



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, 4 SEPTEMBER 2003

SYDNEY

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HOUSE OF REPRESENTATIVES

**STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE
ARTS**

Thursday, 4 September 2003

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

Members in attendance: Mr Baldwin, Mr Ciobo, Mr Johnson and Mr Pyne

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 11.44 a.m.

NALBANDIAN, Mr Zareh, Managing Director, Animal Logic Pty Ltd

SPISICH, Mr Douglas Joseph, Chief Financial Officer, Animal Logic Pty Ltd

CHAIR—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 committee has received more than 90 submissions so far and has held public hearings and inspections of facilities in Brisbane, Melbourne and Canberra. We are pleased to be holding hearings and inspections in Sydney. The submissions point to the enormous opportunities for Australia's film, animation and electronic games industries. Many submissions tell us that the policy settings must work more effectively to promote the development of Australia's creative industries. The purpose of the hearings is to examine those claims. Some of the issues that have been drawn to our attention include access to broadband, the protection and creation of intellectual property, more aggressive international marketing of our film and games expertise and products, and the need for more finely tuned education and training opportunities. One point that has been made a number of times is that Australia must move from being a user of other people's intellectual property to an inventor and exporter of our own. The committee is still in the process of gathering evidence from written submissions and public hearings. We will examine all the issues and, when we report to the parliament, I hope the recommendations we make will be given full consideration by the government.

I have great pleasure in welcoming representatives from Animal Logic Pty Ltd. I have to warn you about a few things. Firstly, while we do not require you to give evidence under oath we do need to advise you that these hearings are proceedings of the parliament and, for that reason, false or misleading evidence may be regarded as a contempt of parliament—although we are not expecting you to give false or misleading evidence. I would also remind you that we like evidence to be taken in public but, if you would like to give evidence in camera, you are welcome to request that. We will consider that request and decide whether to proceed. You are welcome to make some introductory remarks.

Mr Nalbandian—I would like to take a couple of minutes to do so. I am sure that you have had many submissions in regard to the film and television industry which come with great detail and probably from people better qualified than I am, particularly in the area of supporting our television industry, but I would like to make one point in that regard, even though I will not necessarily be referring to the television industry this morning. The television industry has a part of a complement of business that has helped sustain and grow our business and our industry over the past decade. It really helps to even out the peaks and troughs of film production in Australia. It helps to retain crew, to provide a consistency of employment and investment and generally to support a more stable industry and businesses within the industry.

The main point I would like you to consider is that we have an emerging sector within our film industry which I will refer to as digital production. That is digital production for the creation of both image and sound, although I am really only qualified to talk about image. Animal Logic is a specialist in creating digital imagery. If I can answer any questions with regard to that specialised sector of the industry to create a better awareness of what growth and

business opportunities there are, I would be very happy to do so. Secondly, I would like to talk more about the need to support that specialist sector, with a view to making sure that we are supporting our overall production industry but also with the view that if we do not support it as a specialised sector we will not only be losing opportunities available to that sector but, ultimately, be compromising the opportunities available to the Australian film industry at large. I think our submission speaks for itself. I would be happy to take questions and give you more information if you need it.

CHAIR—Before I ask my colleagues if they have any questions—and I am sure that Mr Baldwin will—I might ask you to tell us the Animal Logic story. How did the company begin? Who began it, and how did it break through? The story that we hear around Australia is one of small backyard or really cottage companies that begin, strike it rich with one particular project and then from there, hopefully, go on to develop. I would be interested to hear your story.

Mr Nalbandian—Animal Logic was founded by Chris Godfrey—my business partner—and me. We are still a private independent company. At the moment we employ about 180 staff, of which around 90 per cent are full-time contractors—which is a point of difference to the physical side of production, which is a very freelance based industry. We are a company with a very permanent base of employees. We project that over the next year we have the opportunity to grow to around 230 staff. We also project ongoing growth past next year.

Our history is one of providing post-production services at the onset of the digital era around the world for television, advertising and broadcast graphics. We are responsible for the original computer graphics for the ABC ident way back in the late 1980s as well as work for many other television networks and many television campaigns. From television we broadened our base into film in the mid-1990s, and now film represents a much greater part of our business than television does; but television drama, series and advertising are still important parts of our business.

We also develop software, which makes us fairly unique in that we not only harness technology but also develop technology for our own use and for commercialisation around the world. We have been successful in that area, in cycles—software is a very cyclical business—but at different cycles we have been very successful in getting commercial value out of software. More importantly, our R&D and internal software activities have given us a competitive edge that we not have had otherwise.

Having started in television and grown into providing digital services for film, visual effects and post-production, we are now also growing into a new area of digital feature animation. We have secured our first project in that area; it is the first project of its kind to be secured by any Australian entity. It is a Hollywood studio-funded project, funded by Warner Bros, and it is the first project of its level to be produced outside of North America. That represents a new facet to our business and certainly a new facet and opportunity for our industry to grow into. That is it, in a nutshell.

CHAIR—Would you be one of the only companies in Australia in your industry that is producing software?

Mr Nalbandian—I think most companies do some level of internal R&D. We are not the only company that commercialises it, but I would hazard a guess and say that we are probably one of only two in our specialised area of the industry.

CHAIR—Would you say that the ability to grow in commercials and television is critically important for future companies in Australia before they can get into film?

Mr Nalbandian—No, I do not believe so. I believe that, historically, that is how our industry has grown globally, but we are now at a level of maturity where companies can either specialise or be generalists. There are no barriers to entry in terms of a company or a group of individuals being able to service the film industry directly.

CHAIR—That is very interesting, because other people have said that without a burgeoning television and commercials industry, it is impossible for them to get the continuing cash flow that allows them to do other things in film. I think that might have been something of the past but not of the future.

Mr Nalbandian—I think that is certainly more of the past than the future. I believe that it would be more accurate to acknowledge that television provides a complement to film activities in any business, and it allows a business to even out the peaks and troughs. The biggest problem our industry faces, whether it is in television or film, is consistency of projects. In the past we had, for example, three years of consistent business out of a television series called *Farscape*, which was a Sci-Fi Channel production that filmed in Australia and did all of its post-production with us. We were able to have a crew of 25 or 30 people employed full time on that project, and that helped cover some of our overheads. We did not consistently have film productions going through our company at that time, but we did have a consistent amount of advertising work that went through. The complement of those three facets of our business allowed us to retain full-time employees, continue to invest in capital plant and equipment and in R&D. At times, when one division was in serious loss, the other was in profit so we are able to survive as a business. So I think it is more to do with that consistency of business and evening out the peaks and troughs.

CHAIR—If you do not have the work for that crew of 25 or 30 people who were working on *Farscape* do they just melt back into the work force? You do not try and keep them on?

Mr Nalbandian—We as a company try to keep on as many of our people as possible for as long as we can afford to because, unlike the market or business in North America, we do not have a huge pool of freelance talent.

CHAIR—So you do not want to lose them.

Mr Nalbandian—That is right. One of our biggest issues is to make sure that we do not get a flow of talent and experienced people out of Australia because there is no consistency of business. That is critical to us. Ultimately it compromises the bottom line for our company, but we continue to invest in the permanency even when we sometimes do not need the people, because we see that without the talent available to us we do not have an industry or business.

Mr BALDWIN—Thank you for providing the opportunity this morning for an inspection of your facilities.

Mr Nalbandian—It was a pleasure.

Mr BALDWIN—You mentioned that you have developed your own software. Do you also have involvement or give advice in the development of the hardware aspects, such as some of these high-tech video graphic boards? Are you involved in that at all?

Mr Nalbandian—We are not. All the software and hardware developers that provide plant and equipment to us provide us with beta equipment and software to test, and they look for our feedback, so we are involved in the form of giving that feedback, but we are not a developer as such.

Mr BALDWIN—One of the things I thought was interesting when we visited Fox Studios was talking about the *Star Wars* episodes that are being shot directly onto video, given that most other people are shooting film rather than video. How long do you think it will be before we see that transition to video being the predominant medium used to shoot features before putting it back onto film for projection?

Mr Nalbandian—Ultimately, our industry takes a filmed image and converts it to digital information to be able to manipulate and enhance it. From the point of view of our industry, it does not really matter whether the origination is in film or digital format. To be technically accurate, it is not video, it is digital capture format, and it could be captured to a piece of video tape, to a disk or, in the future, directly into memory. In terms of the transition from film to digital, I could not predict an absolute, but I can predict that within 10 years there will be more digital capture origination of imagery than film and over 20 years I would say it would be mostly digital origination not film. A great deal of what drives that, though, is not the capture or origination technology but the distribution. It is having the whole chain working, from origination to distribution, that motivates producers and distributors to make the transition.

Mr BALDWIN—What percentage of your business would be involved in producing commercials?

Mr Nalbandian—At present, about 20 per cent.

Mr BALDWIN—Do you get involved in electronic games development?

Mr Nalbandian—We do not get involved in development, but we do in the provision of imagery for the games—what are called ‘full motion videos’, which are the openings and closings of games and the interstitial animations that take you from one level to the next. We have also been involved in providing the artwork for the games.

Mr BALDWIN—What percentage of your business would that make up?

Mr Nalbandian—For our business it is very minor. It would be less than five per cent.

Mr BALDWIN—We had a look at the work you were doing on *Matrix*. Correct me if the figures are wrong but, of about a \$70 million digital production budget, only some \$5 or \$6 million was spent in Australia.

Mr Nalbandian—It was \$7 million or \$8 million.

Mr BALDWIN—If a production like that were to come totally to Australia and \$70 million worth of work were put onto the Australian market, how would a company such as yours handle that?

