about labour costs being one of the biggest inhibitors because of growing the team. Perhaps the easiest way is to reduce the hourly cost. One of the easiest ways to reduce the hourly cost is to remove payroll tax, which is perhaps an inhibitor to growing employment in this industry. Maybe that is something you should take back to the state government for consideration.

Mr HATTON—The reason that this is an export industry is pretty simple, isn't it? Microsoft's Xbox, Sony's PlayStation and Nintendo—it is hardware driven and company driven. Is the key problem games developers have here the fact that there are only a certain number of publishers and there is very strong worldwide competition to get the business of those publishers?

Mr Deo—That is right. As I mentioned, we have no local publishers that work on a global scale. If we want to get deals, we have to go overseas—attend conferences or fly over to see these publishers. So that is our biggest problem at this stage.

Mr HATTON—There may be an associated problem as well. A recent edition of *Catalyst* dealt with not only a group of gamers who were offered a chance to pursue that as a career but also an Australian company pursuing a contract with Microsoft. It followed them for month after month after six months and looked at how what might have been achieved was not achieved immediately and how what they faced changed directly in front of them. I do not know how they would be able to sustain the costs of going for a long period of time developing it and trying to get the money in to continue to develop it without being assured of an end product. What are the problems that people who are involved in it face in terms of those cost pressures if they do not get a materialisation at the end that the money comes back in?

Mr Deo—You have just hit the nail on the head there. A lot of companies are working on one product at a time, so they have to rely on the success of that product to fund ongoing development for the next prototype that they make. At this stage, all of the funding comes from publishers. If they are negotiating with a publisher for an extended period of time, they do not have money coming in if they are only working on one product. So most companies are trying to have two products on the go at a time to cover those gaps where they are trying—

Mr HATTON—To maintain cash flow.

Mr Deo—That is right. I think that that is the only way to sustain a company during those gaps. We have had recent examples of companies that have not been able to do so, because they have been reliant on one project and have not been able to get another project when that one was finished. So, unless they have a lot of capital behind them or investors behind them to fund them through that stage, they are heavily reliant on publisher funding.

Mr HATTON—The company in the *Catalyst* example was dealing with going to an entirely different scale: instead of being able to pump out games to thousands of people worldwide, they were moving to being able to have millions of people involved in the game. So it was a dramatically different scenario from what was there before. I will be interested to find out whether they have succeeded and whether there is a lot of piracy of intellectual property within the industry or by the majors who are actually buying the product—whether people's work is

stretched out to a point at which it is just copied by other groups from overseas. Can you tell me about that?

Mr Deo—This industry is hit driven, so if someone does come up with a hit there will be 10 clones within the next year or so. Blatantly ripping something off—using characters and so on—is not so much of a problem. The other thing you mentioned was the people actually buying or commissioning the products—the publishers. What usually happens there is that, because they fund the majority of the project, in most cases they end up with the intellectual property. Then they can go on and exploit it whether it is a hit title or not. They are the three issues that we face at the moment.

Mr HATTON—Looking worldwide at the way things have gone for the past 20 years or so in manufacturing just about anything, we have seen companies—those in Japan and Taiwan, for instance—moving from one country to another seeking lower and lower costs of people working for them. We have seen the emergence on the Indian subcontinent of an enormous number of trained programmers. How significant are the Indians in the gaming area? Have they got into that or are they concentrating on other areas?

Mr Deo—There is only one major company that I know of and they are not producing their own titles at this stage. They are mainly subcontracted to port existing games to other platforms, so the Indians are not major players at this stage.

Mr HATTON—Is there any indication of a flow to lower cost countries in terms of doing this?

Mr Deo—Yes.

Mr HATTON—What sort of problem does that create for people working here?

Mr Deo—Publishers are very risk averse, so what is actually happening is that there are a couple of Asian countries that are getting more deals, probably not to develop games at this stage but maybe to produce art assets and things like that. Our Australian industry does not focus on that too much, so that has not been a problem, but I suppose as publishers become more confident in the ability of these countries to deliver products then we will face increasing competition. Some more development deals might end up with these countries.

Mr HATTON—Can you tell me about the broadband demand aggregation project that is under way? I imagine because games developers need a lot of access to broadband and they have not got much money they might want to pinch it from other people to gain access or have people volunteer that access—how does it actually work?

Mr Deo—In terms of the cost, we have negotiated a deal with FIBRE just recently. That allowed us to get a lot of the larger players together and negotiate a pretty good deal for them in terms of connection fees and transfer costs. I do not think we have really pinched broadband from anyone else; we have just got together and managed to negotiate a better deal. The problem with that is it is only available to people close to the pipe because of the costs of actually connecting.

Mr HATTON—And for people working in the industry who are not close to that pipe, who are away in country and regional areas, what is their problem?

Mr Deo—They are going to have a tough time getting access to that broadband at this stage. We do not have any major players that are far away from the pipe. Our industry is clustered around the Valley and there are probably one or two outliers, so it has not been a problem at this stage. We try to get the people who approach us to locate around that area.

Mr BALDWIN—Have you considered discussions with relevant state government authorities to develop a business incubator centre where you could have a site-specific operation and rent out offices to people at varying costs? They tell me that computer processing power is a key consideration in this. You could have a large computer system in there so that their up-front, start-up costs are reduced and they are located on a site with like-minded creative people. Have you looked at that model at all?

Mr Deo—I have discussed it with local government, Brisbane City Council, but that is just in the preliminary stages. We are looking at that because it is definitely an issue for start-ups. The costs of establishing are pretty great.

Mr BALDWIN—Given that a lot of the submissions we have read said that one of the greatest inhibitors is the cost of actually having access to processing power to develop these things at the quality of resolution and animation that is required—

Mr Deo—I think that might apply more to film. We can use the medium-size PCs that are available to develop our games. The major costs are the development kits; as I have mentioned they are around \$25,000 apiece.

Mr BALDWIN—One of the other things that has been raised is the business management capabilities of people. They might be extremely capable and experts in what they do but not in their ability to manage their business per se, so you might look at that as part of the process of being in a business incubator—incubator means the ability to get them growing and going.

Mr Deo—Definitely. As you mentioned there are a couple of things that a lot of our start-up members need assistance with such as sales, putting together a business plan and attracting venture capital. Those things could be provided by an incubator.

Mr BALDWIN—You are putting your pitch for support. A young kid comes out of TAFE college with a certificate in auto mechanics; why shouldn't the government therefore sponsor them into a workshop with lifts and diagnostic tuning equipment, as compared to sponsoring the electronic gaming industry?

Mr Deo—I think the potential for growth of the industry is just huge—a lot more so than what that particular graduate and his industry can generate in terms of export revenue. I think putting your money into the games industry would probably be a smarter choice in terms of the revenues that you would see come out of that. That is the main thing that I would say.

CHAIR—Thank you very much, Mr Deo, for appearing before us today. If we need to contact you again, we will be in touch with you.

[12.26 p.m.]

TATTERS, Mr Wes, Producer, Light Knights Productions

CHAIR—Welcome. The committee does not require you to give evidence under oath, but I should advise you that the hearings are formal proceedings of the parliament and warrant the same respect as proceedings of the House. I remind you that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I also remind you that the committee prefers all evidence to be given in public, but if at any stage you wish your evidence to be given in camera the committee would then consider your request. You are welcome to add to your submission or make any introductory remarks.

Mr Tatters—There are a couple of comments that I would like to make, given the discussion I have heard today on high definition. The question was asked of QCA why they were the only organisation that had discussed high definition in their submission. We are now producing a project for the Nine Network that will be delivered in high definition in the coming 18 months. I guess the reason we did not discuss it was that we were doing it. I would like to make a couple of brief comments on it.

CHAIR—Is that *The Shapies*?

Mr Tatters—Yes, that is correct.

Mr BALDWIN—What is *The Shapies*? I do not get to watch much television.

Mr Tatters—*The Shapies* is an animated 3D children's television series—*Toy Story*, basically, on an Australian budget. Twenty-six episodes were produced for the Nine Network in 2000-02, with an additional Christmas special. Another 26 episodes are now in preproduction for broadcast.

CHAIR—What is the thesis of it?

Mr Tatters—A bunch of small toys in a bedroom. I do not know whether you have ever seen them, but Avon or one of those companies used to make a round ball that had little toy shapes that you could put into it. You would pull it out and they would fall out. Those shapes basically came to life in a bedroom and explored—

CHAIR—I think I have seen it. I have three children under three.

Mr Tatters—It is on from seven until 7.30 Saturday mornings on the Nine Network.

CHAIR—They sing and do things, don't they?

Mr Tatters—They sing and dance and all of those sorts of things.

CHAIR—I have definitely seen it.

Mr BALDWIN—You are addicted to it, Christopher. Can we add to the record that the chairman is addicted to the show!

CHAIR—I am addicted to many things but not that.

Mr Tatters—The only comment I would like to make about high definition is that it is prohibitively expensive, even for a production company. The simple reality is that the networks do not pay us sufficient money to deliver it to them in high definition. We are delivering it in high definition because we made a commercial decision regarding international markets and future-safing of the product, but the reality is that we do not get paid by the networks anywhere near the actual cost of delivering it to them. Until there is a much wider penetration of high definition, those costs simply will not come down. The manufacturers—the Sonys, the Panasonics, the Avids—will not sell high-definition product at \$25,000 while they can continue to ask \$200,000 or \$300,000 for an edit suite.

Over time, there will be pressure. The pressure of the move from the DV-CAM that forced the costs of nonlinear editing down to \$5,000 or \$10,000 will eventually happen in high definition, but at the moment the reality is that there is not that pressure. There is not that market acceptance—there is not enough footprint globally. We also have the additional complication in Australia that we use a different format of high definition to that used by a large sector of the broadcast industry. Consider the footprint in the United States, with 280-odd million personnel and wide ranges of broadcasters broadcasting in an entirely different format of high definition.

Mr BALDWIN—Is it just the PAL—

Mr Tatters—It is 24p versus 25p versus 50i—the various standards and definitions. The American market is NTSC. The Japanese market is the same. Some of the Europeans are, like us, using PAL. Some of the eastern Europeans are still using SECAM. So there are various formats competing. We are a smaller part of that whole high-definition market. We have chosen a standard in Australia which is quite vague. There are three broadcasters choosing to broadcast high definition and setting different quality standards for high definition. The different networks, if you talk to them and ask them what they expect when they get a tape from a producer for high definition, will tell you different things. When we were discussing producing this season of *The Shapiers* in high definition, we spent a lot of time with the network asking which version of high definition they wanted, which of the various specifications. There are varying resolutions and each of them technically falls under the category of high definition, but they are competing standards. Channel 7 have one idea of what high definition is. At Channel 10 they have another. Definitely Channel 9 have another idea of what a high-definition signal is. There are a number of competing formats and standards out there in the marketplace.

CHAIR—Is there a role for government in trying to bring some cohesion to that? Is that what you are suggesting?

Mr Tatters—The way the standards are being defined at the moment is very vague. Everyone must broadcast high definition and, within the act or within the guidelines, there are a number of standard definitions of high definition. I guess the question is whether or not the format that has been chosen and settled upon is economically the right one. That is the question we have had to deal with. It goes simply to the point that, with the high-definition tape format that we deliver in,

there are two competing tape formats—one called D5 and one called HD-Cam. We have been told by our broadcaster that we have to deliver in HD-Cam because they have gone down that path. But the rest of the world does not want to know about it. ‘Can you deliver it in D5?’ is what people ask. One uses a \$300,000 tape machine and one uses a \$280,000 tape machine. ‘Can you deliver it to us in those two formats?’ There are a number of competing issues in that area. So, yes, maybe there is a role in the clarification or tightening up of the guidelines, or maybe an expansion of them.

Mr HATTON—Is there a problem there in terms of interoperability? You may have produced something for Channel 9, but could you have taken exactly the same product and sold it to someone else?

Mr Tatters—We can repurpose it, and we do that now. That is a part of what we do in the television industry. We produce a program in PAL for the Australian market. We then repurpose it to NTSC for the American market. We then repurpose it again for international delivery. In Australia when we make a TV program for a commercial station we put in commercial breaks. When it goes out into the international market they do not want to know about our ad breaks, so it is repurposed. The whole delivery of television programming is about repurposing, but each time we repurpose there is another cost.

Mr HATTON—And you have not got the economies of scale.

Mr Tatters—We do not have the economies of scale. We are a small country competing in a massive global market.

Mr HATTON—In terms of flogging product overseas, having to go through that repurposing would add dramatically to your cost.

Mr Tatters—It does, and it is complicated further if you happen to make a children’s television series that has music in it. We are currently talking with Portugal, and the discussion goes: ‘How many songs are there? How are we going to fit all those lyrics into Portuguese?’ So there are continual repurposing issues, but they are a fact of life that I guess the production industry has come to live with. But, yes, there are continual repurposing issues and each of those adds considerable costs.

Mr HATTON—In terms of the stations and their differing definitions, does that mean that there is more or less of the capacity used? If some are using less, would they be able to run a standard on the side?

Mr Tatters—There are three or four different resolutions of picture quality in high definition. They are referred to in pixel rates—the number of pixels of image. They start at 700-odd pixels and go up to 1,900-odd pixels of resolution. Each of them is technically some form of high definition. There is also the issue of whether or not they are progressively scanned, which means that each line of picture is drawn one after the other, or whether they are interlaced, which means that a row of lines is drawn and then another row of lines is drawn. For us in animation, there are issues with delivery. If we are delivering an interlaced picture, the question is whether or not the two alternate frames of information have a time offset. Because the second layer arrives one-

fiftieth of a second later, has the motion all moved? So there are a number of different repurposing issues. They are the same the world over.

Mr HATTON—So that is taking forward into the digital age the problem we had in the analog era—

Mr Tatters—Exactly; that is correct.

Mr HATTON—with interlaced being the way television did it and non-interlaced being the way computer monitors did it. So, instead of getting the two of those coming together, they are just continuing, and that is the problem.

Mr Tatters—That is to do with the legacy that we still have to deliver standard definition television off the same signal. We deliver a tape to Channel 9 with a high-definition picture on it. It still has to arrive on 98—or whatever it is—per cent of Australian homes.

Mr HATTON—Okay. So in 2008 or so when that is supposed to bite the dust—as we saw with mobile phones and the analog system; I would hazard a guess that we will go a bit longer than that, depending on how things run—if there is a drawback of analog capacity, the probability is that then we will have more standard digital channels made available and so on. Would that solve some of those problems in terms of the interlaced or de-interlaced approach?

Mr Tatters—Come 2008, you are still going to have probably 90 per cent of the population with standard definition televisions. I am not a prophet, but most people are not, at this stage, running out and spending money. My mum and dad have still got a black-and-white TV in the bedroom; it just sits there and they occasionally catch the news at night. They are not ever buying a high-definition television for their bedroom. They will maybe buy a set-top box, which, once it hits the receiver, still has to be able to do exactly what we are doing now: convert it from high definition to a standard definition picture which they can still play on their existing television. There are a number of layers of issues in the whole delivery mechanism. They are complicated even further by cable delivery. I do not see a requirement currently for Foxtel or Optus to be delivering high definition in 2008. That will all still be standard definition. It will all still be PAL 50 megahertz interlaced pictures. So there are a number of complications in that area as well.

Mr HATTON—What make it further complicated are the new compression technologies, like MPEG-4 and DivX.