Mr Nalbandian—Partly by scaling up and partly by sharing the work with similar companies around Australia. We have the experience and the ability to scale up; but, as with any business, we would have to choose the level at which we could scale up and still remain profitable or that would suit our business strategy. Certainly there are no barriers for similar companies around Australia being able to share the work if it came here, and it is in fact the model that is pretty typical in Hollywood.

Mr BALDWIN—Is there a common software platform amongst all of the people in the Australian industry?

Mr Nalbandian—There is not a common software; there is a family of software which we use at any given time. Software becomes redundant and new software emerges from time to time as well. There are no software or technical barriers for us sharing the work.

Mr BALDWIN—If you were to subcontract a sequence, would the platform that they would do it on have to be your platform or could it be on another platform and they would just issue back to you a finished product?

Mr Nalbandian—It could be either. If it had to be harnessing proprietary technology that we use, we could equip a subcontractor to do so.

Mr BALDWIN—Do people who are part of the digital effects group come together to form a network or industry alliance to pursue markets offshore for large work volumes or do they operate individually in seeking work from studios and film producers?

Mr Nalbandian—There is an industry organisation called AusFILM, which we are a member of. That organisation brings together post-production entities to compete internationally.

Mr BALDWIN—As a post-production grouping, do you have an alliance with other post-production people?

Mr Nalbandian—As a business alliance?

Mr BALDWIN—Yes, as a business alliance or as an international marketing league—something that you can take as Australian specific. It is not the whole film industry; it is specifically post-production in pursuing offshore markets.

Mr Nalbandian—I believe AusFILM does that, and does it to a level that we require it. I should state for the record that we have no issues in terms of being able to market ourselves. Speaking from a company's point of view and not necessarily generally from the Australian industry's point of view, I think we are recognised for being able to deliver work of the same quality as our competitors in North America. We are recognised as being of a very creatively high standard, and technically we have no limitations. It just really comes down to overcoming sometimes the tyranny of distance, for which we are also developing specialised technology in the communication area. But, most often, it comes down to dollars. To motivate an American studio to take work offshore and to lose that comfort factor of being able to control it under their nose, there has to be a financial advantage. Ultimately, it comes down to dollars.

Mr BALDWIN—Is there enough broadband capacity for you to send your work over to America for overnight viewing and then back to Australia, or even to work interactively with studios in the US?

Mr Nalbandian—There is enough capacity, but it is very expensive.

Mr BALDWIN—That was my next question: how affordable is it when you look at it in your budget?

Mr Nalbandian—It is very expensive, but it does not make or break our ability to win a project.

Mr BALDWIN—There is talk that the 12½ per cent incentive will reduce the size of the package entry requirement so that purely post-production could go out in pursuit of work rather than the whole film with post-production being a part of it. What percentage does it need to be dropped to for it to be effective as a marketing tool, as an incentive to bring offshore work to Australia?

Mr Nalbandian—Let me qualify that I would propose that that would be for digital production. If we were to include post-production, it gets very unclear as to where the boundaries lie. When I speak of digital production, I am talking about the use of computer technology, hardware and software, to create image or sound, to manipulate image or sound or to deliver image or sound. When we look at complete post-production, at editorial services and at film laboratory services, the boundaries begin to grey. It would be very difficult to define the boundaries, in the first instance, to be able to be effective. I think general post-production is well caught in our general film rebate legislation. If a company were to shoot a film here, it would process its film here and it would probably do its initial editing here and so on.

It is the digital production that we are not guaranteed of retaining in this country if a film comes here or that we are not competitive in attracting here if the film is not being shot here in the first place. If we look at the percentage of a production budget which is currently spent on digital versus physical, I would say you are looking at anywhere between five per cent and 30 per cent of a budget, depending on the kind of production. Looking at where the thresholds are currently—let us say, at \$50 million—even if you looked at 30 per cent of that we are up to \$15 million. We cannot be competitive in being able to attract \$15 million packages and qualify for the threshold. I do not think that works for us.

I can only speak from our experience: in the past year we have been very competitive on packages of \$5 million, \$6 million and \$7 million worth of work, on which we certainly would have got across the line had the 12½ per cent rebate applied in some form or other. But we could not qualify in any form whatsoever.

If I were to look at it today, I would say 10 per cent of the current thresholds that apply for film generally would be appropriate for our industry. But you would review that upwards over coming years because the proportion of digital spend versus physical spend will increase, and that 10 per cent may in three years be 20 per cent and in five years may be 50 per cent. I am not sure. But right now I would say it should be 10 per cent of the current thresholds that apply to general film production.

Mr BALDWIN—General discussions seem to focus on the US industry. Is there opportunity or indeed much work in post-production from the Asian or the Indian market or even from the European and UK markets being brought into Australia?

Mr Nalbandian—The greatest opportunity lies in America. The budgets are greatest, the production values are highest and the margins that I believe we could achieve are the greatest. Our industry is very effective in competing in Asia. I just do not think there is the level of business that is going to sustain our industry; nor is it going to grow the creative and technical reputation of our industry. So much of our focus as a business has been in growing our reputation at the same time as growing our revenue. One good project attracts the next. Working on an Indian feature does not attract the next major Hollywood feature.

Mr BALDWIN—That leads into my next question, which is on our competitiveness with New Zealand. After they shot the *Lord of the Rings* and other such things there, and given their future direction, how do you see us as having a competitive edge over New Zealand?

Mr Nalbandian—I believe that we are still very competitive with New Zealand. The resources currently there are very limited in terms of how much production New Zealand can support. What is really interesting there, though, is the model at a company called Wetta Digital—which is partly owned by Peter Jackson, the director and producer of *Lord of the Rings*—which grew from being a very small entity to one employing 300 to 400 people to achieve the visual effects in *Lord of the Rings*. To me, that is a great example of the opportunity that lies ahead of us—if the business were here—to be able to scale up and achieve the same sorts of things. As far as NZ competing with us in film production goes, we are on an even playing field.

Mr BALDWIN—The 12½ per cent as the barrier seems to be the sticking point for a lot of people. If we lowered the stance for 12½ per cent, when does 12½ per cent then need to become 13 per cent, 14 per cent, 15 per cent, 16 per cent, 17 per cent, 18 per cent, 19 per cent or 20 per cent to be competitive with what other countries are providing as incentives to attract industry to them?

Mr Nalbandian—That is a very good question and a difficult one to answer. All I can do is answer it based on our current scenario. If we look at the UK sale and lease-back legislation, we are looking at anywhere between a nine per cent and an 11 per cent benefit to producers. Many US studios are now taking advantage of that sale and lease-back legislation and are filming and

post-producing in the UK—which is actually deflecting some of the work that would otherwise come here.

The Canadian legislation for payroll based rebates varies greatly and it can exceed 12½ per cent, but 10 per cent to 15 per cent still seems to be the average of what benefits studios enjoy by filming and post-producing in Canada. New Zealand has pretty much mimicked what we do, except that it is in New Zealand dollars and so it is a little bit ahead of us in terms of thresholds. We have to respond to global competition and make assessments at any given time based on what other countries are doing. In the current environment, it is at the right level.

It is working generally for film. We are attracting *Star Wars*; we have just attracted the Sony Pictures movie called *Stealth Warrior*. We are attracting big pictures in the physical production areas. We are not attracting television—that is one issue. But I believe that we are not attracting visual effects or digital work in its own right, which will grow in importance. That is why I am focussing there. It is not a matter of whether 12½ per cent is right or will continue to be right; it is really the threshold for a sector that works to a smaller model in terms of how much a project is worth.

Mr BALDWIN—My last questions are on training and the availability of a skilled work force. What interaction do you have with the universities or TAFEs to provide your up-to-date requirements as a major employer in this industry, whether they are for understanding computer technology or the software aspect or the creative arts aspect or animation? How are you finding the response coming from our training organisations? What about the quality of the students who are being turned out of these facilities?

Mr Nalbandian—We have good interaction with universities, colleges and film schools; we have a very successful training scheme and we have been part of an apprenticeships scheme with the New South Wales Film and Television Office for three years. We regularly look at crops of graduates from UTS and take the pick of them. We work with universities and the Australian Film and Television School to provide open days. But those schools are not equipped to provide us with people at the rate that we need them. Most of our training is provided in-house, or else we have to import experienced people and then build on the experience those people bring us to train others in Australia. What we get is very good raw talent, of which we have a great abundance in Australia.

Mr BALDWIN—How footloose is that talent?

Mr Nalbandian—It is very footloose, unless we can provide them with consistency in high-level work. That goes back to the Asian marketing issue as well. If we have a very talented team of people who have on offer a low-budget Asian movie versus being able to fly to America and work on a high-end Hollywood movie, we will lose them. So the idea is to be able to attract a balance of work—maybe some low-budget, local, creatively driven work as well as the big blockbuster stuff—to be able to retain our talent.

Mr JOHNSON—My colleague, Mr Baldwin, has stolen a lot of my thunder. I want to focus on a couple of things, but before that I want to commend you on the great work you are doing. I very much enjoyed this morning's experience.

Mr Nalbandian—It was a pleasure; thank you.

Mr JOHNSON—We look forward to helping the industry as much as we can. I want to ask you about the EMDG grant—it is one of my pet projects and topics that I follow in parliament. Can you elaborate on your comment about your client base being totally fresh every 18 months or two years? How does that differ from other recipients of the grant? Where a seasonal factor might affect other recipients, could that be the same with you? Are you saying that this new client base is a seasonal thing, in a sense? How would you describe that?