Mr Tatters—Ironically, some of those get around that. Broadband, MPEG, DivX and those sorts of formats are all format agnostic. I can encode a DivX signal at high-definition resolution. I can encode it in progressive scanning or interlaced. But delivery codes for broadband are very agnostic. The nice thing about computers is that they are also very agnostic. When we get it out of that nice agnostic computer world, which has been very traditionally digital, and have to translate it into the analog television set, the complications have been added.

CHAIR—We will move off HDTV if people are happy to do that. In your submission, you talked about a lack of presence abroad to showcase and sell the Australian animation industry. I am wondering what Austrade is doing if it is not helping to sell the animation industry overseas.

One of the purposes of Austrade is to sell Australian product. Is there a problem in your industry? Have you had very little exposure to Austrade or have you tried Austrade and it has not been very successful? By reputation, do you not think it is any good? What is the story there?

Mr Tatters—The key issue that we have with the television industry as a whole is that whoever is on the ground in those sectors needs very strong skilling in the idiosyncrasies of the film and television sector. Our concern is that, while they all have those officers, be it Austrade or the state government, at the moment their level of skilling and understanding of the idiosyncrasies of our sector is lacking.

CHAIR—Do you think it is easier for them to sell wine and beef overseas than it is for them to sell product?

Mr Tatters—That is our read of it at the moment.

CHAIR—Does that mean you have not really tried Austrade, or have you tried them and not succeeded?

Mr Tatters—We have had discussions with Austrade and we continue to. We are also having extensive discussions with the state government at the moment. The state government is currently in the process of developing a new creative industry strategy, which addresses the same issue we are looking at.

CHAIR—Do you therefore agree with Shainiel Deo that, rather than establishing special officers overseas for animation, electronic games or film—or you might be suggesting that we establish an office in Los Angeles; I do not know; you can explain—Australia should be sending people overseas to expos and things like that? Is that what you are suggesting?

Mr Tatters—No, we were talking about footprints on the ground. The nature of the industry means that we all go to the markets. There are many film markets around the world and the state government certainly provides assistance in getting us to those markets, but the deals are done much later. Going back a number of years, the deals were done on the spot. You would walk away from a MITCOM market in Cannes with deal memos that had been signed, but the nature of the market has changed. That means that you need to be in those people's faces for longer. The difficulty we have at the moment is in establishing mechanisms for that base. What we are proposing here is having ongoing support bases in locations such as LA, and possibly New York and London, that provide day-to-day support at an industry level. AusFILM have recently set up a new office in LA—obviously with a considerable amount of government funding—but that is focused on the film industry. The animation industry, in all honesty, at the moment does not appear to sit strongly within their current focus—certainly not as much as film or TV based animation. We perceive that as a weakness for this industry.

The animation industry is a very rapidly emerging industry. There are a number of projects going on in Queensland right now, and a number of others are being developed quite rapidly. The difficulty is that we feel there is a weakness with support on the ground on a regular, daily basis in locations such as LA. We need to be in those major players' faces or have a mechanism that allows us to effectively make a phone call and say, 'Is someone in that office who can go over there tomorrow morning and help us close that deal because it's getting too hard to do it via

the phone?’ Our own company’s solution to that was to sign with an American distributor and have an American lawyer based in LA, but it is not always easy to achieve that penetration.

CHAIR—So is Australia poor in relation to the cooperation between film animation, special effects and electronic games?

Mr Tatters—Yes.

CHAIR—In comparison to other countries? Do other countries cooperate more?

Mr Tatters—There is a perception that we are playing against each other a lot of the time here. The perception is that a contract is up and we are all pitching for it.

CHAIR—Is that an historical problem in Australia?

Mr Tatters—I think it is an historical problem. We almost broke the mould in Queensland when we produced *The Shapiers*. Instead of doing it ourselves, we pulled seven companies together—four animation houses, an audio production facility, a recording facility and a partner with the network—to make it work, simply because of the complexity of what we were attempting to do. It was a first. No-one had been silly enough to do it.

CHAIR—So perhaps there is a role for government in bringing the industry more closely together?

Mr Tatters—Certainly, and that is already happening at a state level as well. I am a steward on the development committee for the creative industry strategy, which is seeking to do that—create clusters that are state based, not just locally based. So there are strategies in that area, but it is getting to the next level outside of Australia that is a difficulty for us. In the past, the Australian Film Commission was a very strong component of that, but its offices closed. Groups like Beyond International and Southern Star moved in to fill the void, but they are not helping sufficiently at this stage—or they have got a commercial agenda. Maybe there is a need for some additional support in helping to grow the animation/television sector.

Mr BALDWIN—You heard the questions that we raised with the other people presenting submissions. Is there anything you would like to add to what they have said about their views of the industry?

Mr Tatters—One comment that did come up—and this relates to the educational issue which was raised—is that QCA, for example, is moving towards 3D Studio Max. It has moved to the animation platform that we are using. The reality is, though, that we have been producing in that format for five years. We have a number of QCA students—masters students, graduates and some who are considering going back to finish their degrees when they finish working with us—and many of them came to us without the skills we needed, not even a skill in the particular software application or platform. There is a difficulty in this industry because the technology that we use evolves in three- to six-month cycles, and some of those evolutions are radical. We are talking about throwing the baby out with the bath water. We moved from version 3 to version 4 during the launch of our series. We were forced to out of necessity, by the distributor, who said, ‘No, we are not going to sell you 40 seats of the old version. You have to have the new version.’

It cost us half a million dollars. We had to reskill, retask and retool—while we were in production.

The educational bodies are faced with an even more complicated problem. They need to deliver people to us who have those skills, but their syllabus takes a period of time to evolve. It takes time for certification if you are talking about a body like QANTM, which needs that certification so that they can offer their students Austudy and HECS type facilities. But, by the time they have got their syllabus process certified and delivered, there are three new versions of the software, which means that we cannot put the person they deliver us—who was nice and neatly certified—into the job in a lot of cases. We bring them on as a junior and spend the next three to six months—depending on the project—repurposing and retraining those people so that they are ready to go again. So there is an issue with how we work with our education cycles in this particular sector, because it is evolving. The game industry is faced with the same problem.

Mr BALDWIN—How do you find the interaction with the training facilities?

Mr Tatters—We have a good relationship with bodies like QCA.

Mr BALDWIN—Are they proactive in seeking out views, comments and directions from you as an industry player?

Mr Tatters—Yes. We have had discussions with them and continue to, and we continue to take their students.

Mr BALDWIN—How footloose are the people in the industry?

Mr Tatters—Define ‘footloose’.

Mr BALDWIN—Forget the overseas students; obviously they come here for training to go offshore. But what about the people who are trained here, gain their initial work experience with you, and then, as soon as they have got up to an experienced level, go offshore?

Mr Tatters—The nature of the film and television industry has always been of projects that last for a given window of time. If it is a film it might be eight weeks or 10 weeks on a lot, then 10 weeks of post-production. If it is a TV series, it might be six weeks, six months, 12 months or 18 months. It is the same with the animation industry. We have to contract for a series. We cannot guarantee 40 or 50 animators full-time work. The economics simply do not work like that. So the reality is that at the end of each cycle they are looking for work.

Mr BALDWIN—What percentage of your staff would be on a contract basis?

Mr Tatters—Probably 90 per cent—maybe even higher. For a long series such as *The Shapiers*, which was an 18-month project, most of those people came in as contracted employees—they were not contractors, as such; they came in as employees—but they still all understood that at the end of the window there was no guarantee that there would be another 10 years of work for them. We are, as I said, in preproduction for two new series, one being *The Shapiers* and the other a project which is in development. Many of those staff will be offered positions. Some of them have moved on. Some of them are in Sydney at the moment; some of

them are in Melbourne; some are in Hobart. It is the nature of the beast. Some of them have definitely gone overseas. Some have gone to London. A couple went to LA. There is not, at times, sufficient work to keep them going, so they look abroad.

Mr BALDWIN—How do you find the Australian financial sector's attitude towards investing in animation?

Mr Tatters—Disastrous.

Mr BALDWIN—So are you securing your finance offshore?

Mr Tatters—No. We are funded primarily through equity investment and through 10BA funding, because the commercial structure that the company was formed under was specifically engaged in that way. But the reality is that, in the last 18 months, it would be fair to say that 10BA investment money has all but dried up. One of the reasons for that is the establishment of the Nine Macquarie film fund, which effectively stole all our funding. We can no longer offer what Nine Macquarie are offering. They are offering money-back guarantees, which we cannot offer, so it makes it more difficult for us.

Mr BALDWIN—Mr Deo from the electronic games cluster raised the need for support to showcase at offshore conventions and markets, and I raised the availability of export market development grants. Are you utilising that avenue of financial support?

Mr Tatters—We are currently talking with the EMDG administrators. I guess the issue there to a certain extent, though, is that you have to have had the money to do that. You have got to have the \$100,000 that it may cost to have someone on the ground. We spent a considerable amount of money this year putting an EP on the ground in London and Europe for three months. But you have got to have that money. Obviously, if you are developing a product or a project—if we are talking about 10BA—10BA moneys cannot be used to fund that marketing. 10BA investment money is to fund the production; the marketing is a separate component of it. There is that catch-22. We cannot use the mechanism that exists—10BA—to actually sell our product. The EMDG grants are there, but we actually have to have expended the money before we can use them. So it is that catch-22 that we get into in that area.

Mr BALDWIN—What simple solution would you see, then, to try to make it much more accessible for developing industries to access funding?

Mr Tatters—For EMDG grants?

Mr BALDWIN—Yes.

Mr Tatters—In all honesty, I would have to say a mechanism that allowed forward funding. It should be project based, obviously: a business plan pitched and a proposal that suggested, 'This is the amount of money that we are seeking in support, and we are matching it dollar-for-dollar'—or however it works. This would allow us to access that money to take us into the marketplace instead of trying to cobble the money together and getting it back later.

Mr BALDWIN—You raised the cost of funding the technological advances. How do you cost that in when you do not know what the next revision will be or when it is coming?

Mr Tatters—This is our conundrum. We do know when they are coming. We work very closely with our production partners and our software providers—we are a Beta tester; we are a preferred company supplier for the companies. They tell us what is coming, and we have a relative idea of when it is coming. We currently pay quite large service contract fees which guarantee that when it arrives we will get it. To answer the question: that is how we cost it in at the moment. But it is an issue that the industry faces as a whole: how do we maintain best practice and keep ahead of that eight ball?

Mr BALDWIN—My question was actually more along the line of how you recognise that as a percentage of costs, compared to the labour, the software and the hardware in a production.

Mr Tatters—When you cost a production, you cost in every element. What is it going to cost to buy that suite of hardware, if it is a new suite? If it is an existing suite, what is the cost of the lease that it is under, the maintenance program that it is under or its written-down value? Each unit or element is costed into the production. If it is the purchase of a new software suite or a licence, that is literally costed into the budget as a cost of that production.

Mr BALDWIN—For a \$1 million production, what percentage of that would be attributed to hardware, to software and to labour?

Mr Tatters—In terms of animation, it is quite high. Probably upwards of \$200,000 to \$250,000 worth of hardware and software would be an early starting point. You do not cost in the entire cost of your \$300,000 high-definition edit suite.

Mr BALDWIN—Are you saying perhaps 30 per cent of the cost?

Mr Tatters—It could be as high as 30 per cent. If it is a new production which is literally turning the lights on, it could be as high as 50 per cent for animation. The suite costs and the hardware costs are very high and it then depends on the duration of the production. It might be a \$1 million production, but it is actually only going to take 15 weeks to do the animation; however, the infrastructure might still be expensive to put in place.

Mr HATTON—To follow up on the productivity problems that you face with the students not being sufficiently skilled in particular areas and the difficulty of taking so long to reskill them, there is an associated problem with people having developed skill sets being out in the industry and coming in on contract. Do you have the same problem with that as well?

Mr Tatters—The people that we bring in have normally gone through a fairly extensive assessment criteria. Obviously, we are looking for people who are as close as possible to our current skill set. We are talking about a group of people who do sit at home 24 hours a day—unfortunately, often with a pirated copy of the software, which they downloaded off the Internet because it is the only way that they can currently get access to that latest Beta version. A lot of them who are out of work are skilling themselves at home. But it is the same problem: anyone who arrives has to retool themselves, but in most cases it is shorter than for someone who is new to the industry. In addition to learning the skills, they need to learn an understanding of the

dynamics of the real world. They may have had the opportunity to make a 30-second or a two-minute short film that took 18 weeks, but they will be asked to deliver 14 minutes of project every six weeks in teams of six or seven people. There are reskilling issues and an understanding of deadline requirements that are no different to those in any industry and that need to be learnt. So someone coming in from the industry will have those skills, or we hope they will have those skills.

Mr HATTON—Do you think there is an effective way that governments could assist to bridge the gap that is there, because it is a problem that any TAFE organisation Australia-wide has with any training?

Mr Tatters—One of the discussions we have had with TAFE and also with the apprenticeships program is that there is currently no method that we could utilise to put on apprentices. We have investigated this at length; we have been up and down every ladder that we can possibly find. We would love to be able to take 17-year-old kids. In fact, we have taken on a number. One of our lead animators came to us the day after he finished high school because his dad was a mate of a mate. He came as a work experience student. He has not left and is now one of our lead animators. We would love a mechanism that would allow us to put someone like him on an apprenticeship scheme to take advantage of the skill learning in other areas of life that the apprenticeship scheme requires. Obviously, the nice thing about an apprenticeship program is that the syllabus is reasonably diverse. It does not just focus on the animation element; they may have to learn a bit of business practice or they may have to do a subject in accounting or something else that value-adds to what we do. At the moment, we do not have access to that.

Mr BALDWIN—Are you aware of any TAFE oriented courses?

Mr Tatters—There is a multimedia course which currently exists. We certainly explored whether or not it was practical to put on, but it got into Web design and was not sufficiently relevant to our needs that it would work for us or for the person coming on. The person that that TAFE course was aimed at was a different person to the person that we would look to employ—for example, someone coming in as an animator.

Mr BALDWIN—Have you spoken to TAFEs about tailoring a course? Would there be a sufficient number of people who would take up or be able to access an apprenticeship to warrant the cost?

Mr Tatters—That is currently the issue. I will be honest; we went down that path and it then got to a point where we said, 'It's too hard.' Then we came back and talked again to the QCAs and the QANTMs, and we have seriously looked at whether or not we should set up our own educational body. We are in discussion with three other animation houses in Brisbane at the moment about whether it is feasible to set up our own institute here in Queensland. We have not made a final decision on that yet, but it is one of the things that we have been exploring.

Mr HATTON—In terms of the generalised skill sets that people are coming to you with, do you see any kind of solution where either governments or government and industry combined could provide a means of giving you up-to-date software access to people within institutions like this place where we are today?

Mr Tatters—I do if we can get around the problems. One thing proposed in this submission was a mechanism for accelerated certification; a mechanism that would allow us to certify or establish syllabus in a greatly shorter time frame to meet core needs of industry.

Mr HATTON—Or establish a set of parameters that could cover a series of iterations of the standard software and then you could update it more readily.

Mr Tatters—Exactly, and allow the syllabus to roll through to take advantage of those and for them be moved into syllabus. Recently, at the creative industries inquiry that the state government has been running, QANTM expressed exactly that issue. They discussed there being a way that they could have syllabus mechanisms in place that would allow them to go, ‘Right, we’ve got a new version of the software. Two-thirds of what we train in is good but there is a third that needs to be fixed. Can we roll this on? Can we put the courseware together?’ The courseware is often provided by the development companies. The Discreets and the Aliases are already providing courseware; they already have syllabuses which are certified and a mechanism to allow them to be pipelined rapidly.

Obviously the other difficulty, though, is how the institutional or educational body makes that mechanism work as well. If the software arrives halfway through a semester, there is a lag of six months until they can physically do it again. There are a number of issues involved. The other discussion was about TAFE or other sponsored further education mechanisms or institutions that we could tap into that met those needs, but there are obviously costs and other issues involved in that as well.

Mr HATTON—So it has not got the flexibility. It needs to be funded either on an operational rolling basis or a cascading effect to take this into account. It needs to run through what the key priorities are and not specify it down to particular types of software. On page 8 of 15, you talk about access to broadband digital infrastructure. You talk about the difficulties in competing with the US and the fact that more needs to be done. You then say:

We therefore propose that a plan be developed to provide high-speed digital access to the entire film and television industry.

Tell me more.

Mr Tatters—The issue that I perceive currently is that we need to extend past our back door and to deal with studio facilities primarily in the United States and Canada. Those bodies have amazing access to incredibly cost-effective broadband which allows a director to sit in a studio in LA while the audio engineer is sitting in New York. The New York engineer will mix the desk; the director is sitting in his LA studio. The bandwidth of data transfer that they have available to them means that it is seamless. It is prohibitively expensive for us to try and offer that service in Australia. We are competed out of the marketplace on cost alone. There are already pressures being brought to bear with countries such as Canada offering enormous rebates and incentives to move production to Canada. We are getting told on a daily basis that our costs are too high now. We were effective 18 months ago when we were at 50c in the dollar but, at 65c in the dollar, they say they will move it up to Canada because of their incentives and rebates.

The broadband is a part of that as well. A guy can sit in his New York office and produce a project that is running in Vancouver, Montreal or LA, because of that access. The industry in Australia faces the same problem. We produced two episodes of *The Shapiers* with Ambience in Sydney last year. It was prohibitively expensive for us to continue doing it after that because of the amount of data we were trying to move. We were trying to move frames of data backwards and forwards overnight. The cost of physically doing it on a regular basis made it impossible for us. FIBRE is currently developing, or attempting to develop, a footprint. Unfortunately, I perceive that FIBRE is only relevant at the moment to the larger players in the marketplace, not the smaller players. We are not a big company. We do not have a massive footprint. When we have to look at the cost of offering the same amount of broadband access as Southern Star may have the money to fund, we sit there and say we cannot do it. We will be competed out of the marketplace overseas, and we will almost be competed out of the marketplace with countries such as New Zealand. When we start to ask what it will cost us to deliver that data back to LA, Montreal or New York, the bottom line for us is that it will no longer be cost effective.

We are currently looking at a production in India where the Indians are saying, 'We've got a satellite on our roof; we can send it to you. It is not going to cost us anything.' They are writing that cost off as an irrelevance in delivering the data. But we then start to do the maths here and say, 'We can't afford to receive it. It's just not cost effective for us. We can't use you.' We are currently exploring whether or not we can find a mechanism to courier stuff backwards and forwards using DHL and FedEx overnight. I guess the issue is that we all face that problem now. There are fibre-optic cables running up and down streets. If we had the money, we could go out and put that fibre into our building. We currently have broadband in terms of ADSL, for which we pay 18c or 12c a meg. Every one of our frames of animation is a megabyte. So every time we move a frame of animation around this country, it costs us 12c. We move 22,500 of them around per episode.

Mr HATTON—If you used Optus cable, you would not be paying any upload costs at the moment. If it was to download, you would be paying—

Mr Tatters—It is the download; it goes both ways. We use Mercury Connectors—one of our service providers—and they allow us to send as much data as we want, but they will not let us pull it the other way. We can halve our costs on that particular service. But the reality is that, at costs of 18c, 12c or 5c a meg, we are getting caned, and we will continue to get caned. In the States, depending on the amount of band width, they are looking at units of that cent price for gigs of data.

Mr HATTON—I will hazard a guess that we are losing employment in this country now because some of the major production companies in film in Australia have decided now to do their postproduction work overseas and to take what jobs would have been here, as little as a year ago, back to the States or back through to Canada, even though they have to pump the stuff out of, rather than around, Australia. Is that happening?

Mr Tatters—Yes. I think it is a reality for the whole industry. Cost-competitiveness means that as a service industry in Australia at the moment—which unfortunately the film and television industry has largely grown to be—we suffer. Queensland suffers greatly from it. We are a service provider here. There have been two television series made in this state in the last two or three years. In terms of drama, there have been *Big Brother* and things like that. *The*

Shapies and *Mad Cow* are the IP that we have created here, but there is nothing else. We are very much a service industry. We are trying to serve a dwindling marketplace where our dollar has risen.

Eighteen months ago, we were bringing in work from overseas. Liquid Animation here was producing episodes of animation for *Proud Family* in the States. But all of a sudden they are being told, 'You are not cost competitive anymore and therefore we will move our work elsewhere.' The Indians are an issue for us all in terms of the fact that they are incredibly cost effective. We were quoted \$25,000 to produce an episode of our series, which costs \$250,000 to make. The \$25,000 is just the animation component, of which ours is probably \$85,000 to \$90,000. But that is the reality. Miedhap, one of the staff at state development, was telling us the other week that he was earning \$5 or \$6 a week in India and was living quite comfortably off it. There are always going to be those issues. But, when we face issues like simple access to broadband delivery being an impediment, then issues of quality, staffing and those sorts of things compound those problems. We have the technology in terms of our skill sets and we have shown ourselves globally as an industry player in terms of our capabilities, but the sad reality is that the work is starting to dry up.

CHAIR—Thank you for giving us your time.

Proceedings suspended from 1.12 p.m. to 2.01 p.m.

WALSH, Mr Robert John, Chief Executive Officer, Krome Studios Pty Ltd

CHAIR—Welcome. Although the committee does not require you to give evidence under oath, you are advised that these hearings are formal proceedings of the parliament and, consequently, warrant the same respect as proceedings of the House. I remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I remind witnesses that the committee prefers all evidence to be given in public, but if you want to give any evidence in camera the committee will consider your request. You have not made a submission. Would you like to make any opening remarks about this industry in general?

Mr Walsh—No. I am here more to answer your questions. There has probably been an abundance of people who have said a ton of things. Instead of me repeating it, you can fire away and, if anything comes out of that, I am happy to fire back.

CHAIR—Fair enough. The evidence about Krome appears to be that it is a very successful company here in Queensland, it is very successful in the industry in which you operate and it has succeeded where many others have failed. What is the secret of Krome, and how do you attract capital for some of the things that you undertake? How did you attract capital in the first place, when you had no runs on the board? A lot of people in submissions say that it is very hard to get started, but you obviously got started somehow and succeeded, so you might be able to help us by telling us how that happened.

Mr Walsh—There are a large number of financial institutions that would probably almost put me out of business today. I basically funded it on my credit cards.

CHAIR—Really? That is how I live my life!

Mr Walsh—As an accountant, I was lucky in that banks such as the Commonwealth would send me forms stating, ‘Please sign the form and we will give you \$10,000 worth of credit, no questions asked.’ I racked up three or four of those, cashed them out and started a company.

Mr BALDWIN—With extra high interest rates.

Mr Walsh—With exorbitantly high interest rates. I missed my home loan payment for five months in a row. I did not attract any investment. It is almost impossible to attract investment in our industry. There is no secret. It is not easy.

CHAIR—So you just took the risk?

Mr Walsh—Yes. I took a punt. It went horribly wrong the first time around. I learned a lot of lessons, decided to stick it out and was fortunate enough to build a company based on some very talented and dedicated people. I think that has been and continues to be the key to our success— attracting good talent and having a good working environment. I do not think there is any business where there is a magic formula that you can just walk in with and it works. It is all hard work. On the investment front, I know there is a lot bandied in our industry, but I am not a big

player in attracting capital. However, I do not think that it is a level playing field. I think film, television and those areas—and I will be frank—unrightly have it a lot easier than we do. I do not see any merit in that. Games can be as lucrative or have as much glory as a film can. That is my two cents worth on that subject.

CHAIR—Is it unusual in your industry for a successful company such as yours not to be a takeover target for an overseas corporation, or are there so many companies of that size that they do not need to do that?

Mr Walsh—No. It has been discussed with us a couple of times. I believe that a takeover has to be beneficial to both parties. It is not really a takeover; rather, we would be attractive to a publisher as a production studio. It is not where another studio would buy us but where our end purchaser or our industry would be the publishers—the people which we supply our product to. In our industry it is like everything else: they want to work with people who can give them dedicated product flow—guaranteed—and who can constantly perform. We have fairly strategic relationships with quite a number of publishers in that area. Eventually maybe one of them will take an interest in us, maybe not. I would have to decide first whether I could work with somebody else. That could be the tough one.

Being in business is not easy. If you pick the right overseas partner there is nothing wrong with having a strategic relationship, because they will keep giving you work, they will keep giving you money. It is getting harder and harder to find the work. The projects are getting so big that it takes much longer to get them going. If you have 50 or 60 people sitting around for three or four months, it becomes a fairly costly exercise. So I do not know; that is a few years away yet.

Mr BALDWIN—Congratulations on having so many successful titles. Do you develop the theme for a game as well as the game, or are you buying themes?

Mr Walsh—We have tried to build our studio half and half. I mean by that that half is our own creation, our own original intellectual properties, and the other half is predominantly what I would call work for hire. Somebody such as Disney would call us up, for instance, with *Extremely Goofy Skateboarding* and say: ‘We’ve got this property. We want to make this style of game. Are you interested?’ In that situation, although it is not our property, we still come up with a design—we work with the publishers on the design—and then we totally create the content. They will just give us reference materials and approvals et cetera. We have tried to do it that way.

Mr BALDWIN—Do you test your market concepts on the market that you are trying to attract—which is the kids? It is one thing to have a corporation say, ‘Yes, we want that game,’ but another if it is not in tune with what the end consumers want. What sort of market testing do you do of your concepts?

Mr Walsh—With the size that we are now and the diverse range of people that are attracted to our area of expertise—a lot of us have family, kids, friends et cetera—it is fairly easy to get kids to come in. We fill them full of candy and pizzas and let them look at stuff. We will generally get feedback that way. When we take those concepts to a publisher, they also do focus testing. To be

brutally honest, we do not have a methodology for it. We come up with something that we think is hopefully cool and attractive and then spend a lot of money trying to take it to the next level.

Mr BALDWIN—A range of games have come out recently, particularly for the Game Boy, along the lines of Harry Potter and such things. Is much of a market being pushed in Australia's direction for those styles of games already licensed to whichever film house has produced the film?

Mr Walsh—I would say so. Tantalus in Melbourne is doing GBA work for a company called THQ. That involves a lot of licence property—a lot of Nickelodeon, Cartoon Network, World Wrestling and that sort of stuff. That was what I was saying about work for hire. We are, as a country, a fairly attractive place to come to to get work done and we do get offered that sort of work. We are almost working on a film property now.

Mr BALDWIN—How would you rate the calibre of people that come directly out of training institutions such as this one in terms of them being employable directly into your work force?

Mr Walsh—That calls for a brutal answer, doesn't it?

Mr BALDWIN—That is what we are here to find out.

Mr Walsh—Anybody who knows me knows that training in this country is my pet peeve. Being really honest, I am the largest employer in Australia and I have no interaction with any of the government institutions when it comes to training and education. Not one of them comes and knocks on my door and asks me what I want.

Mr BALDWIN—In a perfect world what would you want coming out of training institutions that would make people employable at your facility?

Mr Walsh—Having said that, I think we are also a lot different from other studios as we do take a punt on graduates. I think that over the years we have employed something like 20 or 25 graduates of QANTM and probably TAFE courses and universities. I will be honest with you that the games industry is a young industry; accountancy has been around since abacus days, 2,000 years, so the CPA board and the Institute of Chartered Accountants have their formula, it is already in place, and it has taken them many years to put that in place. I think the educational institutions need to go to industry as a whole. The industry is at fault as well, as it should be saying, 'Here is what we need coming out of them.' My requirements are probably different from somebody else's, but there should be some sort of general consensus that as a bare minimum they could come in and have basic skills in certain areas.

The employment area of our industry is going to change dramatically over the next two to three years. We are about to come into a transition time. Currently it is a PlayStation 2, Xbox or GameCube. We will go to PlayStation 3, Xbox 2 or the new GameCube, whatever it is going to be called. As for the short time that I have been in the industry, when I first started we had a ratio of one programmer to one artist. Now it is about one programmer to two artists. With PlayStation 3 it is probably going to be one programmer to three artists. If you look at the ratios you will see that we are very short of talented animators in our industry, and I think that is probably across film and television as well.

The other thing is that the students get taught very generic skills. It would be good if they spent time on two, three or four electives as industry specific courses—games programming, as opposed to just programming, and doing modelling or animation for games versus doing it for film and television. That might be there—I do not know; I have not had it put in front of me to be able to say this is what we are doing.

Mr BALDWIN—So you are not aware of any educational facilities in Australia that provide game specific orientation modules within their degrees?

Mr Walsh—I know that QANTM does—that is the Queensland one—and I think there is an academy in Canberra or Sydney that has a games related course.

Mr BALDWIN—Everyone has spoken about a platform such as the Sony or the Xbox or the Nintendo. Is there much of a market for PC based games now?

Mr Walsh—I did not bring any figures with me. The general trend last year was that PC sales trended down five to 10 per cent, as against the year before, whereas the consoles trended up by 10 or 12 per cent. There is still a demand for PC. It is just that the console games tend to be larger revenue bringers for the publishers. It is such a bigger market.

Mr BALDWIN—Would that be because it is harder for piracy to occur on specific module based, rather than PC based, games?

Mr Walsh—Piracy is an issue. I do not think it has been overcome on the console side of it. I think the real defining factor is that the consoles are seen as games platforms. They are games machines. That will change down the track. The Xbox, and Sony will take theirs the same way, is going to become a set-top distribution device. There is no doubt that in three or five years time your Xbox or your PlayStation is going to be streaming movies to you. It is going to be online on your television. It is going to have multiplayer games. It is going to be more than just a gaming machine, whereas I think the PC is also a home machine: you still do your accounting on it, you still do your word processing on it. That said, there is still a market for PC products, and there are some definite genres. You just do not move the same number of dollars and units on PCs as you can on others. There are a few exceptions, like *The Sims* et cetera, which will do big numbers, but in general the console—

Mr BALDWIN—Is it possible for the end consumer to pirate an Xbox, a PS2 or a GameCube game?

Mr Walsh—Yes.

Mr BALDWIN—I am not that literate when it comes to these things.

Mr Walsh—To be brutally honest, you could take your Xbox to an electronics place in Brisbane today, pay about \$250, go to your local video rental shop tonight, pay five bucks to rent an Xbox game, take it home, copy it to the hard drive, take it back tomorrow and you would have a full playable copy of a \$100 game.

Mr BALDWIN—Burning another—

Mr Walsh—You do not need to burn it. The Xbox actually comes with a hard drive. You just copy it straight across and then you can play it. Sony is a little bit better, but the Xbox is pretty easy.

Mr BALDWIN—I thought that maybe the reason that they were going for specific platform orientation was to avoid the piracy aspect that seemed to be prevalent with PC based games.

Mr Walsh—It is harder to do it on the console and it is far more expensive than with a PC, but I do not think we will ever get rid of piracy—maybe one day. Actually Nintendo do it very well. Nintendo do not have piracy because you cannot actually buy the media to burn to.

Mr CIOBO—Could you talk us through how the actual process flows in terms of the concept of a game and how you would go about seeking finance for it? Maybe you self-fund entirely—I do not know—but could you just spell out the process for us?