Mr Nalbandian—I would not define it as seasonal. Our business is very much built on one-to-one relationships, and a great deal of our success has been our willingness to travel, to build relationships outside of Australia even when there was not an obvious business to be had there. Every time a production entity is funded and formed, it brings a different group of people together to manage that mini business of its own. We have to market to the group who are the decision makers on each production. It may be a producer from here, a director from there and a production manager from over there who come together and who are in charge of a \$50 million or \$100 million budget and will make decisions as to where to spend that money. We have to be prepared to market to those people and travel and do what we have to do to build a relationship with them, which may be as a consequence of previous relationships but it is a unique one based on that production. We never get to a point where we have secured a contract with a studio or a producer and it is a revolving door contract that will just keep happening. We have to constantly be travelling and pursuing new relationships—based on old ones but under new entities—to be able to secure projects. It is an interesting situation. We, as a business, have been around for so long that we developed a business in advertising—and we certainly had some help with that from EMDG. Then we went into film but, because we were a group of companies, we have now run out of the seven-year period, I think it is.

Mr Spisich—I believe it is reduced to seven years.

Mr Nalbandian—The seven-year period during which we can qualify for EMDG support. Even though we are now building new business again in the digital feature animation area, we have no support whatsoever in terms of marketing to build that business. So there are many facets to our business and there are many divisions to our company but, with the way EMDG works at the moment, they are all lumped into one and the same category. They all work to the same trigger, the same cut-off date and the same thresholds. In the overall scheme of things with the amount of marketing we do and what we spend it really is making very little difference to us and now time has run out. I do not know if that answers your question, actually.

Mr JOHNSON—It sort of does. While I acknowledge you as an industry and that the audience you are looking at in terms of clients and potential clients is very different, I am yet to be persuaded that others who are recipients of the grant could not say the same thing. If I export services to, say, China—it might be technology or it might be in manufacturing a particular product—I just do not see how your point about you being different makes you so different that the rules need to be changed for you. I acknowledge of course that you are always trying to build new relationships, but then so are other businesses.

Mr Nalbandian—But equally we have various facets to our business which are built on completely different relationships to each other but, because we are a wholly owned group of

companies and divisions, they are all grouped into one view. If I wanted to develop a television market out of Singapore next week, that would be seen as being part of our company and therefore I would not actually qualify for that because I have already used up my EMDG quota, as it were, in building an advertising market internationally and a film market out of America. I am building a digital feature animation business at the moment but it is completely without support.

Mr JOHNSON—So essentially it is very broadly defined for your unique circumstances.

Mr Nalbandian—Sorry, is that a question?

Mr JOHNSON—Yes. You are saying that it is because you are unique, I guess. If you want to go and do a project in Singapore next week, you are not covered by the grants because you have already taken up the grant.

Mr Nalbandian—I have, but in a different market altogether and it is lumped into the one view. The problem with—

Mr JOHNSON—I can see where you are coming from; I am just trying in my own mind to make the distinction between that and another company that says, ‘I’ve got a project in Singapore as well to sell fish and I need a grant to help me to do that.’

Mr Spisich—I guess it is a question of who is actually buying, as well. In the situation we are talking about here, if you are the fish seller, your buyers in Singapore are basically the same companies and you are trying to attack that. Our buyers are changing—ever evolving.

Mr JOHNSON—That is what I am looking for: a reference point of where you start. Where is the reference point? You look at the actual buyer of the product?

Mr Spisich—Yes, and our buyers are constantly changing—there is a different mix and things of that nature. I guess the other side of this is the totally different products. We mentioned animation—that is a totally different product that we are taking to that North American market.

Mr BALDWIN—Do you believe there is a point where government subsidy—taxpayer subsidy—needs to end and the commercial venture needs to stand on its own feet?

Mr Nalbandian—Absolutely.

Mr Spisich—We do.

Mr BALDWIN—At what point do you see that happening?

Mr Nalbandian—When a business is mature. We are dealing with different emerging sectors and looking at different buyers. In a private company like ours, there is also a point at which the compliance cost for us is greater than the value we get through government subsidy. So we take a very hard look anytime we consider asking for subsidy and question if it is really worth it or if we should focus on just getting the business and building the relationships. For our business, whether the EMDG is restructured or not, it will not have a great deal of consequence because

we have a very high turnover and we already spend a great deal of money on marketing. The grants that came back from the EMDG are almost at the point that the cost of compliance is just not worth our while. With the time that Douglas and the consultants spend to get a return of \$50,000 or \$100,000, maybe we would be better off spending our time seeking business.

However, if you are asking the question in context of the industry, it is a multifaceted industry which is competing not only to different buyers but different facets of the market in what is generally termed as the film industry. If there were a way for the scheme to recognise that it would be beneficial.

Mr JOHNSON—Some different classifications perhaps?

Mr Nalbandian—Yes, segregations within the market.

Mr JOHNSON—Following up on a response you gave to Bob's question on defining maturity, that would be pretty tough, wouldn't it? Because you say there are always emerging markets, new technologies, new—

Mr Nalbandian—Ten years ago, the PC that we buy for \$3,000 today would have cost us \$300,000. I consider that a revolution—not even an evolution—in our industry. We are not a mature industry. We are just beginning to realise the potential that is available to us as a digital production industry.

Mr JOHNSON—Would you ever get to the point where you can say, 'Today we are a mature industry and cannot get beyond here'?

Mr Nalbandian—That would be saying that we are stagnant. Asking if we are stagnant is different to asking if we are mature. Yes, you can get to a point where you say, 'We are a mature industry.' The Australian film industry is a mature industry. We are recognised for our actors, locations, studios and facilities. All we are doing in that area is really trying to stay competitive with the rest of the world. The digital production sector is an emerging new industry with incredible potential. The one contract that we have won in a digital feature production area is worth \$75 million to us over three years and will create 120 to 150 jobs that would otherwise not be created—and that is just one contract. That was done without any EMDG support and really, in consideration of the size of the contract, the EMDG becomes insignificant. But if that contract was significant and therefore it qualified in the overall support schemes that exist, because it will be a Village Roadshow-Warner Brothers production, and therefore that works—but I am talking about the numerous other contracts. The four were built below that threshold in an emerging industry that ultimately, if it is not supported, will be overtaken by our international competitors.

We have been successful in physical production for the range of things that I have spoken of, but right now you could go to a beach in South Africa, Mexico or Queensland and get the same film plate. Ten years ago, that would have been all you would consider—is the studio resource available, can you get great cameramen, crew and locations, do they speak English and is it safe? Now, as a producer, a financier or a studio is making a decision about where to place the production they are also considering what other ancillary services are required, and digital services are a great part of that consideration as they are a growing part of the budget. I am proposing that that consideration will increase—that in 10 years the digital part of the production

budget will be equal to the physical part, and I consider that a very immature industry at the moment with great potential and opportunity to grow well below what the physical production capacity of the Australian film industry is.

Mr JOHNSON—How important is your LA office? What sort of business does it generate, and how do you go about maximising that physical presence?

Mr Nalbandian—The LA office is important in making us appear to be part of the community we are marketing to. It is purely a production office. It is much more effective in terms of attracting advertising work than film work. But it is important. It is part of our overall marketing strategy.

CHAIR—Thank you very much for hosting us today at Animal Logic out at Fox Studios. We really appreciated that.

Mr Nalbandian—I am going to distribute some statistics with regard to our export revenues, our employment costs and the taxation component of our employment costs for you to consider when you have time.

CHAIR—We will take that as an exhibit and add that to our evidence. Thank you very much for appearing today and giving evidence. If we need any more information, we know where to find you.

Mr Nalbandian—Thank you very much. We hope you come back if you need any more information.

[12.25 p.m.]

CASE, Mr Dominic John, Chair, Film Industry Broadband Resources Enterprise Pty Ltd

TUCKER, Ms Judi, Executive Director, Film Industry Broadband Resources Enterprise Pty Ltd

CHAIR—Welcome. While we do not require you to give evidence under oath, these hearings are formal proceedings of the parliament, so any false or misleading evidence that you may give—which we do not expect you to give—could be regarded as a contempt of the parliament. The committee prefers to take evidence in public, but if you wish to give evidence in camera then you are welcome to request that and we will consider that request. You are welcome to make any opening remarks or statements.

Mr Case—I will introduce FIBRE and make a couple of key points which we thought were the salient things that we had to say. FIBRE's brief is essentially to increase the availability of broadband or find ways of increasing the availability of high-speed broadband connectivity for the production and post-production industry—film, games et cetera. That really arose from a report that the film industry gave to the Prime Minister's innovation council in 2000, where the high cost of broadband was overwhelmingly identified as the single biggest technological barrier to development in the film industry. Out of that report grew FIBRE, and we have been working since then, with the benefit of a Commonwealth government grant to assist us, to try to bring those costs down.

We believe that the most important feature for this industry to follow is a style of collaboration, and we think that collaborative work is enabled by broadband connectivity so that you can exchange files and data between one company and other, both within this country and, importantly, as you were hearing in evidence before, with producers in the United States and the rest of the world. That collaboration increases our competitive edge, which will hopefully attract more profit or work from overseas, and that in turn strengthens the local industry, which is itself an essential feature of attracting more overseas work—the strength of our talent and abilities here.

Why is that important? Probably all the evidence you hear is about the importance of the culture of this industry, and that is certainly true. Additionally, we think that we are increasingly moving into an information age, where information is communicated not just in words but also in pictures. You only have to look at the Internet, which 10 years ago was just lines of text scrolling over a screen and is now the full panoply of sound, colour, movement and everything. That is not just in the film and television industry. It is used everywhere—in education, justice and marketing. All of society and all of the economy are increasingly using visual images. The larger film industry is the area where that expertise is most advanced and developed. We know we are world competitive in that. Therefore, it is an image that we need to exploit and develop, because it is going to permeate everywhere. It is worth nurturing. That is our position to start with.

CHAIR—Do you think that the availability of broadband in Australia is inhibiting the film, electronic games, special effects and animation industry?

Ms Tucker—Absolutely. That has been my experience in the last 18 months, while trying to connect affordable broadband for a business to business application, not a consumer application. It has been an incredible challenge, primarily because of the nature of the industry: the fact that it is predominantly—80 per cent—small to medium sized enterprises, which means they employ four people or fewer; and it is scattered from Cairns and Perth, in metropolitan areas—not CBD, where the fibre is actually in the ground. And they are there for a reason; they are not there because it happens to be convenient. They are not there for any reason other than that they save CBD rental and property costs. It also a creative industry that needs a creative environment.

Trying to find a telecommunications carrier—or carriers—that could provide the appropriate bandwidth at the appropriate price and, most importantly, in the appropriate business model has been a challenge. One of the things that we have discovered is that it is not just about reducing the cost of bandwidth; it is about changing business models. It is about moving the telco business model closer to that of the industry. This is an industry that requires large data files; a film is three terabytes of data. I do not know your level of understanding of what that means, but there is a diagram in our submission which probably shows the difference between the various stages of film-making and the sizes of the data files that need to be moved. ADSL just does not hack it; it has to be on fibre or some equivalent technology that enables them to collaborate—which, as Dominic has indicated, is crucial.

Mr BALDWIN—What about satellite?

Ms Tucker—Satellite is hugely expensive, it is one way and it has a high-cost infrastructure. There is still a fixed infrastructure cost involved in satellite—in putting the receiving dishes in. It is excellent for one-way distribution but not for two-way distribution, and this is about two-way. One of the things we were able to secure in our negotiations with our selected carrier, at least within state boundaries, was to enable them to exchange data with no charges attached to it—because if it was 1c a megabyte it would be cheaper to use a courier and a tape, which the industry desperately needs to move off and onto its electronic equivalent. Sneaker.Net is not the way of the future and it will actually hamper the ability of the Hollywood studios to—in a timely and effective manner—not just bring the film work here but leave the post-production work here, rather than taking it back to L.A.

Mr JOHNSON—Can you put a value on it, Judi—a ballpark figure?

Ms Tucker—It is an excellent question. I do not know if Dominic can answer.

Mr Case—Can we put a value on what exactly?

Mr JOHNSON—On the opportunity cost. Let us say we had the development at a stage that you were satisfied with and that could deliver the outcomes that everybody wanted—that all the stakeholders wanted.

Mr Case—It is very much a rolling horizon sort of thing, a rolling cut-off point. One of the other initiatives that is happening at the moment—again, it is Commonwealth funded—is the

CeNTIE project, which is about making extremely fast broadband available on an experimental basis to a small number of companies. We are talking about connections 100 times faster than the sorts of connections we are being asked for. There are genuine applications for that as well, but of course they are genuine applications to be developed in the future. Essentially, the more widely broadband is available, the more can be done with it.

Mr JOHNSON—But you are never going to reach a destination point as such, which is why I asked the question. The whole idea is to reach a maximum—

Mr Case—It is a developing industry and it is not a situation of, ‘Oh, look, if only we had electric light we could double the number of hours a day we worked,’ and that would be it and there would be no more than that that could be done. It is sort of a rolling thing. It is very hard to say how much has been lost.

Mr JOHNSON—Isn’t that what you are saying: that, if we had power, then we could do more; if we didn’t have power we—

Mr Case—We are saying if we had power we could do more but not just turn the lights on. Today most people recognise that if we can send files, if we can send video copies of rushes to the United States or if we can exchange files of digital effects with Animal Logic, for example, in a couple of minutes rather than on a truck then there is a benefit. In the future, there will be many opportunities for other applications using this technology and they are only as far away in the future as it takes us to develop those technologies and develop those applications.

CHAIR—One of the examples we heard in previous evidence is that a lot of the LA studios will do all their filming in Australia—say for *Peter Pan* or *Captain Hook* or *Scooby Doo* or whatever. They will do as much work as they can but they will not risk doing a lot of the post-production work in Australia in case it does not work and in case they cannot get it back to America easily. They would rather have the person on the same lot as them doing all that post-production work so they can walk down there and have a look at it and say, ‘That is working,’ or ‘It is not working.’

Mr Case—Those are all good examples—*Peter Pan* and so on.

CHAIR—The example we were given in Queensland was that because of broadband the studios just would not take the risk of not having it next door to them physically.

Ms Tucker—There is a huge element of control.

Mr JOHNSON—That is the sort of thing you are doing about it.

Mr Case—That is very much part of it, yes.

Mr JOHNSON—You should be able to value that, shouldn’t you?

Mr Case—There is certainly a sense of security as well as control that the producer or the director will have in being just across the lot from where the post-production and the special effects are being worked on. They do not have that if they are on the other side of the world.

While they are prepared to come and shoot for three months or four months—or 10 months in the case of *Peter Pan*—they are not prepared to spend another year away from home; away from where they live with their family. So post-production is at a disadvantage.

CHAIR—But that is also not much to do with broadband in some ways. It is to do with human nature, isn't it?

Mr Case—Yes, except that already because the bandwidth requirements are less it is quite easy to send rushes overseas every day. That happens out of the Queensland studios now, particularly—

CHAIR—So what they do now is send bits rather than the whole thing and they send them by couriers and so on?

Mr Case—What they are doing now in terms of rushes is sending quite low-resolution, low-grade images which are just enough for an executive producer to sign off on: 'It looks fine. Move on.' But in terms of the post-production that is being done here, it is just sent in bits and pieces and very often by courier, which loses advantages. It loses a couple of days in getting the courier across; it loses that day to night advantage—the 'follow the sun' ability we have in being able to do a day's work here and then, as we are finishing our day, to send it either to London or to Los Angeles when they are just starting their day. The film industry works in that frenetic hurry the whole time.

Ms Tucker—I think it is also true to say that the requirement is to be able to compete with the post-production industry in LA, so whether you are across the street or across the world you need to get the same quality of content. So it should not have to be low resolution because locally they can deliver at a much higher resolution. If they are comparing low resolution with high resolution, the high resolution is going to look better. It has to be able to compete.

That international connectivity is becoming available through organisations like Sohonet—who we are in the process of developing a strategic relationship with—who have been doing this and who are probably the only other surviving model that fibre has to model itself on. They have been going since 1994. They have the advantage of being able to provide internationally managed connectivity. The problem is getting out of the front door here to get onto the Sohonet service.

Ms Tucker—Yes, in terms of the future it is—Dominic is dying to say something.

Mr Case—Sorry, but we should almost ask, 'Have we thought back to the future?' Film as it stands now—the celluloid stuff that we have been using for a hundred years—is in fact considerably high resolution already. It is in an analog form but it is considerably higher resolution than what they now call high definition: for example, the latest *Star Wars*. So we are already working at a much higher resolution on film projects, and a lot of those are digitised for special effects work. We are working at a much higher resolution already than you will actually see if you go to a digital theatre—there is one now in Sydney.

Mr BALDWIN—What worries me as we go down this path, as we have heard from Animal Logic, is that technology is ever evolving to keep up with it. You are looking at getting fibre and

broadband capacity to suit the industry today, but I am thinking about the industry tomorrow and in the next decade and where we go. The problem that we have is that the infrastructure is not in place today and to install that infrastructure in a broad area to allow a lot of people to have access to it—whether it is broadband or cable just for individual players or, indeed, for a whole sector of the market—is very hard to implement. Going to a crystal ball, what work have you done looking to the future?

Mr Case—Again, as you heard previously, we are at the threshold and just entering this digital technology. Once networks are established—once that infrastructure is established—it is much easier to expand and build on that than it is to enter it in the first place. With computers, if you do not have a computer on your desk and then the next day you do, you have opened the door and stepped onto that level. Now every year you will have a faster computer: it will be twice as fast, it will do twice as much and it will still cost the same. But once—

Mr BALDWIN—I go back to when we first got computers: we had a single plastic floppy disk, and a five megabyte hard drive was a very big hard drive. Today hundreds of gigabytes fit on small hard drives.

Mr Case—But it still takes up the same space on your desk and it still costs the same amount of money for something that is now measured in gigabytes not megabytes.

Mr BALDWIN—But given that you are talking about the actual channel by which it travels, what is the limit on that channel?

Mr Case—The optical fibre channels that are being put in have enormous capacity. There is enormous potential capacity.

Mr BALDWIN—What is enormous?

Mr Case—Many thousands of times what is being used—

Mr BALDWIN—Does capacity equate to quantity coming out the other end in a set time frame?

Ms Tucker—With the typical telco you want it fast, you want it cheap and you want it reliably—and which two of the three do you want? So it depends on your key priority: is it budget, is it time or is it reliability and security? All of them have different audiences. But in answer to your question, the latest single mode optical fibre does permit terabytes per second of carriage.

Mr BALDWIN—I am a simple bloke from the country. Let me put it this way: if I have a water tank with 10,000 litres and I have a little tap, it takes a long time to empty it. If I whack a big hole in the side of it, I can empty it in seconds.

Ms Tucker—It comes out in a panic, yes.

Mr BALDWIN—So if that were a fibre cable, how big is the hole that you can get the message through?

Mr Case—The fibre cable in your water tank analogy is an enormously big pipe with lots of little pipes inside it. It is just not practical or possible to lay down a single narrow pipe, so the optical fibre cable is effectively like a very large number of small pipes. They can be segmented off.