Mr Walsh—We did a game last year called *Ty the Tasmanian Tiger*. I can step you through that process. Basically we come up with an idea and then we sit around, draw some sketches and write what we call a high-concept document—it is like five pages that will encapsulate what this game is, what it will do, who the audience is. From there we build what is called the prototype. Let us call it a display home for people who may want to buy. It is at a level that demonstrates most of the gaming experience to the end user. Along with that we do general market research and various kinds of marketing—trailers et cetera. That can take anywhere from two to nine months, depending on what calibre you want to hit at. By the time *Ty* got signed, I think we had spent about \$1½ million of our own money on the prototype to get it to a point where a publisher was interested enough to take it to the end level.

It is really risky. The year before, we spent about half a million dollars on a prototype that is sitting on the shelf at work and that we cannot sell. It is really no different to the film industry, where you come up with a script, except that it is a lot more expensive to get it to a point where somebody is going to be interested in it. If you could attract investment, it would make it a lot easier; we could put more things out there. The problem with our industry is not necessarily that it is a bad idea; it could just be bad timing. In two years time we could take that off the shelf and it would find a home somewhere. It is like anything—if you are going to create products, it is almost like you need to have a portfolio. At that point we had probably 10 to 20 people working on it, just on our own dime. If it gets triggered you then go into a preproduction stage where you do your full design, technical design documents, project files, all the risk analysis, Gantt charts and all that sort of thing. Basically it is a due diligence about whether you can build this and what it will take to build—how much money, how much time et cetera.

Then that entire overview is broken down into a schedule. We say, ‘It needs to be on the shelf by this date,’ and then work it backwards into achievable milestones—like the slab going down, the walls going up, the roof going on. It is very similar to that. From there, we get paid for creating the content. It is just like building a house: you get a payment for the slab; you tell the person the slab is down and they sign the cheque and you get paid. So you are funding that process the entire way through. From there, you submit it to the manufacturers, they approve it, put it in a box and put it on the shelf.

Mr CIOBO—In terms of the government being able to assist, would it be along similar lines to that in the film industry, for example? You might have the gaming equivalent of the Film Finance Corporation.

Mr Walsh—I am aware of film finance. I think that model would be exactly the same. *Ty the Tasmanian Tiger* is a very successful property. It is probably the most successful one that has ever come out of Australia. Last year in our genre, which is our category, we were probably No. 3 or No. 4 in the entire world; yet when trying to get the film and television industry interested in Australia they do not want to know you, basically. One thing that our country needs to learn is that it is not the games anymore and it is not films anymore; it is all about franchises. You only need to look at recent films such as *Terminator*. *The Matrix* is probably the best example, or even *The Lord of the Rings*. They launched *The Matrix* and at the box office on the opening weekend they earned, I think, \$US77 million. In that same time frame they had shipped about \$US80 million worth of retail sales of the game. It matched the box office sales.

Our industry is going to out-gross box office next year. It will not out-gross the entire franchise, because you have DVD releases, rentals, pay-per-view et cetera, but the value of our properties is no different to the film properties. If anything, I think it is less risky than film. The distribution network for film is a lot cheaper. Sure, they have to manufacture it and they need to get it in the channel, but the risk the distributor holds is not that great, whereas the risk a publisher holds is pretty substantial when they manufacture \$1 million, \$2 million or \$3 million worth of units at about \$10 a pop. I think the cost of goods for *The Matrix* was about \$US45 million just to put it on the shelf, without marketing. When you are talking about that sort of money, publishers are not really going to say, 'I don't really care if it does well or not'; they are going to push it pretty hard.

I think film finance could be made available more broadly than just for entertainment properties. Why have different sets of rules? They could be exactly the same. If I find a publisher to pick up the property and co-fund it, I can do a better deal and bring more money back into the country. The more money that we put into a game, the more bargaining power we have at the other end. It is simple maths. The industry is all about risk. If you take the risk away from the publisher and said, 'On this day I will give you a disk that you can manufacture,' you could do some pretty good deals at the back end, just like they do in the film industry: 'I'll put it in the can and you give me some money.' It is pretty much the same mechanism.

Mr CIOBO—In terms of the composition of the gaming market—this is a little tangential—is there a way in which Australia has a niche hold in terms of the development of certain types of games? Are there areas that we can improve and expand upon? You read all the time about how the average age of the purchasers of gaming consoles is, I think, 24—you would know better than I do. Are there ways in which we should be liberalising censorship laws or something? Are there areas that we can target?

Mr Walsh—The harsh reality is that Australia's gaming community comprises 1½ per cent of the entire world of game sales, so the censorship laws that we could impose in our country would have little or no effect on the amount of units sold in Australia. The effect of changing a couple of years here or there would be insignificant. We have some definite advantages—or used to. Our exchange rate has not been very productive lately for our cause. Compared to America, our talent costs per head are less expensive and the cost of living tends to be less expensive,

depending on the area. We can currently make better quality products for a similar price to an American or UK developer. I think that is where we currently hold the advantage. That said, price is not the determining factor. Most people just want a good quality product and, as long as we keep that in mind, we will do very well.

Right now we do have a really good reputation overseas. If we can support the industry, get more people into it and build a big community, we can push that home. Asia—places like India—will become a threat to us in the next three to five years if we do not get it sorted. When you are paying someone \$1 a day to write code, it does not matter if you put 1,000 people on it. Art is an area we definitely need to watch too. There are a lot of places, like Indonesia, China et cetera, that have quite big art houses. I do not think the quality is there, and I do not think it will ever get there, but we need to keep our edge.

Mr HATTON—Nineteen eighty-four was an Orwellian year to start a business! You have been at it for 19 years or so. In that time you have seen dramatic change in the platforms that are available, in processing power and, I expect, in the complexity of the games. Have you seen much change in content or is it still dominated—it is not in the titles that I can see that you have produced—by murder, mayhem, destruction, war and the rest of it?

Mr Walsh—Violence is a big issue in games. I am with you; I am not a big fan of violent games. Our industry seems to get an unfair levelling at it. If you watch the movie *Lord of the Rings*, you will see a head get lopped off and blood will spurt out of it. We have a ratings system for games under which you cannot chop that person's head off. Yet for some reason the games medium is perceived as being more violent than the film medium that we take it from.

Mr HATTON—Maybe it is because there is a direct interaction. The kid who is working the console is the one doing the firing and the person dropping dead.

Mr Walsh—That is probably the point. It is only because the graphics have gotten so good that you can see that now. Six years ago films were just as violent. I wish it was different. The highest-selling game last year—it blew everybody else out of the water—was a fairly violent game. That said, it made about \$US450 million in sales in North America alone as a franchise. It did more than most box office sales last year. I think it is more of an indictment on society than on the actual medium that we put it on.

Mr HATTON—I think it runs to the nature of the medium and the nature of the impulses running through the medium as well. It also runs to the fact that since 1984 there have been audiences and experiences created where there is a whole lot of self-reinforcing of that because the dollar is there. The worrying thing to me is watching kids using this stuff. On a *Catalyst* program a little while ago there was a kid who was about nine or 10 years old. They asked him what he liked about the game, and it was the activity and the fact that you could kill people—that is a real part of the engine running the whole thing.

Mr Walsh—I took a shot at the ratings system for our industry too. I was in a Target store in the States recently and heard a mum asking her kid what he wanted. The kid was probably only eight years old. He wanted this particular game, and she was about to buy it for him. I said, 'Do you know what is in that game?' She said, 'No.' I told her, and she said, 'Well, you can't have it.' I do not think we do enough education in the games industry about what the ratings mean. In the

movie industry, people know what PG and R mean. This is not just in Australia; it is worldwide. There is not a strong enough voice educating parents about content. But that is not really an issue for us. Like I said, our game last year was about cute furry characters.

Mr HATTON—And that was not *Barbie Beach Vacation*!

Mr Walsh—That is right. Our portfolio does not exactly have a lot of violence in it.

Mr HATTON—Looking at the other titles—*Ty the Tasmanian Tiger*, *Extremely Goofy Skateboarding*, *Sunny Garcia Surfing*—your portfolio is anomalous. It seems to be against the trend of most of what you see available in our stores.

Mr Walsh—In regard to wanting to go to the harsh side, I have a lot of guys at work who want to make first person shooters. We have gone for more of a family approach with it, and I think we have done a good job of staying away from the violent stuff.

Mr HATTON—Is that in part why you are an appealing group to some of those publishers overseas—because you have chosen to do that and, as you indicated before in your evidence, you have chosen to concentrate on continuity and quality? They know that they can get the type of product they want out of you, but they also have expectations, in terms of delivery and so on, which in the competitor markets are not there. Is that the critical thing at the moment?

Mr Walsh—The downside of doing that is that you also get pigeonholed. When we started, we were only known as a company that could do surfing games; then we did skateboarding and people thought we could only do sports games. There is a real pigeonhole problem. Obviously, we have built up quite a good portfolio and there is probably no product that we cannot take on now. The problem we face is that, when they do approach us for a product that is outside of the stuff we have done, we generally would take two or three months in proof of ability. But we do have a fairly broad portfolio so we do get offered things that are a little on the fringe, so we can explore that as well. But, as you said, we have not done any violence games and we are not getting offered those sorts of things. The problem is that a lot of those do really big numbers, although you can be successful without creating violent huge hits all time.

Mr HATTON—Is there much in terms of a retro market? Given the Commodore 64 and the number of sites that are out there—

Mr BALDWIN—What is a Commodore 64?

Mr HATTON—It is one of the very earliest consoles that we have. It actually came before the Commodore PET, which was probably the biggest selling console you could imagine. There is also the Amiga, which did so well as a platform from 1982 to 1985-86 and so on. In terms of public domain, there have been a number of those games which were successful at the time that have been available. Is there any kind of retro market? There is a new company that has just bought the Commodore franchise and wants to put its stamp on it.

Mr Walsh—A classic example is a company called Infogrames. They bought the Atari catalogue and they have now rebranded themselves as Atari. Nobody knew who Infogrames was, but just about everybody knows Atari. They are looking at going through the back catalogue and

relaunching a lot of the old properties. That comes back to what I was saying before: it costs so much money to build a brand and launch a franchise, whereas, going back to the old stuff, everybody knows what pub Pong is. Everybody can go back and say, 'I know that; I get it,' and they reinvent a lot of the stuff that exists. Again, it comes back to risk. It is a lot lower risk to go back and build on something that is already there than it is to try and create something new. That is the balance. You need to have a stable portfolio of products that will give you the cash and then you need to have a few risky ones to try and swing the bat. Although the old ones will bring you in revenue, they are probably not going to do the three, four or five million units that everybody is looking for to make the big home run. So there is a balance there.

Mr HATTON—Have you been tempted by the lower production costs overseas and have you looked to Indonesia or India to sublet your work and get it done there, or is the nature of your business that you are committed to doing it here with your crew and with the people that have the skill sets that you want?

Mr Walsh—We do get tempted. We are currently looking at taking on a project that we do not have the bandwidth for, and we are looking for external sources. With the nature of what we do, I generally want to keep it in-house, in-country or in-family. I will continue to do that as long as I can stay competitive but, when the decision comes and I cannot be competitive anymore, I would probably have to look elsewhere. I know that everybody else in the world is looking, so I would have to be silly not to as well. But if it is done properly I do not think you need to, and I would hope those days do not come.

Mr HATTON—Given the explosive nature of the growth of the industry, its strength and its capacity to continue to grow, what is the one most important thing any government, or the industry as a whole, could do to try to ensure that future?

Mr Walsh—There are probably two things. Investment is not one of my big fronts but I think government needs to at least make it attractive or equal for people to see it as an opportunity to invest money. I think the other thing is definitely having a collective structured approach. I know educational institutions are competitive by nature, because they are all trying to compete in the marketplace for enrolments, but it would be good if in two or three years time we could see a stream of 100 or 150 or 200 people coming out into the marketplace. We would be able to consume them and grow our industry. For me probably the most important thing that would allow me to stay competitive is to be able to have feeder groups to allow us to keep the business going. If I had 50 or 60 more people today, I could sign work tomorrow but, as I say, I do not have them.

CHAIR—So you started on a wing and a prayer and the market determined that you would be successful because you had a good product and good drive and the capacity to bring it all together. One of the things that the committee is inquiring into is what role there is for the government in this industry, which has essentially been allowed to grow itself—and it has done very well. What advice would you give to the government about what role it could play, or is it better to let it grow organically, as it has done, and let the market determine who will be successful and who will not be successful?

Mr Walsh—I think the government should definitely play a role now. My personal opinion—and this is harsh for people looking to start up—is that it would be nigh impossible to start up in

our industry on a wing and a prayer now. Four years ago we had five people. Today we have got 110. You could not do that today. You would not be able to get your foot in the door. You could not get a door open. It would be impossible. Take all the things that I have learnt over the last X number of years and if only the government could somehow structure that—mentoring programs or doing more trips or being a collaborative force of information on things like contract negotiations and trade missions. I think general business advice is one thing that is generally lacking for just about anybody who starts a business. I am not techy by nature. I am an accountant by profession—I was not a gamer, I am not a programmer and I am not an artist—and I think a lot of that was useful. But then, by the same token, why do I risk all my money? I know the association is trying to do it. Maybe the government and the association could work together on it, just as you guys have Austrade. The other thing I find so frustrating is that you have so many arms and yet they just do not talk to each other—I do not get it. One minute you are talking to this group and the next week you are talking to this group and you are telling this group exactly the same thing as that, so maybe you guys should put in one layer and maybe that one layer would communicate with industry.

One thing I have actually seen this year that has worked really well has been the Victorian and Queensland governments cooperating. They organised E3, which is our largest trade show, and both put in money. The money they put in separately bought more than last year. Last year when E3 was in Victoria it was in some little shitty hole right at the back which nobody walked past. This year collectively it got on the main floor where all the traffic goes. That was a big win. It is all about exposure. The more exposure that you can get, the more the industry benefits when all the publishers walk past and say, 'Look, there's Australia.'

I come to the other thing that has to come from the federal government. The states are all doing a little bit but nobody knows who Queensland is and nobody knows who Victoria is. Well, they do, but we need 'We're Australia and we're here.' Scotland do it very well. In the last three years the amount of money that the Scottish government have put into growing that industry and being at trade shows—as I know from Chris, who is the president of the Scottish developers—has been repaid to them twenty-fold. They put in a couple of hundred grand a year. Chris alone has bought five studios. He has done about \$50 million in deals just out of things that the government has put in. So maybe the federal government could drive the states and we could all become one happy family.

CHAIR—We are always one happy family.

Mr BALDWIN—Given that the rough market retail price for a console based game is \$100, if you are not contracted to write it but it is one that you have developed yourself and then you sell it off to a distribution house, what percentage of that \$100 comes back to you?

Mr Walsh—Again it depends. If I can do it in US dollars I can break it up pretty well.

Mr BALDWIN—Sure.

Mr Walsh—Okay. Let's say \$US39 is a retail price point. The publisher will sell it into store at around \$US32. Most of the retailers in America, such as Best Buy and Wal-Mart, have a thing called Co-op, which basically cuts about another six per cent out. It is like a co-share marketing, so that drops it back to about \$US30. Then there are the sheer costs of manufacturing; most of

the publishers will pay anywhere between \$US9 and \$US10.50 for the actual cost of goods back to Sony, Microsoft or Nintendo. So you are back down to about \$US20. On average, it costs them about \$US1.80 to \$US2 for touch costs—that is for when you pick up the box, put it in the truck, send it to store and put in on the shelf—so you then you are down to about \$US18. That is where you start splitting up the money that is left over. Again it depends how much went into marketing. The way a general deal works is: if they pay you, they have to recoup their money. So let's say it is \$US5 million. So \$US5 or \$US6 out of that \$US18 goes off that \$US5 million. Then when that nets out—when you have recouped that \$US5 million or \$US6 million—you are basically just sharing the profits. If you did a deal where you funded it yourself, you could probably get anywhere between \$US8 and \$US12 off the retail price.