Mr BALDWIN—In another five years will you need to lay more cables in that same—

Ms Tucker—There is a combination of things happening. There is compression happening, although in this industry that is a very dirty word. But there is compression happening and the old compression algorithms that make these huge data files still look good but take up very much less space. On the other side of the equation, the pipes are getting no bigger physically but they are becoming capable of carrying more in the same space through technological advances. So you get a combination of the two things.

Mr BALDWIN—How long before you have to go and rip out that pipe that is in there today to replace it with new pipe?

Ms Tucker—They do not have to rip it out, they just take out the old and put through new.

Mr BALDWIN—How long before you have to install new pipe?

Ms Tucker—The whole point about the cost of putting broadband to the door is the actual cost of digging. Once that digging has been done and you have a conduit, you pull through whatever you need and you take out what you are not using any more and you put the new stuff through. The cost is in the physical digging.

Mr JOHNSON—It is a one-off thing.

Ms Tucker—Yes, exactly. Between \$200 and \$600 a metre is the sort of pricing that we have had quoted to connect some of our customers.

Mr JOHNSON—Would you say that the cost is going to be substantially higher if we do not do something sooner rather than later?

Ms Tucker—I would suggest that, when anybody digs up a road anywhere, there should be consideration given to a plan whereby part of their licence to dig up the road is that they put in conduit, because that is the expensive part.

CHAIR—Doesn't that happen now?

Ms Tucker—Not to a huge extent that I am aware of. I am not saying that it does not but I am not aware of it happening. There is in Melbourne what was called a Digital River project which was funded by the state government to showcase a new building that is appropriately connected with conduit to enable future services, as yet unknown, to be delivered.

CHAIR—It is a big ask to ask businesses to do that when they are also being told on the other side of the equation that they will be able to have everything by wireless. All the wireless

broadband companies are saying that they will be able to deliver the same to them by wireless, so why would you invest in fibre when you are being told you will not need to?

Ms Tucker—Needs must when the devil drives. The fibre is there in the ground. It is too expensive for a number of reasons and where it is too expensive people will not pay for it, so they will look for alternative technologies; hence the growth of wireless. In fact, we are looking at wireless as an alternative for some of our potential sites because we just cannot afford to put fibre into the ground.

Mr BALDWIN—Have you looked at microwave?

Ms Tucker—That is exactly what I am referring to. We have a microwave supplier now.

Mr Case—In fact what has evolved in the way we are developing our project is the need to ‘interconnect’ and the need to find different solutions. Every post-production house which comes to us has a different set of problems, a different set of needs. They need to connect to different places from different places at different bandwidths. It is a complex mass of solutions and very often you find you are connecting one company that will give you a microwave link to get out of the building to somewhere else and then going with fibre for another part of the journey and so on. These are the complexities that we are grappling with that have been holding people up. Can I answer the other question about whether there is going to be a greater cost later. I think the cost in not doing it now is a missed opportunity cost.

Mr BALDWIN—With fibre, it is the aspect of getting it from door to door, so it is a matter of putting the infrastructure in in Australia and getting it across to the US. It is that last mile between you and your client that can sometimes be the issue. So how do we address that from the Australian market compared to this one?

Mr Case—You are correct in that the backbone of the major network is there. With respect to the last mile, we prefer to call it the first mile because our companies are where the material originates from, so the first mile involves getting into the network in the first place. You are correct: that has been the biggest difficulty. It is simply a cost barrier for the large number of small companies that work from project to project. I heard the previous evidence explaining that every project is a new project with new customers and everything else.

I work for a film laboratory as well, and we had a call a couple of months ago from a US producer who was asking us about connectivity to get rushes back to the States if we took on a project. For us to get that set up, we would need to be able to order it or organise something from whichever company we went through. We would have used fibre but that would probably take a matter of weeks to get organised—much longer if we needed to lay cables and so on. Meanwhile the potential production company is weighing us up against various other ones and we are very likely, having regard to the way the business works, to get a phone call on Friday saying, ‘You’ve got the gig; we start shooting on Monday.’

We cannot place orders for telecommunications equipment before then, but we lose the job if we do not. Once we have placed the order, this will run for three months—we will be using it very productively for three months—but the contract we have had to sign for the telecommunications probably runs for a year or two years. Those are the cost barriers.

Ms Tucker—And there are the monthly costs. Because it is a project driven industry, there are times when they need that bandwidth and they can afford to pay for it. They might be driving a taxi the next week and cannot afford to pay for it. This is where the business models do not match. Basically the telco says, ‘This is what we’ve got, this is what you have to pay for. Oh, you only want it for six months? That’s fine, but you still have to pay for 12 months.’ It is a matter of the chunks and streams. The telco model is streams and streams of steady data, and this is an industry that goes up and down with its projects. Trying to find a solution from one carrier to make demand aggregation on behalf of the industry work that addresses those disparate models is really, really difficult.

CHAIR—Thank you very much. This has been very useful because you are one of the very few witnesses to have presented only on broadband. We have had a lot of people from the film industry, electronic games and so on, and special effects and animation, but not so much on broadband, so it has been very useful for us. Thank you very much for your presentation. We know where to find you if we have any further questions.

Proceedings suspended from 12.51 p.m. to 2.09 p.m.

ALLSOP, Mr Derek Paul, Head, Technology and Infrastructure, Australian Film Television and Radio School**LONG, Mr Malcolm William, Director, Australian Film Television and Radio School**

CHAIR—Welcome and thank you very much for attending this afternoon. There are a few things I have to tell you. One is that we do not require evidence to be given under oath. Nevertheless, these are formal proceedings of the parliament, so if you give any false or misleading evidence—not that we expect you to do so—it could be regarded as a contempt of the parliament. I also have to remind you that we like to take all our evidence in public but if you want to give any evidence in camera you can request that and we will consider that request. We are now happy to hand over to you for any opening statement you might like to make.

Mr Long—We might make some brief opening comments from the perspective of education and training in relation to this industry that the inquiry is looking into. Perhaps I should say up front that it is refreshing and I think encouraging to see the scope of the industries that you have brought together to look at in this inquiry. One of our impressions from being in the industry and serving it over a long time is that it is often the case that the different components of the screen and digital industries are not dealt with together at a time, of course, when because of convergence and technical and international market issues they are very contiguous with each other.

The school's submission to the inquiry is really based around the proposition that the development of Australia's capability in these areas is really going to depend upon the training and education of high-end, high-quality, skilled individuals. We believe any analysis of the future of the industry will show that the public investment in appropriate training and education for the people who will lead these industries in Australia will bear fruit. Our proposition is that 30 years ago the Australian Film Television and Radio School was established in order to seed the revival of the Australian film industry, which to that point in the post-war era was almost nonexistent.

The establishment of the school was an interesting exercise in public policy because it recognised the importance of quality over numbers. The school was designed, and still operates, on a training philosophy which revolves around choosing the best possible people with exceptional talent, spending concentrated and focused resources on their training at a high level and in association with the industry in which they will work, and then transitioning them into that industry with very high expectations that they will do well and become leaders in that industry. That, I think, is a training approach which has certainly paid dividends in the film industry and therefore we have been able to produce many of the icons of the Australian film industry—household names: producers and directors—but also many of the top people who work in the craft areas of cinematography, editing and so on.

So we believe the government's approach to supporting the school and the school's approach to high-end training for exceptionally talented people have proved successful in the development of the film industry. We believe we can play the same role in the evolution of that industry into the broader based digital screen and content industries that are the subject of your committee.

That is essentially our message: that there has been in this journey—first with film and now with digital media more broadly—a lot of learning that has occurred and a lot of success that has resulted from advanced teaching of highly talented individuals, investing public money in that teaching.

We believe it can now go further and underpin the new development, especially in two areas. The first is in enterprise formation in the industry. I think anyone who looks closely at the digital and content industry can see that it is a very fragmented industry. It is an industry that has very little internal alliance and partnership activity, especially in relation to international markets. It is an industry that is based on individual operators and has very little cooperative enterprise activity. We believe that needs to be addressed. We have plans to create a screen business skills centre at the school, which would be a specialist nationally operating and Commonwealth supported centre, to begin to change the culture of the screen and digital content industry to allow for the talented individuals who are in it to be more sustainable as enterprises, and to be able to address the local and international markets from a firmer business base.

Secondly, we believe that digital interactivity is something that now needs to be understood and actioned by everyone working in the screen areas, whether they are film producers or web producers. We believe that the extension of our current course activity to include high-end courses, concentrated industry focused courses, in digital interactivity and its application across the board—from film-making to web design and everything in between—is something we could add to our current output and that that would have a significant impact in creating a more cross-platform culture amongst producers. There is plenty of evidence that that kind of culture produces the more interesting innovations in the digital content world. That is our opening statement.

CHAIR—Thank you. This might sound a little pedestrian as a question but are you funded by DCITA or DEST?

Mr Long—We are funded by DCITA.

CHAIR—Do the higher education reforms that we have announced affect your school at all?

Mr Long—Not directly, but we are watching them very closely and evaluating the relevance of parts of those programs and Nelson reforms to our operations and to issues like student loans. We are well involved in analysing and tracking those reforms to see what we can adopt and apply in our school.

CHAIR—Being funded by DCITA would be a tremendous advantage to you in other respects too because you would not be affected by the winds of change that billow about in the higher education sector.

Mr Long—We have the other advantage that we are a creature of legislation. There is an Australian Film Television and Radio School Act which sets out our responsibilities, charter, powers, obligations and prerogatives. And, of course, being in the DCITA portfolio we are already industry facing, in that sense, towards broadcasting, towards ICT and towards the arts which, in this era especially, are so closely intermingled with what our students will end up doing. So the wisdom of the school being associated with DCITA is going to bear particular

fruits in the near future as that convergent process with telecommunications and the creative industries in general continues.

CHAIR—Was that the far-sightedness of Mr Gorton or Mr Whitlam?

Mr Long—Both, I think.

CHAIR—Mr Gorton was your founder.

Mr Long—As I used to say when I was managing director of SBS, it is good to be in an institution which can claim provenance from both sides of politics!

Mr JOHNSON—How do we compare to international schools? I do not know the extent of their existence, but how do we compare to similar creatures internationally?

Mr Long—Pretty well. We regularly track how we operate, and our course structure and so on, with some key international schools. There is a collection of schools in North America, Britain and Europe with which we have an association. They apply the same kind of formula of high-end training as we do to relatively small groups of people, and we compare well. In some senses, we are better than all of them. Certainly in the relatively recent issue of integrating the new digital technologies and digital production approaches to traditional film-making skills we are well ahead, because our entire courses are based on an integration of digital skills with the other skills of production, direction, scriptwriting and so on. I think that is something where we are probably leading the world.

Mr JOHNSON—What about in terms of the funding? I read here something that it is about \$13 million that we give to you.

Mr Long—It is \$15 million a year.

Mr JOHNSON—It has gone up, has it? Great. How does that compare with your peers?

Mr Long—It varies.

Mr JOHNSON—Consequently, because of that degree of funding, the output is X amount?

Mr Long—My colleague might want to comment in a minute. In the broad, there are a couple of American schools which we see in our league and they are the schools that produce the so-called ‘film school generation’ in the US—George Lucas, Francis Ford Coppola and so on are all high-end film school graduates. They of course are mostly funded, in that time-honoured American manner, from foundations and corporations. Lacking that tradition in Australia, we rely more on public funds. In Britain public funds are employed. Certainly in Europe public funds are employed strongly. Comparatively speaking—Derek, do you have that information?

Mr Allsop—They are a lot lower. In the US most of the schools are part of the university system, so they get their funding via the university system as well. It is not extremely well funded in that the schools have to fight for resources across other faculties and rely very heavily on contributions from the industry. A lot of their technical resources are actually sponsored or

gifted by high-profile people and companies. In Europe they are a funded part of the cultural activities of the government or the industry. In England, for instance, it is things like the DTI and now, I believe, the department of heritage. They are not funded to the same level and do rely on public funding as well—gifts. I visited the UK film school very recently and I have to say that the Australian film school is very well respected and very well resourced, and I believe the output recognises that fact. The UK film school has been looking to move for some time but it just does not have the funds to do so and their current accommodation is lacking.

Mr JOHNSON—Do you have some reciprocal programs?

Mr Allsop—Yes.

Mr Long—Yes, we do. We have a lot of connection with the key schools.

Mr CIOBO—I would like to touch on a couple of different issues. I noticed during your introductory comments you made some remarks about being able to drive industry—at least, I interpreted it that way. I am just seeking some further comments about the way you would see your role in driving industry versus what I might have said was a prima facie attitude and one that I would have, which is that you should be responding to industry drives in terms of training and skilling students. I am interested in your comments on that.

Mr Long—That is right. We exist to serve the industry. If I used the word ‘drive’—and I am not sure if I did—

Mr CIOBO—You may not have but that is just the impression I got.

Mr Long—I meant in terms of providing subsequent generations of skilled people who can serve the industry’s needs.

Mr CIOBO—How would you actually go about incorporating and staying in touch with industry so that you are aware of where it is going, what the future trends are and the way in which you can equip your students?

Mr Long—The school is very connected to the industry in a number of ways. All our specialist department teachers come from the industry. They are typically on term appointments and they go back to the industry, so the throughput of industry professionals into the teaching role is constant. Equally, we encourage our staff to work in the industry while they are with us. For example, our head of design, Larry Eastman, who is a very well-recognised Australian screen designer, recently took some time to design Peter Bogdanovich’s film that he shot in Australia. Our current head of television is working on a television project in the industry. So we have a very supportive policy for there to be a permeability between the full-time teaching staff and the industry.

We also have a lot of part-time teaching staff who come in to present particular courses, and something like 350 industry professionals come into the school each year in order to present particular courses in particular specialities. In addition to that, we maintain contact with the management of the networks and the production houses and arrange secondments and attachments between the students and those organisations, so the students are in fact maintaining

a level of contact. We involve the industry in the graduation process of the students, especially through our sponsorship program, whereby a range of different parts of the industry support prizes for excellence for our graduates and so on. It is always a work in progress, of course, because industry is busily focused on the market and doing well in the market, but we have a strong relationship, which I am keen to maintain and develop, and industry certainly responds in wanting to be involved with the school.

Mr CIOBO—You refer to secondments, and I am also mindful that you said it is quality versus quantity. Would that extend to the bulk of your students or would that just be for the top 10 per cent?

Mr Long—That is all our students.

Mr CIOBO—All of them?

Mr Long—The school is by entry through audition, so students only come into the school if they have exceptional talent, and that involves a portfolio, what they have done, exercises we give them, their undergraduate performance—because we are a postgraduate institution—and their work in the industry prior to coming and so on. So we start from the premise that all our students are exceptional potential film-makers and production people, and they have that expectation with them throughout the two years at the school.

Mr CIOBO—Would you describe your training as being specialist or generalist?

Mr Long—Specialist.

Mr CIOBO—What do you see as the advantages flowing from that? Last week we were in Melbourne and the VCA really played up the fact that they provide generalist training. They provided some of the reasons why they see the superiority of generalist training over specialist training. To juxtapose that, what are the benefits you see from specialist training?

Mr Long—We certainly do not see that specialist training is somehow an alternative or another approach to the training of people in this industry. We believe that generalist training is important, and most of our students have been through generalist courses, though not all of them.

CHAIR—Because you are postgraduate, aren't you?

Mr Long—Yes, we are a postgraduate school. Not all of them—some are lawyers and doctors who get the entertainment bug.

Mr CIOBO—Or the retired ones I have seen in Victoria.

Mr Long—That is right. But we have the position in the industry of being the point where talented students come to for the finishing off of their range of skills before they actually step into the industry. Bear in mind that 95 per cent of our graduates get work in the industry within a year of leaving the school. So we are talking about people who need to be quite focused on their industry slot or environment, as it were, at the point they come to us and as they go through the school. Having said that, another characteristic of the school which is very strong and getting

stronger is the one I alluded to in relation to digital media versus traditional film-making. The school is specialist but intensely cooperative and based on collaboration. The film-making and, indeed, the digital media process is a very industrial process involving a lot of different skill sets, and collaboration and teaching specialist students how to respect and relate to other specialities—as they have to on a film set or in a production studio—is a key to what we do. So it is specialist, but certainly not isolationist in any sense.

Mr CIOBO—You said you were funded by DCITA. Is there a HECS type system that operates for graduates from the school?

Mr Long—Not currently. Currently the students receive scholarships to be at the school but they also pay some fees.

Mr CIOBO—What is the fee?

Mr Long—The fee is, I think, about \$5,000.

Mr Allsop—Yes, just under \$5,000.

Mr CIOBO—As a percentage of actual costs?

Mr Long—Just is a small percentage.

Mr CIOBO—Could you estimate that?

Mr Long—It would be very small.

Mr CIOBO—Less than 10 per cent?

Mr Allsop—Yes—just under 10 per cent.

Mr CIOBO—Do you think there might be additional flexibility if there was a HECS type system that operated or perhaps something like at the Institute of Sport or that sort of funding model?

Mr Long—We are currently doing a piece of work exactly on that issue, to see where our fee, scholarship and student lending settings should be. I am very keen for us to understand better the impact on the quality of our students that would come from having student loans available, which we do not have at the moment. There is a need for careful thinking about the impact of fees, scholarships and loans on that prime objective we have of attracting the best and giving them a life circumstance while they are at the school were they work 40 hours a week. It is not like a university where you go to lectures; it is a full-on experience. How we set those three variables to maximise the school's impact on students is something we are currently looking at.

Mr Allsop—Can I just add something very briefly to Malcolm's comment on industry relations. There are two other ways in which the industry is very involved in the school with respect to our education. One is that we ask people from the industry to participate in the selection of the students—they form part of the selection panels. So the students are not just

selected from the educational staff but we ask external people to take part. Periodically—every three years, I believe—we review our curriculum, and it also has to be reviewed by external specialists. For example, our editing modules are reviewed by the Editors Guild or a representative from the guild, so it is very regularly updated. Also, we are not able to offer all of our students every resource—it would be nice if we could—so they have the experience of going out into industry regularly just to undertake their normal production routines and activities because we do not have all the resources in-house. So they regularly go out into industry and use current industry equipment, procedures and practices.

Mr CIOBO—We have had a number of witnesses put forward the idea of, for example, a ticket levy on box office tickets to provide funding to those coming through. What would be your response to that sort of proposal?

Mr Long—I think the difficulties may exist well before it comes to us. It is a strategy which is possible. Ticket levies on Australian theatrical tickets have been talked about in a wider context of supporting the Australian industry, and have not succeeded politically. Whether they could succeed by focusing the income specifically on education would be an interesting political issue. I certainly support the notion of the public contributing to the kind of education we provide. Connecting it specifically to cinema sales may work a little bit in the face of the kind of broader convergence that this committee has been grappling with and which we at school are grappling with. So much entertainment of the kind that we and you are concerned with is consumed now in the home, in the motor car and on mobile phones. Slugging the cinema goers of Australia specifically to support our much more broadly based screen production school I think would create distortions which would not necessarily be appropriate.