Mr BALDWIN—My last question is: given the explosion in Internet based games, where somebody jumps on the Internet here and somebody jumps on in America and you all play the same game—fighting, killing and destroying each other as well as the rest of the universe—where do you see the direction of that going, and how do you then write a game and sell it as an Internet based game?

Mr Walsh—That is a magic question that everybody is currently asking themselves. Anybody can write the games; the big problem seems to be how to make money out of it. Nobody has actually come up with that formula yet. The general consensus is: you sell the product at retail, then there is some sort of monthly subscription base where you keep paying \$5 or \$10 a month, and that allows you to keep playing against all the other people. The problem that you have there is that you have to continue to provide fresh and new content to keep people interested, to keep them going. It is not something we look at actively. There have been a lot of reports on it, and a lot of companies have lost a lot of money on it in the last five years. There are really only about one or two profitable online games at the moment, that I am aware of, and there are a tonne of them out there.

Mr BALDWIN—The reason I asked that question is that the Internet was going to be the big moneymaker for a lot of people—not just the dotcom bases; the claim was that if you advertise on there you are going to make a fortune. I have to tell you that, in reality, I am yet to see anybody, except ISPs, who has made good money out of the Internet.

Mr Walsh—Yes, like Telstra—the telcos. Like you said, basically all the dotcoms went out of business. Probably the most successful one is eBay, and it makes only one or two per cent profit a year, I think. Electronic Arts lost about \$300 million or \$400 million on their dotcom before they shut it down. I think what will happen—I do not have a crystal ball—is that it will be a convergence of technologies. With the set-top box, you will pay your \$40 per month for your cable subscription and that will give you access to online games, movie downloads and pay-per-views. Then Microsoft will go and buy a movie company and they will provide all the last 100 years of back catalogue. It is going to require a lot of money and infrastructure. The bottom line is that I do not know.

CHAIR—Thank you very much for appearing this afternoon. If we need to in the future, we will get in touch with you. You had another question, didn't you, Mr Hatton?

Mr HATTON—It is a very quick follow-up question. You said it costs you about \$1½ million to get to the concept development stage. What is the final cost if they accept it? How much then does it cost to do the rest? I know that that is variable.

Mr Walsh—By the time we had finished *Ty*, because it was our IP we had put in a lot of money. We put about \$6 million or \$7 million on the line for it. This is just getting back to film and TV; all of us need to sit together, get in a room and sort it out. Five million bucks was the budget for *Ned Kelly*. I do not know what the box office revenue is. So far worldwide, *Ty* has done \$US30 million in revenue. I am sure *Ned Kelly* has not done anywhere near that, and it is a comparative investment. I am sure Film Finance Corporation put some money into it.

Mr HATTON—Thank you. It was very important to get that answer because otherwise we do not have any concept of just how much it takes to actually do it.

Mr Walsh—*The Matrix* cost about \$20 million to make.

CHAIR—The game?

Mr Walsh—Yes. I would not say it was money well spent. Most of the deals we are doing in Australia today are anywhere between about \$2½ million to maybe \$5 million or \$6 million to make a game.

Mr BALDWIN—Whatever happened to Pacman?

Mr Walsh—I was talking to somebody today. That is one of the other problems that our industry faces. Everybody knows that film is this huge, glorious place to be, yet games are no different. It is a career path. It is hard work and it is really rewarding at the end. It is not much different from film.

CHAIR—Thank you very much.

[2.47 p.m.]

LAKE, Ms Trish, Member, Brisbane Film City; Producer/Chief Executive Officer, Freshwater Pictures

SAUNDERS, Mr Thom, Member, Brisbane Film City

CHAIR—Welcome. The committee does not require you to give evidence under oath but I need to advise you that these hearings are formal proceedings of the parliament and consequently they warrant the same respect as proceedings of the House. I remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I would also remind you that we prefer you to give evidence in public but if you wish to give evidence in camera then you can request that and we will we consider your request. Would you like to add to your submission or make any introductory remarks or any brief comments?

Ms Lake—I am standing in for Elle Croxford, who, I understand, is now going to see you tomorrow on the Gold Coast and who has been involved with this submission. I am a producer. I live in south-east Queensland. I have come to the feature film industry over the past six to eight years, aspiring to be a feature film producer and doing as much as I can to achieve that goal. I have recently been involved with the sort of production that everyone in this room would be pretty happy to know is an Australian film and that will hopefully be exported around the world.

The reason I am sitting here as a witness for Brisbane Film City is that there has been a nice synergy. I, as a producer, recently moved to Brisbane. I think the local film industry that is surrounding Brisbane has matured to a point where the sort of collaboration that is probably needed to take the local industry and the people that service the international industry here in south-east Queensland has all happened at a point where this new organisation has formed of practitioners in the industry who are seeking to have a better future, which is obviously part of the whole terms of reference for why we are here today. It has come about, I think, because there are problems within the industry in terms of employment currently, but it has also come about because of the maturing and aspirational reason that people feel they need to collaborate as a cluster. That is what Brisbane Film City is about.

Mr Saunders—I run a development company in Brisbane. There are five of us. I have recently finished developing the online game web site for *Fat Cow Motel*, which is a local production that was made here by a company called Hoodlum Entertainment. I have been working with them for the last two years to build a series of web sites that will extend the narrative of the television show from the 30-minute timeslot on a Thursday night to a weekly thing that people interact with during the week to score points and win prizes. It is basically a multiplatform experiment. It uses SMS, iTV, the Internet and then the television show. So it is effectively a 30-minute teaser television show for a web site game.

My involvement with Brisbane Film City is that, having recently been to Europe and having recently been to the multimedia festival in Cannes and to MIPTV, where a lot of people talked about a lot of opportunities for multiplatform development, when I came back to Brisbane I saw

the limited number of producers who are working here and, while the stuff that we are doing in Brisbane and in Australia is really good, I feel that there are opportunities out there that are being missed because the local industry is not being educated as much as it should on what the possibilities are. How do you work with broadcasters to make revenue from an online game? Can you use the telco and SMS functions to actually raise money?

One of the things that was talked about while I was in Europe was whether a lot of new productions have an interactive component. It is starting to affect the success of the funding if there is no interactive element to these new series and also movies. That is why I got involved with Brisbane Film City—because I wanted to talk directly to people who are actually producing materials here and try to work with them in the way that I have worked with Nathan and Tracey from Hoodlum to do the Fat Cow Motel.

CHAIR—Do you have any questions, Mr Hatton?

Mr HATTON—As an interactive entity, I have probably been struck mute at this stage.

Mr CIOBO—I am interested in Fat Cow Motel as a concept. Is that where you see the future going? I think back to what was possibly, from a layperson's point of view, the first example, *The Blair Witch Project*, which had no visible means of marketing other than the rumour that was spreading over the Net and that type of thing. Is that the future? Is there going to be convergence between gaming, movies, TV, web based platforms and SMS?

Mr Saunders—I think the revenue models are getting clearer, particularly with things like competitions, where you see something on the television and it requests you to SMS the answer to a question. There is money in every single one of the SMSs that come in. It is about understanding where that revenue is and how you can bring something back to the producers based on that model. Whether it is cable television, satellite or any sort of digital type television, it is the same thing: it is the subscriber fee per month to do that.

So it is multiplatform. That was the real push that I got from Europe at the beginning of the year: changes particularly in the SMS functionality. At one point they were talking about, say, 1,000 SMSs per day and how the network would handle them. There was a show in the Philippines that managed to generate some 10 million SMSs in a minute. It basically crippled the network. They could not handle it. Every single one of those SMSs is 55c. If you are generating that number of SMSs, there are very clear returns if you have your structure right, if you know exactly who you are dealing with, if the telcos understand exactly what they are doing and if the producers understand what they are doing with the telcos. It comes back into the funding groups.

Being a digital media producer, I feel that producers of television and films really need to understand those concepts and how they can use them. Once those concepts are tried and tested, there would then be the ability for us to produce stuff for international people using these techniques. I think that in Australia we need to be seen to be leading or at least up to date with what they are doing in Japan and Europe. Perhaps they are thinking, 'Maybe the film and television side of it would be good to do in Australia, but we really want to do our interactive stuff somewhere else.' If you can offer that in Australia, there will be potentially more opportunities for everybody here.

Mr CIOBO—Should we be looking at structuring government agencies so that perhaps they are not as disparate as they currently are? Is there any point in having a Film Finance Corporation over there and then a DOCITA Office for the Information Economy over there? Should we be looking at restructuring such that we get a one-stop shop, so to speak, that contains under the one roof specialisation in terms of film, in terms of TV, in terms of gaming and in terms of financing?

Mr Saunders—Maybe that top level that was discussed previously is a good idea, so there is a group that understands more than one industry and can actually be tied together through funding from different groups—but it is a tricky one.

Ms Lake—I think one of the reasons that Brisbane Film City has begun is to lobby for the fact that we feel this part of the world to be a regional outpost, I suppose, compared to Sydney and Melbourne, where the majority of the funding decisions occur in terms of production and even in terms of starting projects. Fortunately we have a local agency—the PFTC. Very recently through their endeavours we managed to get an office of the AFC. But the disparate nature that you talk about is probably something that we should be examining. If there were such a one-stop shop philosophy, it could be a way for all of the agencies, all of the funding bodies and all of the development bodies, which is primarily where the AFC comes through, to work more closely together.

If that happened, I would know more about the sort of work Thom is doing. For example, the earlier witness mentioned *Ned Kelly* and *The Matrix*—they would not have been games if there had not been the movies and if there had not been the story developed originally to get to that point. From a commercial point of view there are a lot of reasons to look at these things earlier on. It would be good if the bodies that are at the moment assisting these industries had closer links or if maybe there were some not necessarily one-stop shops but practitioners who were across all of the aspects rather than us having to go from door to door to find the experts. At Brisbane Film City we are trying to do that in an organic way as practitioners. But it would be very helpful if we looked at where the money is going from the federal government and the state governments at the moment and found a way that we can fast track. Commerce is about picking up on opportunities quickly rather than seeing an opportunity wasted.

CHAIR—Did you have much to do with the writing of the submission?

Ms Lake—Yes, I had something to do it.

CHAIR—The submission was rather scathing about education and training in this area; for example, it suggested that there was an oversupply of students.

Ms Lake—I do not think it was scathing; I think it was identifying that we have probably one of the best concentrations in Australia of high-quality students, coming through colleges, film and TV, and several universities. We are bringing fantastic film-makers out of this region. The students then have terribly dashed hopes because there are not very many opportunities for them. I think also the submission was particularly focusing on the lack of mentoring opportunities, particularly for tying up creative young people who want to get their projects going. But there is a very limited number of producers here in this part of the world, for some of the reasons I mentioned earlier to do with the concentration of film communities in Sydney and Melbourne.

There is not such a great local community here in terms of where those funding bodies—apart from the local funding body—have been assisting.

The submission is highlighting a problem. We need to address the problem. I do not know that we have the answers for it, but it is something that is being highlighted. I attended the New Filmmakers Awards recently. There were three very talented young film-makers there—one of those three was actually a team of twins—with three hugely professional small features and two full-feature-length films. These are films that have come from students from these universities and film schools locally. The submission is certainly not disparaging about the quality. It is simply bemoaning the fact that, somehow or another, there is a very big gap between the amount of people coming out and what we can do with that talent here. I think that is what it is recognising.

CHAIR—Yes. It was saying that there are too many undergraduates coming out with not enough jobs for them at the end.

Ms Lake—Yes.

CHAIR—I assume that people pay fees to go to these courses. Do you know how much they are paying, generally speaking?

Ms Lake—No. I do know, though, that when we had a production in the second half of last year on the Gold Coast and partly shot in Brisbane—and that was an \$8 million production, so it was very substantial—we sought to employ local people where we could. That was because there was an incentive for us to do that and also because we were aware that there are good local people here. If there were opportunities to get skilled practitioners to mentor younger people coming through or to give people jobs such as runners and some of the helpful jobs that do not require huge skills but give students a chance to be part of a production, we sought to do that.

CHAIR—I was in Sydney on Tuesday and I met Rick McCallum, who is producing the *Star Wars* trilogy. He was saying that, when they did the first one, they brought only 30 people in from the United States to complement the teams that were already here in Australia, and that that number is down to eight for this latest movie. As you know, here in Queensland there have been a number of productions of big movies. I would have thought that they would use the local crews and so on. Do you have any idea what numbers they bring in to supplement those local crews?

Ms Lake—It depends on the film. Sometimes they bring in people from interstate as well. Right across the board, we have the sorts of skills that are needed. The only skill and infrastructure that we lack here in Queensland currently that I am aware of—and we should look at this in Queensland—is the calibre of sound facility to have a digitally accredited, Dolby accredited sound certificate, which is something that you need for theatrical release movies of a certain quality. But everything else and the skills of everybody in this region are the highest that you would find anywhere in the world and that is why we get those overseas productions.

CHAIR—I was not really asking that question. I recognise that, but I was wondering whether you knew what sorts of numbers were being brought in by people who were doing *Scooby Doo*, *Peter Pan* or whatever.

Ms Lake—I think you will find that out from your next lot of witnesses from the PFTC. I happen to know that on our film alone we took on the majority of people if they were available. In our particular case a lot of people were already working on *Peter Pan* and other films that were in production at the same time. If we could not find someone, we would bring someone in from interstate. Certainly, the overseas productions do have a high percentage of people on the ground here in south-east Queensland. The idea is to try to find ways that we can mentor the young people coming through, to take advantage of those skills that are here. You will also see in our submission that we are aware that there is no long-form television going on currently in Queensland. That has happened particularly with overseas productions. As you have probably read in submissions, that relates to the federal government subsidy for overseas long-form television.

CHAIR—The tax offsets.

Ms Lake—Yes. The reason it is an issue for the local scene is that it means we do not have people working in that sort of television—which is a terrific training ground to build skills. Our biggest concern is that the skilled people who will provide those skills to the younger people coming through will leave here if we do not have the sort of production that we have had in the past.

Mr HATTON—Chair, in answer to your question about *Star Wars* decreasing the number of people they are bringing in from 30 to eight, part of the reason is that they are exporting jobs back to America. In the last film there was less demand for local people because of the speed with which they can push the material back to the States. Therefore, they are bringing fewer people in because the jobs are actually staying in the States.

CHAIR—They are doing more post production back in the States.

Mr HATTON—That is exactly right. So Australian people are missing out on jobs.

Mr BALDWIN—I have a couple of quick questions. What is a bundled MOW?

Ms Lake—It is the bundled movie of the week.

Mr BALDWIN—You have referred to your film. What is the name of your film?

Ms Lake—The film is called *Gettin' Square*. It is the perfect example of the sort of domestic product that, if it is successful—and one hopes it is going to be—would enable us as producers and film-makers to export Australian expertise and product to the rest of the world. We constructed the financing of the film by bringing \$A2 million into the \$8 million budget and by partnering with Universal Pictures, via Working Title, which is a very fine UK company with a huge track record in making successful films of the budget and style of our film. However, it is an inherently Australian film that is going to talk to the rest of the world about our values and Australian life. It is not a film that is going to be constructed simply to be commercial, but it fundamentally has to be commercial in order for those partners to want to invest money in it.