More broadly, it seems to me that it has been the time honoured business of government to support important factors that affect the future economy of the country from general revenue. I certainly believe that the industries your committee is looking are key to the future of this country. I would not see as particularly helpful any suggestion that really pushed our industries back into some kind of specific subcategory which did not link with the general welfare of the community in general, which is where increasingly our efforts will see results in the information age.

CHAIR—Is there an area of education and training for film, television and radio where you do not feel that the AFTRS has the funding to cover it but you think it is not being covered in Australia at the moment?

Mr Long—There are two specific areas and we have highlighted them in our submission. The first is the one I alluded to before, and that is education and training for the business of being a screen producer and being involved in screen production. I think one of the weaknesses of the Australian industry—and unfortunately there is considerable evidence that the new digital and online industries are taking up the same kind of pattern—is small producers disaggregated and working in isolation, with too little capital and too little human capital support to survive over a long period and grow and develop in a global marketplace. That is the shape of the Australian screen industry and it has been our biggest problem. It cannot be allowed to be the shape of the digital industries that are developing. We see the ability to address that through screen business training, making sure that our graduates understand the importance of clustering, the importance of sharing market intelligence, the importance of knowing the marketplace in which their

products are going to appear, the importance of sharing risk and those kinds of things, which have not been strong in the Australian industry. We think it is really important there be a centre of excellence that can study those problems, deal with them in association with the industry and try to change the culture of the industry to make it much more sustainable in business terms. That is the first area that we would love to get into and is difficult to do with our current resources.

The second is this area of digital interactivity, which now runs across the gamut of the areas you are looking at. We are not just looking at games or interactive television or DVD authoring but at all of those things, which share a common logic. We believe that the sort of high-end learning that happens at our school should be applied to those and we have a limited ability to do that. We certainly have developed a strong reputation in visual effects and digital effects, and much of the digital effects industry in Australia in film production is supported by our graduates. But we have not had the funds hitherto, while maintaining our existing activity, to move as fully as I would like into the digital interactive area—and yet interactivity is going to be really important for the future across those various platforms and others. So that is another area where if we had more resources we would be able to do the job for those areas that we have done for film, cinema and television in the past.

CHAIR—You are trying to get into the former, though, aren't you? Aren't you trying to establish a business stream?

Mr Long—We are and, indeed, a digital interactive stream.

CHAIR—But that will only be touching the surface?

Mr Long—It will be constrained by resources.

Mr JOHNSON—You said 95 per cent of graduates get work. What is the time frame for that?

Mr Long—Within one year.

Mr JOHNSON—How many of those graduates would go overseas?

Mr Long—I do not have specific figures. It is not large numbers. The rhythm of the industry, especially for film and television production, seems to be such that the bulk of people remain in Australia. Those that do go overseas are usually the very best, who get drawn overseas because of the opportunity to work with bigger budgets in more sophisticated markets—hence our graduates such as Phil Noyce and P.J. Hogan, who did *Muriel's Wedding*, are both now based, I think, in Los Angeles. Others who have international reputations, such as Jane Campion and Gillian Armstrong, are based in Australia. So some go overseas, but I think the vast bulk of our graduates would be in the Australian industry.

Mr JOHNSON—Would those that go overseas go there initially of their own volition or would the pull be there from a studio, from a commercial entity?

Mr Long—It varies. Some go—

Mr JOHNSON—I know we are probably talking about a very small percentage but I am just keen to know the details.

Mr Long—Some go because they want to be involved in a bigger pond quickly. They go to international markets, mostly Hollywood, and hold their breath and hope for the best, and sometimes they come through. Much more commonly, our graduates do well here, produce some productions which become internationally successful and are then offered opportunities in Los Angeles that they cannot refuse.

Mr JOHNSON—So in a sense they serve as an apprentice here?

Mr Long—To some degree, although one of the positive spin-offs of the production of more international and American films in Australia is that some of the additional resources and additional production values that can be built in through bigger budgets now happen in Australia—for example, at Fox Studios or on the Gold Coast. So it is a slightly more complex circumstance to what it used to be.

Mr JOHNSON—This is a very general question. As a driver for economic activity, prosperity, jobs and all those sort of things, are we really only scratching the surface in this country at the moment?

Mr Long—I think so. I think if one accepts the proposition that the leading edge of our economy into the future will not be mine or farm, which will always be important but perhaps not the leading edge, and that the leading edge will be the intangible industries, of which the screen and the digital content industries are an important part, then our performance and capability in those areas will be significant. Certainly the entertainment industries are becoming key economic components. In America they are bigger industries than the defence industry. In Japan and Britain, people spend more on entertainment than they do on clothing and even on their health services. So these information and entertainment industries are becoming very big enterprises. If we are unable to play in that market and have workers who are prominent in that market and making Australian material, then I think we have a huge problem into the future.

CHAIR—Thank you very much, Malcolm and Derek, for coming along today. If we need any more information, we will be back in contact with you. Otherwise, thank you very much for your evidence and your submission.

[2.43 p.m.]

BRENNAN, Mr Garry, Manager, Production Liaison, New South Wales Film and Television Office

SMITH, Ms Jane, Chief Executive, New South Wales Film and Television Office

CHAIR—Welcome. I must inform you that, while we do not ask you to give evidence under oath, these are proceedings of the parliament and any false or misleading evidence that you might give could be regarded as a contempt of the parliament. We prefer all evidence to be given in public but if you wish to give any of your evidence in camera you only need to request it and we will consider that request. Do you wish to make an opening statement?

Ms Smith—I will make a couple of introductory remarks. New South Wales has an interesting market structure in the context of the industry in Australia. We have about 50 per cent of the local industry and we have a large proportion of the offshore industry. We very much balance the needs of the local industry with those of the offshore industry. We spend a lot of time marketing New South Wales as a filming destination, so we track what is happening with the industry around the world. We have been able to successfully attract big budget films such as the *Matrix* trilogy and *Mission Impossible II* as well as attending to the needs of the local industry. Without a strong local industry we would not be able to attract those offshore productions. They see the calibre of our crew, our actors and our special effects artists, and that is one of the main reasons they are interested in coming in particular to Sydney and New South Wales. So, in terms of your deliberations, it is quite an interesting microcosm about how the industry works across those different elements.

CHAIR—In the competition to attract work from overseas and domestically, do you work with the other states to increase the size of the cake, or do you tend to find that Queensland, Victoria, South Australia and New South Wales do their own thing?

Ms Smith—We work together. There is about \$US6 billion of footloose production that Hollywood looks to send somewhere outside of California. The bulk of it goes to Canada and then there is Australia and New Zealand. The real competition for us is Canada, New Zealand, South Africa and perhaps a bit in Mexico. Once someone decides to think about Australia, then each of the states has different characteristics. For example, if you want to do a film with jungle next to a five-star hotel in a stable political situation, you go to Queensland. We do not have that kind of situation. So the competition, such as it is, is very much at the margins, because we have different things to offer in different states. The states have different kinds of attractions, different kinds of things in the industry that they can offer. We have all been part of AusFILM for about the past five years, and through that we go overseas on joint marketing trips, and they have worked very well. This is Garry's area of expertise.

Mr Brennan—I would describe it as a 'coopetition' model: we cooperate and we compete.

CHAIR—Sounds like 'incentivation'!

Mr Brennan—It is working well. The AusFILM brand under which we market is obviously Australia. So when we all go abroad we go as one and we market Australia. Our customers overseas regard the people they are dealing with as Australians. That is the primary thing they see: ‘We’re going to Australia to make a movie.’ I do not think they really see the state borders. In fact, if you open a map of Australia in front of an American producer they often do not even know where one state is compared to another. So, to be successful, I think that is the best way for us to work—to work cooperatively when we make that first contact with a potential customer.

CHAIR—New South Wales appears to be travelling quite well with respect to attracting movies—big films—to Fox Studios in particular, but Brisbane and the Gold Coast seem to be in a bit of a slump. Would you say that is true? Is something being done in Queensland that is not being done here, or vice versa—or is it just the luck of the draw?

Ms Smith—I think the last year has had its own particular problems, with SARS and the Iraq war and those kinds of issues, so I think it has been a tough year overall for offshore productions moving out of California. As to our colleagues in Queensland and what they may or may not be doing right, I am not sure I can comment. They have smaller sound stages and they do not have as much of a local industry there as we do. Again, it is a different mix that they are trying to market, compared to us. They have traditionally been successful with smaller telemovies, with television series from the US. I suspect the tax treatment, or lack of, in terms of the rebate has had a particular impact—

CHAIR—On television?

Ms Smith—on television, which has impacted on Queensland but which has not been such a big issue for New South Wales.

CHAIR—Would you say that New South Wales is in a bit of a slump too, or do you think that things are travelling well?

Ms Smith—I do not think the last financial year has been as good as previous years, for the reasons that I have just mentioned.

CHAIR—What about the future? Are there things on the drawing board to be started in New South Wales in the near future?

Ms Smith—Yes, this financial year that we have just started has a much more positive outlook for it.

CHAIR—But not in television?

Ms Smith—No.

CHAIR—Or films?

Ms Smith—They are pretty much all films, aren’t they?

Mr Brennan—Yes, all films. We are fielding inquiries from international television producers, but nothing is confirmed. It is primarily film. We have a movie that started two weeks ago called *Man-Thing*—

CHAIR—*Man-Thing*?

Mr Brennan—*Man-Thing*.

Ms Smith—You need to be a comic fan.

Mr Brennan—It is a Marvel comic movie. Interestingly enough, for an American production it has 100 per cent Australian cast and 100 per cent Australian crew.