Mr BALDWIN—Are you aware of what subsidies or financial support the Canadians and Americans give their film companies?

Ms Lake—I am aware that, where we used to be highly competitive, we are less competitive.

Mr BALDWIN—That is not the question I asked.

Ms Lake—Am I aware of what they are?

Mr BALDWIN—Yes.

Ms Lake—No. Sorry, what was the question?

Mr BALDWIN—Are the American or Canadian governments providing financial support for their film industries?

Ms Lake—They are providing taxation incentives in Canada that I am aware of.

Mr BALDWIN—I am not talking about taxation; I am talking about a financial start.

Ms Lake—Having a fund like the FFC; is that what you mean?

Mr BALDWIN—Yes.

Ms Lake—I am not aware of that.

Mr BALDWIN—You talked about the lack of opportunities for work experience. The previous witness from Krome Studios—which is in the gaming industry—in his submission said that, if he had another 50 or 60 people, he could engage them straightaway. So one side of the industry are saying there are too many people and the other side are saying there are not enough. Who are we to believe?

Ms Lake—I guess this is representing many types of people who have come together to be part of Brisbane Film City. On the one hand, I was talking about a producer in the film industry—which is what I am—but here I am talking about Brisbane Film City which is representing the witness who was here before as much as it is representing what *Fat Cow Motel* and all the rest of us are doing. I think what we were talking about also comes into play: a one-stop shop idea, where we recognise that it is about a creative product and a whole range of stories. Hopefully, it is a product that we will bring back to Australia with all sorts of job opportunities if it is exported, and we can say a lot about who we are as Australians around the world.

Mr SERCOMBE—As part of the process of you looking at spin-off for the film *Gettin' Square*, are there possibilities arising from that in terms of game, animation or merchandise?

Ms Lake—No. I think every film story lends itself to different opportunities. In our case, we are very much aware of the DVD being one of the profitable arms and building as such for feature films today. When we were shooting the film, not only were we doing a making of but we were very aware of how the DVD would be constructed. That is part of how we factored the budget together to have the DVD so that would be a strong part of our element of selling. It is

not an action film. We did have issues of product placement and all sorts of other things which help solidify a budget or give you opportunities for profit in the future.

Mr SERCOMBE—Is it becoming part of the mindset of an Australian producer now to look for those opportunities as part of the total—

Ms Lake—It is horses for courses. I think that any producer is attracted primarily by something that is a passion. We are still talking about the creative arts. We are not talking about people being driven by the dollar because, to be honest, a lot of people would not be in it at all if that were so. Having said that, I should also say that I have spent a lot of my own money. I have taken very little assistance. Our film was financed through the Macquarie Bank, and only a very small portion of the money came from subsidies and a very small amount from the FFC. If I were collaborating, as I will be, through Brisbane Film City to hear about a facility of doing something that interests me as a story and that lends itself to being able to help raise the money through the way you are talking about—games et cetera—certainly, as a producer, that is what I would be looking at as well. But I would not be driven primarily by that.

CHAIR—Thank you very much for coming this afternoon.

Proceedings suspended from 3.14 p.m. to 3.29 p.m.

CLEARY, Ms Ursula, Development Manager, Pacific Film and Television Commission

GILES, Mr John Arthur, Business Consultant, Pacific Film and Television Commission

TEFAY, Mr Henry, Head of Production, Pacific Film and Television Commission

CHAIR—Welcome. Although the committee does not require you to give evidence under oath, you are advised that these hearings are formal proceedings of the parliament and consequently warrant the same respect as proceedings of the House. I remind witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I remind witnesses that the committee prefers all evidence to be given in public but, if you want to give any evidence in camera, you may request to do so and the committee will consider your request. Would you like to make an opening statement before we proceed to questions?

Mr Tefay—Yes. The main thrust of the PFTC submission is based on the fact that, while the federal government programs have been vital in creating a film and television industry that has put the likes of Nicole Kidman and Russell Crowe on the international stage and have certainly created world-class technical crews that are servicing American productions at the moment, the actual feature film industry in Australia produces a substantial loss each and every year. In other words, while the stated objective of the support programs is to make products of cultural significance for Australians, the fact is that Australian audiences do not care very much for the kind of feature films that we produce. This is why the government's film and television investment programs lose on average 80 per cent of their base allocation each year. The usual justification is that Australia cannot compete with the big budget American products. In the area of television, the drama programs that audiences do in fact watch and which do secure high ratings—for example, programs like *All Saints*—are mostly produced by the television networks themselves and through non-government finance.

The case the PFTC is putting forward today is that, while Australia is at an obvious disadvantage compared to America, we nevertheless submit that a different kind of business model may at the very least increase the possibility of making films that reach a wider audience and, at the same time, increase the level of recoupment from the base allocation that the federal government makes to its various agencies. In other words, while the industry may never be profitable, the losses need not be as great and the industry can reach a wider audience.

The FFC's mission is to strengthen cultural identity. The AFC's corporate plan states that the Australian government's purpose in providing assistance is cultural and is unlikely to be a profitable exercise. It seems that the government has wired commercial failure into its vision statement. The assumption is that culture is not commercially viable. Yet the most successful Australian films, like *Lantana*, *Muriel's Wedding*, *The Castle*, *The Wog Boy* and *Shine*, are steeped in Australian culture and are very profitable indeed. If the government's objective is to strengthen cultural identity, then our films have to reach a wider audience. At present, we are only getting a five per cent share of the box office, and last year that dropped to 4.9 per cent.

Some of the issues facing the industry could be addressed by implementing a more rigorous regime of strategic planning. For example, the corporate plans of the AFC and the FFC do not appear to have quantifiable objectives or, indeed, performance indicators that identify the success or otherwise of specific programs. As you would know, without quantifiable objectives it is extremely difficult to identify inadequacies in particular programs and even more difficult to remodel the program into one that is successful. This is at the heart of our submission. It is not about asking for more money. It is about how we can more effectively and strategically use the money we are already getting as an industry. By way of example, one of the FFC's objectives is to:

... finance the production of a diverse range of Australian film and television product ...

This is more of a description of what that organisation does rather than a quantifiable objective whose outcome can be measured. A new business model would rephrase that objective to read, for example, 'to finance the production of a diverse range of Australian film and television product that generates an average recoupment of at least 35 per cent'. Having a quantifiable objective for each and every program across all the agencies that the federal government provides funding to would allow the agencies to measure the performance of each program and, if necessary, remodel these programs so that the objective is in fact achieved.

For example, the FFC might remodel its program so that less is expended on investment and more on marketing those projects in which there is already a pre-existing investment. I should point out that the American film-makers invest probably 60 per cent of the overall budget of their films back into marketing. In other words, \$100 million was spent on making *Matrix*; they spent another 60 per cent of that actually marketing the project. In Australia, with a budget of around \$5 million or \$6 million for a feature film, we barely spend on average, 10 per cent on marketing that film. No wonder there are very little returns.

The FFC could look more carefully at its outcomes and set up an enhancement program based on the thorough audience testing of the films it invests in. This might result in the reshooting of certain scenes, adding new scenes or re-editing a film to help make it more accessible to audiences. This is very standard practice in the US, because in the US the film industry is actually run as a business. It might also limit investment in production companies whose previous projects have incurred huge losses. I cannot help but notice that production companies have been funded three or four times—over and over again—even though their films have barely got any audience response.

The federal government might think in terms of distribution, which is where most of the money is in film and television production. The same can be said about the AFC's objectives, and indeed most of the other agencies. This is not to say that the government's programs are not being reviewed and refined on a fairly consistent basis. They are and with the very best intentions and always with a wide industry consultation. However, the changes that are in fact implemented do not appear to be based on strategies that aim to make the industry commercially successful. In fact, in a lot of quarters in industry being commercially successful is regarded as a mortal sin.

In summary, although the industry has been successful in creating opportunities for a select group of very talented actors, directors and other film-makers to work in Hollywood and

although we have developed creative and technical crew that are among the best in the world to service our offshore production, it must also be said that we are not creating product that audiences want to see.

CHAIR—Thank you, Mr Tefay. That is a rather strong critique of the Film Corporation.

Mr Tefay—Yes, it is meant to be.

CHAIR—Do you know when the philosophy of the AFC was first set?

Mr Tefay—1989.

CHAIR—But that was not when it was established though?

Mr Tefay—Yes, about 1989.

CHAIR—Was it? It was not established any earlier than that?

Mr Tefay—No. The AFC used to have the same functions as the FFC prior to that. When the AFC ceased to invest in major productions, the FFC became the film bank.

CHAIR—So the philosophy was set in 1989 for the AFC? Obviously, you seriously question the entire philosophy of the AFC.

Mr Tefay—We question the fact that over the years there has been a culture built around the film and television industry that has inculcated a feeling of the need for subsidy, where producers can barely make a living because they are getting no returns on the films—they are now working to actually make a film in order to collect their fee in doing the deal, because the deal is so hard to put together. We are in a situation where, while we are claiming to be making films for our cultural identity, you cannot have cultural identity if you do not get people seeing the films.

CHAIR—By the way, I am not here to defend the AFC. I am very interested in what you have said about that so I am just trying to sift through it a bit further.

Mr Tefay—Sure.

CHAIR—So you would say that Australians do want to hear about their own stories, like *The Dish* and so on—

Mr Tefay—Absolutely.

CHAIR—but that we are failing to produce movies that people want to see in general. Those sorts of movies that we heard about have actually been quite successful.

Mr Tefay—They have been very successful.

CHAIR—But there are a lot of movies being made that no-one ever hears about because we never actually see them.

Mr Tefay—Correct; barely open for a week.

CHAIR—And the AFC is funding quite a lot of those.

Mr Tefay—The FFC is. The AFC is the development agency.

CHAIR—The FFC is funding quite a lot of those and you are wondering why on earth they are doing that when in their business plan they clearly look like they are going to fail from the beginning.

Mr Tefay—It is not so much that we are criticising the FFC itself; we are taking a closer look at their business plan and we have noticed that they do not actually have quantifiable indicators for each of their programs. I am not entirely sure how they can operate properly and be able to review the feedback from each of the schemes.

CHAIR—It is an interesting cultural problem, isn't it? I have been in the process, in the last few weeks, of trying to find out more about the film industry. It has been put to me by some people that it is bad to have foreign investment in the feature film industry in Australia—particularly in Queensland and Sydney, where it is mostly based—because it discourages the making of Australian movies that need to be made, even if they are not going to be successful. The idea is that, because there are crews and post-production people away doing those foreign movies that are being made here—which I call foreign investment in our local industry—that is somehow taking people away from making Australian stories, even though no-one wants to watch those Australian stories and we never actually hear about them.

I find that an extremely limiting view of the world, because clearly that does not sustain an industry. My argument has been that, if you have the big feature films like *George of the Jungle*, the long-term series and so on being produced here for the foreign market, that creates an economy of scale that lifts all the boats and means that people can afford to live, put food on the table and also, therefore, make other movies that might not be successful at the box office but do need to be made. So you are questioning the whole philosophy that in some areas has held the industry back a bit—a feeling that 'success' is somehow a dirty word in some parts of the arts world—and you seem to be identifying that in the film industry.

Mr Tefay—I think foreign production and domestic production can more or less coexist.

CHAIR—They complement each other.

Mr Tefay—Absolutely. There is a bit of a problem with foreign production in that it does push the prices a little higher. The other problem is that there is no intellectual property. While it creates a lot of work—and we are all for that—it does not actually leave very much behind in terms of content. In other words, while it helps train crew and provides work, it is not as though *George of the Jungle* is going to provide any income for an Australian company.

CHAIR—No, but it employs people.

Mr Tefay—But it does employ people.

CHAIR—And it is a zero sum game and a very romantic ideal to think that sitting around drinking out of Vegemite jars is a wonderful way of living when you are 50 or 60. It might sound great when you are doing footlights at the university, but it is not so good when you want to make a living out of it. I think the thing about foreign investment in the movie industry is that it makes it a viable industry.

Mr Tefay—Yes, but it is a service industry. I just need to make that distinction. It depends on where Australia wants to go. Do we want our own content?

CHAIR—We want both.

Mr Tefay—I am really responding to the stated government objectives about cultural identity, and cultural identity is irrelevant unless audiences see that product that is supposed to be promoting and strengthening cultural identity. At the heart of our submission is the suggestion that there is maybe a better way of doing things—by bringing to bear a more commercial and businesslike approach to the various programs the various agencies are offering. Can I give you an example of that?

CHAIR—Sure. We like examples. We politicians find it easier to understand if there are examples! They are much better than theory.

Mr Tefay—The Pacific Film and Television Commission and some of its predecessors in Queensland are just as guilty of what I am talking about. Like every other agency on the planet, we used to run a scheme for new writers. We spent a couple of million dollars over a number of years and developed something like 100 screenplays. One day someone asked a very important question: ‘Have any of these scripts actually been made?’ Not a single one had been produced. So that was the first performance indicator. We said, ‘Well, it’s not working; what should we do?’

The outcomes were telling us that we had to rethink our strategy. We thought, ‘Look, we’ve been assessing these projects by using people who have no stake in the actual projects.’ We were bringing in independent peer assessors—writers and so forth. We said, ‘Instead, from here on in we’re only going to use producers as assessors, and we will only provide script development funding to those producers who actually want to put some money on the table and spend the next two years of their lives trying to market those films.’ The net result is that, over the last 24 months, four feature films have come out of Queensland written by Queensland writers, for the first time in about 20 or 30 years.

That is a very simple example of the kind of strategy that I think all the government film agencies should be thinking about. They will be different, depending on each of the programs. That was just one specific type of scheme. I mentioned earlier in my introduction that, if the FFC, for example—I do not want to be targeting the FFC in particular—looked at each of their programs according to specific quantifiable outcomes and performance indicators, they might be able to bring some measures to bear to enhance their rate of recoupment. For example, audience testing—they very rarely audience test a film; they do not have any money to do that—might make a huge difference. Many American films, after market testing, are completely refashioned

in the editing room in order to reach the marketplace. There are things like this that can be brought to bear.

CHAIR—I had better let some of my colleagues ask a question, or they will get annoyed with me.

Mr BALDWIN—Mr Tefay, I do not know much about the Pacific Film and Television Commission. Are you a division of the Queensland government?

Mr Tefay—We are funded by the state government.

Mr BALDWIN—To what tune are you funded by the state government?

Mr Tefay—We get \$8.2 million per year.

Mr BALDWIN—How many people do you have employed?

Mr Tefay—28.

Mr BALDWIN—What are some of the outcomes you have achieved as a government instrument for the Film Commission?

Mr Tefay—Last year we had \$220 million worth of production spent in Queensland. About \$36.5 million of that was for domestic production and the balance was for foreign production. The biggest production we had last year that contributed towards that was *Peter Pan*, which expended around \$130 million in the state, but on average we are doing about \$120 million worth of production. I think we are the third state, after New South Wales and Victoria. In domestic production we are way behind both New South Wales and Victoria, because we do not have the creative infrastructure of writers, producers and directors.

Mr BALDWIN—Given that we live in a free and democratic world in Australia—or I hope we do—if film scriptwriters and producers are producing things that neither the networks nor the audience wants, then what is the purpose of pursuing those, even though it might be in the finer form of art to produce such things, if there is no audience acceptance of it?

Mr Tefay—I could well ask that question myself. What I am really suggesting is that there are different ways of doing those things. There are different ways of funding those projects. There is a different way of managing those particular schemes. I am with you on that—100 per cent.

Mr BALDWIN—I am asking you as an industry player. The closest I get is occasionally throwing a TV switch on.

Mr Tefay—Let me give you another example. We want to support our producers and our film-makers. Therefore, if the producer puts a deal together that the Film Finance Corporation decides to invest in, we almost automatically—irrespective of what we think of the actual project—contribute about 10 per cent in investment. In other words, we are in a situation where we can feel that the project has no market legs at all but we are bound culturally, if you like, to invest as well.

Mr BALDWIN—So how are you contributing your 10 per cent?

Mr Tefay—As an equity investment?

Mr BALDWIN—Hard cash.

Mr Tefay—Alongside the FFC.

Mr BALDWIN—That is a pretty brave way to do it. How much loss have you made?

Mr Tefay—We lose all of our money except for about 17 per cent.

Mr BALDWIN—So if a film costs \$50 million, you are in for \$5 million, and you get around \$800,000 back.

Mr Tefay—Yes, if that. Seventeen per cent. We lose 83 per cent.

Mr BALDWIN—Then surely, independent of the FFC, you should be having a little bit more of a determined look where you are investing the taxpayer of Queensland's money rather than having an automatic backup and subsidy.

Mr Tefay—Unfortunately, I think we would be lynched by our community if we said no to projects the FFC said yes to. We are led by the majority investor.

Mr BALDWIN—If we did everything that everyone else wanted us to do, we would probably get lynched, but sometimes you have got to make hard decisions when you are talking about those volumes of money. If you were to ballpark it, how many million a year are you losing?

Mr Tefay—The \$8.2 million includes the crew subsidies et cetera, so in terms of the actual we have—

Mr BALDWIN—So that \$8.2 million is including your investment in the industry; it is not just your budget to run your department?

Mr Tefay—No, that is our entire script development and investment; \$2.2 million of that goes out in crew subsidies. We also fund the film festival to the tune of \$1 million. We spend only about \$2.8 million on the domestic industry in terms of script development and actual equity investment in various programs like documentaries, feature films et cetera.

Mr BALDWIN—So in what direction are you going to take your \$8.2 million on behalf of your taxpayers in Queensland, rather than going into a loss-making proposition?

Mr Tefay—Late last night we invested \$450,000 in a film that the FFC said yes to yesterday. If we said no to that, because we did not believe the script would work or we did not believe the people attached to it would make it work with an audience, then we would not have any domestic production at all.

Mr BALDWIN—I have a suggestion for you. Can we get you to head up the bureaucracy of Queensland Health? We have offered them about \$3 billion which they refuse to take up, and we would love to see you on board because they have to match it as well. Obviously, the automatic subsidisation does not apply across all industries. I do not mean to be rude about it—

Mr Tefay—That is all right.

Mr BALDWIN—but I find it hard to believe, when you know something is making a loss or is going to make a loss, that you continue to invest in it.

Mr Tefay—As I said earlier, the Pacific Film and Television Commission is part of this culture which we are trying to challenge. But we have to challenge it as a whole. We cannot do it independently.

Mr BALDWIN—Do you not think that the easiest way of stopping the rot, as you would call it, is to actually say no to some of these projects? That would perhaps makes the FFC start to look at what it is financing. Every time you put your money in, it reinforces the FFC's decision as the right decision and the idea that it is after-market effects that have caused a loss.

Mr Tefay—I would certainly like to take that to our board as a proposition.

Mr BALDWIN—If I were a taxpayer in Queensland, I would be asking you to.

Mr SERCOMBE—To my mind at least, the starkest figure you have thrown at us today is the contrast between a \$60 million budget for marketing *The Matrix* and a \$100,000 budget for marketing an Australian film. To what extent do you think that discrepancy contributes to the other statistic you have given us of five per cent penetration of films? To what extent, in your view as an industry player, is the lack of emphasis on marketing an Australian product a fundamental reason for the lack of performance? To what extent is it other things? Are you aware of any reasons for that lack of emphasis on marketing the Australian product? Are there conditions or limitations put on FFC funding, for example, that prevent that funding being deployed for marketing purposes? What impediments are there that lead to marketing failure?

Mr Tefay—Under their constitution, I think the FFC are allowed to extend some marketing money. However, the way the industry is structured in Australia, unlike in America, is that the FFC looks more to the distribution companies that put up a guarantee to spend the money on marketing. The distribution company might do an assessment of the project and do estimates as to what sorts of returns they will get. They will decide on the level of marketing money they will spend. On a recent film that we were involved in—*Blurred*—the distribution company spent a considerable amount. They spent 20 per cent of the budget—or more than that, in fact; \$1million—on promoting it. It did not work for them, but it was a film that was able to return \$1.4 million at the box office. Had they not spent that marketing money, it is possible that it would have only returned \$1 million, for example. It is very hard to answer your question directly. I do not know how much difference it would make if we spent 50 per cent of the budget on marketing. However, we have never tried it properly. It is certainly an area that the Film Finance Corporation could look at.

Mr SERCOMBE—No-one has looked at it?

Mr Tefay—I think the new CEO is trying to explore the possibility of spending more money on marketing, because it has been identified as an area that needs a little bit of work.

Mr BALDWIN—There is a substantial market, as we understand it, in the adult film industry, X-rated films and above. We also understand that a lot of that filming occurs in the Surfers Paradise or Gold Coast regions. Are you involved in that at all? Do those people come to you for support and assistance?

Mr Tefay—The X-rated industry?

Mr BALDWIN—The pornographic film industry.

Mr Tefay—No, we are not involved in that all.

Mr BALDWIN—I am talking about the legal pornographic industry.

Mr Tefay—No, we are not involved. We are not aware of that at all.

CHAIR—Is that pornographic industry included in your \$220 million?

Mr Tefay—No.

CHAIR—So there is a great big dead cat in the middle of the table that nobody wants to talk about, isn't there? When I was in Sydney on Tuesday, I was told that the mainstream movie industry spends 50 per cent of its funding on marketing and 50 per cent on production, essentially. I was told that the porn industry in the United States is a \$15 billion industry, and 10 per cent is spent on marketing. In Australia there is obviously some kind of industry along these lines—it would be a shock if there were not—and yet no-one includes that in any of the figures. We have had no submission from anybody in the porn industry. It is obviously a legitimate area of film, because it is legal.

Mr BALDWIN—Maybe the figures just don't stand up!

CHAIR—Every year when the government moves to look at this area, the Eros Foundation sends a list around which breaks down the number of people on mailing lists by electorate. On some of them, up to 10,000 or 12,000 households out of 50,000 are on mailing lists for pornographic material coming out of the ACT. In some, it is down to 4,000 or 5,000. But I have 50,000 households and so, even if it were 4,000 or 5,000, that is 10 per cent. Can you give us any information at all?

Mr Tefay—I have to plead complete ignorance about that market.

CHAIR—So do I! That is why I am asking the question. We will just have to ask them for a submission. It is not included in this figure, but it would have be a substantial amount of money, I would have thought.

Mr BALDWIN—I do not really want to do a site inspection, though.

CHAIR—There being no other questions, I thank you very much for appearing today. It has been very interesting. If we need to speak to you again, we will be back in touch with you.

[3.59 p.m.]

CUNNINGHAM, Professor Stuart Duncan, Director, Creative Industries Research and Applications Centre, Creative Industries Faculty, Queensland University of Technology

HARTLEY, Professor John Arthur, Dean, Creative Industries Faculty, Queensland University of Technology

JONES, Professor Jeffrey Irving, Director, Applications, Creative Industries Research and Applications Centre, Creative Industries Faculty, Queensland University of Technology

CHAIR—I welcome members of the Creative Industries Research and Applications Centre, which is at the Queensland University of Technology. The committee does not require you to give evidence under oath, but I do have to advise you that these hearings are formal proceedings of the parliament. I remind you that the giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I also remind you that the committee prefers to hear all its evidence in public, but if you do want to give any evidence in camera then you are welcome to request that. If we agree then we will take it in camera.

Mr HATTON—Given the nature of this, we should have ‘on camera’ evidence!

CHAIR—You are welcome to make any opening remarks or statements or change or add to your submission. Do you have any comments to make on the capacity in which you appear?

Prof. Hartley—I am also an active member of the Creative Industries Research and Applications Centre research staff.

Prof. Jones—I am also the interim CEO of the new Cooperative Research Centre for Interaction Design.

Prof. Hartley—The three of us would like to make a short opening statement to expand on our submission, and then we will be ready to answer any questions you may have. We do not want to repeat what we have said in our submissions, so we will just make a couple of opening remarks. In my case, I wish to comment on the interface between the sectors that you are investigating—film, animation, special effects and electronic games—and the rest of the creative industries, because we see a great importance in holding together the developments in the film, television and multimedia industries with developments in other creative sectors, including publishing and various aspects of design. We are very keen to see the interdisciplinary and cross-disciplinary evolution of both content and technologies in different sectors. That is one of the things that our centre is dedicated to.

Secondly, I wish to comment on the importance of the role of educational institutions in the development of the sector. It is something that has been commented on by many writers, whose analyses suggest that where there are strong educational precincts in particular cities then there is strong creative and cultural growth. It is also true to say that, for Australia, education is a very important \$5 billion export industry. So, among other things, not only do the areas that you are

talking about have export potential in themselves, but the education, training and research aspects of the creative industries also are full of export potential. We are keen to maintain a relationship between the development of the media and content industries and the education, training and R&D around those industries.

So the first point is the importance of the education element in the development of the sector, and the second is that you have a term of reference around the cultural benefit of this sector. I would like to interpret that cultural benefit in terms of jobs and GDP. It is the strategy towards which our own developments are dedicated. We have launched this new faculty—bringing together performing and creative arts, media, journalism, creative writing and communication design—to try and develop better graduate outcomes in terms of employment and new enterprises in these areas, both in Queensland and nationally.

One of the things we are trying to establish is how important it is to move the idea of cultural benefit from the subsidisation of public arts towards the development of self-sustainable enterprises, whether they are small or large. We are very keen to develop an enterprise culture instead of just a public culture. We are also aware of changes in the work force and the need to develop new strategies for employment, given the extent of casualisation, part-time work, people working while they are learning, and people working from project to project rather than in one career, and the need to keep up with training and research and development requirements during a lifetime of employment which will require going back and forth to different forms of training in these areas. The cultural benefit has to do with supporting enterprise and growing jobs and GDP.

Finally, in line with what I said at the beginning about needing to consider and keep together all the creative industries, not just the ones named in your terms of reference, an important development in Queensland is the Creative Industries Precinct that is being built in Kelvin Grove right now. It is a \$60 million development which includes the research and development activities of the Creative Industries Research and Applications Centre; the new CRC, which Jeff will talk about shortly; a new enterprise centre with co-locating partners; and retail, residential and commercial premises, as well as performance and teaching facilities for the university. We see that as being the model for the development of this sector, where there is a very fuzzy interface between enterprise, research and education.

CHAIR—Where has the \$60 million come from?

Prof. Hartley—The capital amount is \$60 million. We were granted \$15 million by the state government towards the development of the enterprise centre part of that. The rest of the capital expenditure comes from QUT.

Prof. Cunningham—With a little from the federal government.

Prof. Hartley—Yes, there is some federal money; I beg your pardon. There is about \$3 million from the Commonwealth for the technical infrastructure.

Prof. Cunningham—I have a couple of brief opening points that expand on our submission. I would like to refer to your term of reference on the size, scale and nature of these industries. Our submission refers to research that we are doing in this area. We want to draw your attention to

the problems of data in this area. It is very difficult to get good data on these sectors or on the creative industries in general. The Department of Communications, Information Technology and the Arts has let a consultancy recently on data and statistical indicators in the creative industries and has made certain recommendations, essentially about needing the ABS to solve a series of problems in this area.

We would certainly support the idea that the ABS needs to work in a more focused way on these problems, but we would also argue that all ABS data, because of its nature, is lag indicator data. It is about the past, not about the future or the present. We want to put before you the proposition that one of the ways of organising these very fragmented industry sectors that are characterised by small and medium sized enterprises and lots of microenterprises is to have an industry body with R&D capacity that can get ahead of trends, can sense trends, and produce data that is strategic and leading indicator in its nature, rather than only lag indicator in its nature. On the matter of size and scale, the answer is briefly that we do not know the size and scale of these industries in any comprehensive way. When we do know, it is too late: the industry has moved on. The point that I am making is about the way that lag versus leading indicator data might fit in with an industry body with the R&D capacity to lead with good evidence-based policy advocacy the fortunes of this sector.

The second point I would like to make is in reference to your term of reference on what changes to government policy support programs might be appropriate. I would like to seed in your minds a couple of possibilities in this area. The sector needs to grow its export potential. One of the ways in which that could be done would be to have a corporate tax break on export earnings out of the sectors which have the potential for high growth in globalising industries but which are embryonic at this stage. It would not impact hugely on the tax base of the country but would give enormous strategic impetus to the export potential of those industries.

Another potential area to look at would be the whole vexed matter of intellectual property and the possibility that, in crown copyright areas, IP controls could be relaxed rather than tightened such that there is a greater ability of crown copyright material to circulate for fair dealing purposes—a sort of expanded sense of fair dealing for creative adaptation and exchange. That could increase the amount of local content being able to circulate in these embryonic industry sectors and may go a long way towards addressing, without further government subsidy, some of the constraints and bottlenecks that we see in this sector.

It also may be appropriate to consider micropayment systems that could generate funds, other than government subsidy, that could support growth in this sector, such as the copyright regimes we have in this country. It may be appropriate to consider ISPs and other middle organisations in this industry who may be levied a micropayment that could return to creators within these sectors a certain revenue stream in the way that the copyright regimes now work around fair dealing and educational use. Those are a couple of points about policy implications that our submission puts to you.

Prof. Jones—I have focused my brief comments on the CRC for interaction design. The CRC is not up and running yet but it is due to be signed by all the participants, including the federal government, next week. It is a CRC which we were successful in winning on the basis of convincing the participants and the government that the next generation of hardware and software technologies need to be engineered on the basis of the real uses of end users and the

new forms of content and new forms of social community group interaction that might emerge as a result of the various ways people access each other online. The centre is about finding the new ways in which we might live, learn, work and play in the digital world—in particular, focused on ways to enhance the way people participate in the digital world as the physical and digital converge.

The areas which we have outlined—smart living, for example—have as much to do with design standards for the next generation of your lounge room as they have to do with new technologies, hardware and software, for delivering content. The digital media area looks particularly at new rights management regimes and new forms of media that are more non-linear than linear. The multi-user environments area looks specifically at those component technologies that are required to build new kinds of group and social interaction. The virtual heritage area, in particular, attempts to take advantage of the Indigenous context in terms of content that we find ourselves in.

We are about creating new software, new hardware and new content for the creative industries, which are fairly fragmented. As such, the CRC will act as a kind of market organiser or at least a platform for taking some of the precompetitive work that Professor Hartley was talking about and some of the market and policy implications that Professor Cunningham was talking about and trying to develop new commercial know-how. It will take that precompetitive work and that market knowledge into the development of new enterprises that are, again, around creative industries and in particular around enhancing the ways that we use the digital world as individuals and as communities of people.

Mr HATTON—It is hard to know where to start. So far we have had a bit of ‘art speak’ running through the presentations. I understand where you are coming from, but I am finding it difficult to understand in particular—if we start with the last part—new hardware and software for creative industries. Could you tell me about the hardware that you are looking at in terms of what you envision doing? I imagine it is not PC based, because we have major manufacturers doing that, but it might be more like what is being done in the mining industry, where research and development has led to a refinement of the tools that are available to more effectively extract stuff. Are we looking at modifying what is commonly used within the industry to create new uses of that, or are you looking at new hardware from the ground up?

Prof. Jones—Fundamentally, we are looking at the person as the centre of the equation, so to speak. For example, I think most people still find a mouse and a keyboard a fairly onerous interface to a PC, and a beeper—a remote—for a TV is pretty limiting in the ways that you can interact. There are new ways of using gesture, for example. We have some researchers working on gestural interfaces and others are working on large-scale interactive walls that use nematic technologies to display content and particular types of interactions. It is looking at anything, from things like digital jewellery which might interface with your telephone to the ways that you might interact with new, interactive TV—how that gets combined with what you use your PC for; what are the devices and, in particular, how do they integrate into the environment so that they end up being everywhere, but invisible at the same time?

Mr HATTON—What about the software platform? We have had lots of different software platforms in the past. They have been reduced inexorably over the last couple of decades to a couple of major players, in terms of major platforms. Are you looking at particular niche

software developments, or are you looking at something more extensive? Of course, there is one key player in this area that wants to dominate the entire Net, as it wants to dominate everything else, and it is particularly interested in providing the software linkage to control just about every use in-house and outside of it.

Prof. Jones—Some of what we are doing is not necessarily about what is the next really big, really important thing; it is as much about enhancing the existing industry participants. For example, we have a games industry participant in this that has some new ideas around massively multi-player on-line games. Engines for that exist, but they want to be able to have their own, and they leverage the fact that they exist within this research consortium. That helps them because we can do various sorts of tests and social experiments to see what works better, and that is different from what might be happening with other companies in other countries. At the moment we are very much focused on the needs of those existing participants. That involves games, and in particular the massively multi-player games that involve the creation of compelling experiences—in particular, virtual reality—and defining what that is so that those sorts of things can be franchised and used in other places. We are very much focused on the existing industry participants, but with a view that within five to seven years we will have developed things that are globally, as well as nationally, recognised.

Mr HATTON—Professor Cunningham, could I go to the question of R&D and your lag and leading indicators with regard to that. It is a bit hard for me to envision, without the use of some form of prognostication, where you would look at getting leading indicators for where the industry might go and what the demands might be. I can readily understand that if you simply follow the current fashion of the day it can be very evaporative and you might miss out on a lot. How would you envisage working on those leading indicators to get a better idea of where demand might be in the future?

Prof. Cunningham—There is a pretty clear model for that already in the film industry: the Australian Film Commission. The Australian Film Commission has a marketing branch and a research and information branch that produce data that is much more up to date than what the ABS does in this sector. Also, it goes out, scours the world for opportunities, feeds that back into the industry and facilitates industry access to markets, festivals, deal makers et cetera. In the other emerging sectors that you are looking at—special effects, animation and electronic games—similar kinds of roles could be played, but I am not suggesting that you have an AFC for every emerging subsector. These days it is considered to be much more appropriate when the industry performs these kinds of roles for itself rather than having a government agency doing it. But the problem is that the industry is so fragmented and so undercapitalised that it does not spend its money on big bodies, like rural R&D kinds of bodies, that may have grown up over decades in some of the mature industry sectors that we have in this country.

Mr HATTON—Do you think they are using that example that it is leviable, as we do with the pig levy and so on?

Prof. Cunningham—Yes.

Mr HATTON—Should we be doing the same thing here?

Prof. Cunningham—Yes, and that is how industry associations work in this sector, just as they do in most other sectors: you pay to be a member of the Game Developers Association or AEEMA or AIIA. That is fine, but the levy rates and the number of participants are not high enough to be able to generate this value adding that I am talking about. If you look at the number of organisations in the Game Developers Association of Australia you see that the list fills three-quarters of a page. It is just not very big, so the amount of money is not great going through an industry levy scheme. There could be a role for government, not so much in leading and therefore crowding out the private sector here but in fact in supporting the development of a more overarching but nimble body that is capturing the needs across these various sectors. These are the emerging sectors but they are also more established sectors, such as film.

Mr HATTON—Within the film area a lot of that has come back over time just by people getting together and talking about their experiences and swapping the history of those experiences and the bits and pieces of information that they have picked up here and there, and that has become more formalised. So you are suggesting the same kind of thing where here we have nascent industries and people really working on the frontiers of those but in such a fragmented way that we do not get the kind of interaction that we have had historically within the film industry—but that can provide the clue.

Prof. Cunningham—Film is a mature industry, relatively speaking, compared to these. A body like the AFC has been around since 1975 and it has developed these kinds of functions of market sensing and R&D over that period of time. The cultural challenge of just laying that responsibility onto a body like the AFC is quite considerable because their charter is not to sense the global marketplace for electronic games or special effects. So the question is how to do that without simply setting up a whole set of new government bodies, while also bringing together people. One of the biggest challenges here is that all these sectors work in isolation, relatively speaking, from each other and they are competing for small pieces of the pie. There should be ways of coordinating. Obviously, the wine industry is often pointed to here. There are real similarities with the wine industry within these emerging electronic digital content and application sectors. The wine industry is often pointed to as a successful collaborator locally to make real gains globally, and the branding aspects of that are such that Australian wine is respected around the world, whereas Australian games and films are still referred to as quirky. The Americans say, ‘This is quirky,’ because the Australians are producing content that they cannot fit into categories. It is called quirky and is often dismissed or marginalised for that reason. In these sectors the industry participants are often thinking very hard about ‘how to do a wine industry’, which is about high levels of coordination, knowing when to collaborate and when to compete, so you collaborate more for overseas and compete within the local market.

Mr HATTON—The crown copyright ideas are very interesting in terms of fair dealing and creative uses. Would you expand on those?

Prof. Cunningham—I am not a lawyer, so take what I say under advisement, but the copyright regime as I understand it today is one that inhibits creative production as much as it facilitates it, because most of the benefits of copyright controls inhere to the distributor, to the aggregator, to those with very high profit margins—the big players, the oligopolists in the industries. This is becoming more evident rather than less evident as contracts are written with creatives that require them to assign rights to platforms that are yet to exist. So more and more copyright has come to be seen as an inhibitor of creative flourishing. In acknowledging the

difficulties of breaking centuries-old practices in the private sector, why not start with crown copyright, where government has got control over what it does with its IP? In areas such as the large cultural organisations—ScreenSound, the National Gallery, the National Library of Australia, the National Museum et cetera—the IP held in those bodies and generated within those bodies is immense.

With a new regime that would extend the fair dealing into creative adaptation areas, if you like, there could be a greater flourishing of start-ups and lower budgeted creative activity that could be from-the-ground-up activity. To take a very simple example, if a student wants to make a film and wants to use copyright material, the costs of clearing copyright in very low-budget or no-budget environments make it impossible. That is not just a student matter; it goes to the low-budget film, the start-up in animation. This is not just my idea; it is an idea that is out there and is being promoted in a variety of ways, but in the area of crown copyright it would be easier if people could access it for a form of fair dealing called creative adaptation. It is hard to get traction for it, because it really does fly in the face of private oligopolists' interests.

Mr HATTON—The reason I asked you is that is a very important area, and I would match it up with something that has impressed itself on me recently; that is, as a community, our memory of the past is having a price put on it almost every day. If you happen to buy a newspaper in Australia for \$1, \$1.50 or whatever, if you cut it into bits and put it in a filing cabinet, you can have access to that whether you are a public library or an individual person. If, however, that very same newspaper that you are buying on a daily basis, gives you access to a digital version of it—which is what happens if you go to the F2 network, the Fairfax network, where I am getting the *Sydney Morning Herald* and also the *Financial Review*—you can access some part of that for some time. When you go down, even if you want to use it for fair dealing, any past articles in a digital environment have a cost—\$1.25, \$2.50—not only for any student but for anyone else wanting to access the material. It used to be free within the public libraries that gathered this stuff together, and it was considered that, given that it was no longer time dependent, you should be able to have a go at it and reuse it. These prohibitive walls are being built up in that arena. We have seen what Bill Gates did with various media libraries around the world, the other walls that have been built up, in terms of content, in terms of buying those up and buying up museum content as well, to then funnel it into the commercial area.

Prof. Cunningham—Corbis, the Bill Gates subsidiary, bought 65 million photographs.

Mr HATTON—So not only is the capacity for individual creative people, clusters, organisations or groups to even access that past or the memory of it very much diminished but the only possible area—you have indicated here—where we might be able to recreate more and put content back into a central place is one where we have got some control. So I think it is a very fruitful area to explore.

Prof. Hartley—There is another aspect of that. I hope it is within your terms, but there is an aspect of the privatisation of public knowledge that is immediate and ongoing. Research in universities is normally publicly funded through the ARC and so on, and the researchers then write up the results of their research and have them published and the universities have to buy back the publications in which that research is published. Should you wish to use in your research any visual material at all—which I do, as a media historian—you are right, you have to buy back the national archive from Hulton Getty or from the organisations you have already

mentioned. So there is a strong sense in which what used to be the public domain in content areas, both published and visual, is being privatised and that people who are trying to perform public-good activities like research are having to support their research by making, as it were, private purchases. There is no necessary return back into the public institutions or to public research by the people who own those archives, so again the interesting term 'levy' might raise its head at that point.

Mr CIOBO—We have had evidence from other witnesses before you which touched on similar issues to those that you have raised with respect to the functioning of the agencies that the federal government has in the marketplace. I take it from your submission that you see a requirement for there to be greater collaboration between, for example, the FFC and the AFC, but more broadly than that we are seeing a lot of evidence—and I presume that is the basis of your CRC—of the convergence of the different industries that are associated. With that convergence taking place, what are your thoughts on the government having a one-stop shop bringing together all these groups that are fairly disparate at the moment? Do you see a role and a need for that within the industry? Would that also help to facilitate more of a demand-focused product rather than, as you termed it, a supply-side focus?

Prof. Hartley—Personally I feel that it is really important to do that, because, as has already been mentioned, we have a very dispersed sector here, but also because the way the sector is growing is different from traditional manufacturing industries, for example. So you will get creative inputs and this kind of content creation across industries that do not immediately bring themselves to mind as being creative. So, in the financial sector, in health, in government—with e-democracy and so on—and in education in a very big way, there is a need for content creation, and the same issues will arise in all those different areas about how to create, how to monetise, as it were, how to get an audience interested in what you are trying to do and to have the interactivity that you are interested in achieving. All those issues are much the same, and so are some of the legal and competitive issues, but the people are very dispersed across what appear to be completely different industries.

Secondly, the whole success of these content industries is organised around the user and the market, not around the device as such. The technology can be as good as you like, but if people do not want that they will not use it. So you have to have a much greater interface with the market and understanding of the market, and people working in small and medium sized enterprises are not going to be able to generate that kind of knowledge by themselves. Something that brings the different sectors together and brokers the relationship between this variegated sector and its markets is going to improve the competitive position of Australia.

Prof. Cunningham—I have made some points on this pretty strongly already. When the AFC was created in 1975, it was a government intervention, or a whole series of government interventions; these days it is more a case of trying to facilitate market coordination, industry coordination. That may be the way to go. A CRC is a very good example of an R&D body that can operate as a form of market organiser and sensor, but you need a scale as well across these sectors. It could be a government body, a supragovernment body or a much more well-resourced industry association-cum-advocacy body-cum-R&D sector. I mentioned the rural R&D boards because they are good examples in mature industries of that which has grown up over time. We are in very early days with these sectors but, as you would well know, these are going to come to occupy much bigger places in national economies like Australia's. It is inevitable because the

growth pattern is there. So it is early days, but I think I would put the emphasis on the ways in which a national government can move to position the sector with well-resourced industry bodies so that the government does not crowd out the sector and so that there is absolute industry ownership of doing the R&D that is needed in the sector.

Mr CIOBO—We heard testimony from, I think, Krome that our greatest competitive advantage was, he felt, our comparative cost advantage. Though, to me, that would seem to be an unsustainable advantage. Tying in with the jargon of being a knowledge economy and perhaps having value added industries, is there an opportunity aside from one that is purely on a cost basis, or is it the case that, for example, on the Indian subcontinent there are people who are as articulate in their knowledge as Australians, and therefore we are always going to struggle with our competitive advantage in respect of quality, constancy of output, political stability or whatever it might be? I am wondering what your thoughts might be on that.

Prof. Jones—The competitive advantage absolutely has to be about the quality. What is happening more or less in India is a kind of technical expertise, and the synergies between what we can do here in Australia creatively and what is happening in what you might characterise as the more wealth-creating markets in the Northern Hemisphere are about the issue of quality. With a thing like a CRC, we have emphasised the need for collaboration and communication. Part of the emphasis is to do with being able to aggregate smaller players in order to win contracts that they might not be able to get on their own, for example.

The other issue that has come up, especially in relation to the games industry, is the ability to leverage the credibility that comes along with being attached to a nationally funded thing, like the CRC. For example, one of our games industry participants is always going cap in hand to a venture capitalist to get money to produce a game. The credibility that they get by being part of something that is generating new knowledge and something that is helping them to be more competitive in a qualitative sense allows them, for example, to simply retain more equity in the things that they produce. I think it is about the quality. The issue of it being low cost is sustainable for a short period of time, because if you are going to compete in those sorts of markets it has got to be about the quality of what you are delivering.

Prof. Hartley—On the matter of quality there is also the whole question of the value of Australian culture, which is that it is an English speaking culture, it is very diverse, it has lots of different fusions and influences present at the same time and it is close to the fastest growing economic regions in the world. So I think there is a question of how you imagine advantage in an experience and market related economy where people's tastes and demands for consumer experiences are driving the growth of these industries rather than just price on its own. People quite often pay a premium for things that they like, and the ability to exploit the knowledge of those taste cultures is already well embedded in Australia. Australia already has got an advantageous position in that, because it has been involved in those kinds of things for many years.

Prof. Cunningham—It has to be a high-value niche player—that is the right kind of phrase I suppose. We cannot compete on volume, but we can compete on quality and on niche positions. The film industry is a good example, and your terms of reference cover the film industry. People often assert that the only reason you are getting Hollywood productions being made in Australia is because of the dollar. Well, it is not; it is because also over 30 years there has been

considerable government support for the growth of the film and television industry in this country that has produced a very robust set of creative and technical skills. Making films on a 12,000-mile long lead across the Pacific is cost effective but it is also quality controlled. That is why we still are well positioned vis-a-vis all the new runaway production sites in the world.

Mr CIOBO—Do you see a role for the CRC to function almost as an incubator or to at least facilitate the development of incubators, for example?

Prof. Jones—The CRC will be about R&D—taking ideas and developing some sort of know-how that can be applied commercially. It is, in my mind, more about preincubation. Traditionally, in an incubator you might enter with a business plan. But if you have someone with a great creative idea they have to get to the point where they know that there is a market and a demand for what they are doing. With content, it always does have to do with the software and the hardware as well as the particular media that you might be producing. I would say the CRC will be for preincubation rather than incubation. It is to get an idea ready to go into an incubator, and so the CRC will complement what is there in terms of incubators. We do not necessarily want to compete with what an incubator might be doing really well. Because the creative industries are relatively fragmented and because they are different, we need to do preincubation but also to look at slightly different business models. You may not necessarily end up with what you think of as a traditional business plan before you go into an incubator. You need to get the business model right, and you need to get the content right—the application of the hardware and the software—as well as all the issues related to whether it is a sustainable activity.

CHAIR—Thank you very much for appearing before us this afternoon. I would like to thank the Queensland College of Art for hosting us today and for being so good to us. Thank you to Hansard, Broadcasting and the secretariat.

Resolved (on motion by **Mr Hatton**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 4.42 p.m.