CHAIR—Who is the man-thing? Who is the Australian actor?

Mr Brennan—I have met the guy but, sorry, I cannot remember his name. It is a character that wears a mask, so it is not going to be anyone you would recognise. Jane has said that we are more than 50 per cent of the Australian industry, so we are the core. When something shrinks, it shrinks from the outside. It is only natural that if there were to be a cyclical or periodic decline in the industry, for whatever reason, we would be the last place where you would notice the shrinkage because we are much bigger in the first place; we are the centre of the industry.

Mr BALDWIN—I note your success in attracting large-scale films here. Your focus seems to be in films but having very little to do with post-production.

Ms Smith—Sydney has a very good track record internationally on post-production. In conjunction with state and regional development we have a fund to try to attract post-production to New South Wales. Australia probably has the bulk of the post-production facilities in Sydney.

Mr BALDWIN—If we look at the economic benefit and the last *Matrix* movie that went through, the digital post-production was about \$70 million, of which we got \$7 million or \$8 million worth. With *Star Wars* there is no post-production here; it is all being done offshore. I could keep going, but they are the ones that come to mind at the moment. How much effort do you put into pursuing post-production, which has the highest job generation aspect to it compared to the cinematography side of the film?

Ms Smith—There has always been a tension about trying to keep post-production outside of California if it is a footloose production because the producers generally want to go back home and start working on their next film. So it has been quite a difficult thing to keep post-production here. *Matrix* has been prepared to stay here and do that.

Mr BALDWIN—But, as I understand it, *Matrix III* is not being post-produced in Australia.

Ms Smith—I do not know; you might be right. Certainly the first one was completely post-produced here and the second one did some post here. I am not sure about *III*.

Mr BALDWIN—The second one did 10 per cent and, as we heard this morning, there is nothing being done on the third one.

Mr Brennan—I think the interesting thing about post-production is how it is now a much bigger part of a film than it used to be. The number of special effects shots per movie has escalated very rapidly, especially on the tent-pole films. There used to be a few dozen, then there were 50 or 60 and now we are up into the thousands of post-production shots per movie. That has changed the whole way movies get post-produced, and the proportion of the budget which goes into post-production has gone up.

Mr BALDWIN—From what to what?

Mr Brennan—I do not exactly know, I am sorry. But what the studios do not have is a way of managing that sudden change in the mode of production. In the old days they would sign off each special-effects shot. There would be a committee in a screening room; someone would screen the shot and seven people would sign a piece of paper and say, ‘We approve.’

It was a relatively straightforward thing to do and it was relatively easy to do something like that at a distance, having regard to the distance between LA and Australia. But now the sheer number of shots that need to be approved means that the studios are very reluctant to have it done so far away because they think it has to be done where they can control it, they have to do all these approvals, and it needs to be done on their lot. That is going to be very difficult to overcome, and we have made severe attempts to overcome that. There was a movie which was to be shot in Australia called *I, Robot* which went off to shoot in Canada. We put a proposition to them that they should do 100 per cent of the digital effects post-production in Australia because the director is Australian and he wanted to do that. But the studio has been extremely reluctant to allow that movie to be posted in Australia for the reasons that I just gave.

Mr BALDWIN—So you are saying that whilst we have these great studio facilities here they do not see them as their studio; this is just an outsourcing office for the parts that they send here?

Mr Brennan—That is right. We have to overcome a cultural problem. With *I, Robot* I was convinced that it was certainly cheaper for them to do all of those robots in Australia than it was to do them in the US, but they still chose to do them over there. It was about the studio process—the control, the approvals and so on. I think it will take some time for them to become detached from that model and to have faith and trust in the people in Australia that it can be done here, but I think it will happen eventually.

Mr BALDWIN—There would be greater ownership from basing it in Australia. What have you done as a corporation to pursue venture capital for productions to be completed here in Australia from go to whoa?

Ms Smith—We have not specifically looked at venture capital. We are a minority investor in terms of the Australian production that we fund. We go into funding models primarily with the Film Finance Corporation and various private sector partners. We have \$2 million; we have not gone out and sought venture capital to do that. Certainly the Film Finance Corporation is looking at some different models to try and attract greater amounts of private sector capital but we have not done that ourselves.

Mr BALDWIN—Do you see that as a model you could perhaps pursue, given that you are competitive with Queensland and other areas, so that you are perhaps a little bit more competitive than the other states?

Ms Smith—The private sector's interest in investing in films, on some of its recent testings, has not been all that encouraging, and I am not sure that that would be appropriate for us at this stage.

Mr BALDWIN—We do not seem to have a problem with corporations wanting public funds to be invested in films, but at times that should perhaps be matched by the pursuit of private investment in films, so that it is not just the taxpayer picking up the so-called opportunity for the film industry to come here through tax incentives, grants or partial government financing. What are your views on that?

Ms Smith—As I was saying, there are different schemes that people are trying to explore to get more private sector investment. The current financing deals involve, on average, 40 per cent private sector financing as we speak. So there are substantial amounts of private sector investment in Australian feature film and television now. It is a question of what models will work in the current broader investment climate and whether the private sector is prepared to do that. Some of the recent capital raisings at the end of the last financial year were not very successful because they obviously did not feel that film was attractive enough compared to some other things that people could do with their money.

Mr BALDWIN—In pursuit of these films do you go out and look for scripts in order to put the package together or are you looking for something that has already been put together and then attract it into Australia?

Ms Smith—In terms of Australian production the FTO is a major developer of scripts. We have a development fund and we have a number of schemes where we help to develop scripts. A number of those scripts will come to us and we will be told, 'Now we want to be financed,' and we will become a minority investor. We do not look for scripts in terms of offshore production; the offshore production comes to us.

Mr BALDWIN—Do you measure your level of commitment and investment on the basis of its artistic value, or is it purely on economic value?

Ms Smith—There are about 12 categories of criteria that the board uses to make a decision on how we invest. There is a set of creative criteria; there is a set of financial criteria in respect of how the deal has been put together; and there are the economic benefit ones regarding the value of the production to the state of New South Wales. So there are three different areas that we look at.

Mr BALDWIN—There are ups and downs. We recently went to Queensland. There is nothing on the lot and nothing coming up in the short term in the Warner Bros studio—they have just finished *Peter Pan*. From talking to the people here, they have *Star Wars* and they are looking at two others but I am not sure that they have anything in the bag at the moment. What are you doing to perhaps get rid of the boom-bust cycle, or the peaks and troughs cycle, of film-

making? Are you looking beyond feature films to things such as direct to DVD, pushing for overseas commercials to come to Australia to be shot, telemovies or movies of the week?

Ms Smith—We have been looking at a number of things. One of the things which has been very difficult until now is that we have had only Fox Studios for a set of sound stages. One big production would pretty much use all the capacity at Fox. There are now a couple of private sector companies which are putting money into building more sound stages. So within the next year, we would expect to have about double the capacity. That will give us greater flexibility. At the moment, if one production needs to move in time frame and they lose their slot in Fox Studios, there is nowhere else they can go. Obviously that will allow greater flexibility for production to come into the state. We have done a lot of work—for instance, we have been on AusFILM marketing trips overseas to attract quite a bit of TV commercial work and telemovie work.

Mr Brennan—The film industry is a complex ecology. There is low budget television and high budget television, movies of the week, and \$100 million feature films. They all have a different mode of production but there is an interconnectedness. You like to see a bit of everything going on because you have that hierarchy of production. However, our competitive advantage in New South Wales is not the same as it is in Queensland. I don't think we have ever produced a straight to video or straight to DVD movie in New South Wales—whilst they have done quite a few in Queensland.

So people with money to spend, who want high production values on the screen, tend to come to New South Wales because of our reputation. I refer to *Moulin Rouge*, *Matrix* and *Star Wars*; we have *The Mask* and *Stealth* coming on. They are the next two—and *Alexander the Great* comes after that. These are all complex films with very high art department budgets which need extremely skilled practitioners. That is where our competitive advantage has developed.

Mr BALDWIN—As the New South Wales Film and Television Office, what are you doing to promote areas outside Sydney—opportunities like the Hunter Valley or Newcastle?

Ms Smith—We have quite an interesting regional program. We have a regional filming fund which encourages productions to shoot outside metropolitan Sydney. We have also worked closely with different areas to establish regional film offices. Our colleagues in state and regional development have helped put some money into those—so we now have regional film offices in about six different parts of the state. When we get pictures in from overseas, where appropriate, we will send them out to those different areas and ask them to give us some information. We have had a number of productions go to regional New South Wales. Also, at a different level—which is not production—we have a successful regional cinema program, where we have encouraged cinemas back into small country towns. That has been running for about the last three or four years.

Mr JOHNSON—I am curious as to whether those in the industry might be able to play a bigger part. Do they play a significant or substantial role in promoting New South Wales and the country generally?

Ms Smith—When you say 'those in the industry'—

Mr JOHNSON—I mean those with a profile—the stars of film and television. Is there scope for them to play a role that is proactive and coordinated? I am sure they do it in some way, but is there scope for it to be done in a structured, coordinated way?

Ms Smith—I think those high profile people are very prepared to give something back to the industry. Certainly, when asked, I can think of a number of them who have been very prepared to do it. For example, we took a delegation to Shanghai in the middle of last year and had some films in the Shanghai Film Festival—we took a delegation of post-production houses. Bryan Brown came to help us promote his film *Dirty Deeds* in China. About a million dollars worth of post-production projects were helped by that trip to Shanghai. That is just one small example, but those kinds of people are very prepared to find some time in their busy schedules to give back to the industry.

Mr JOHNSON—I guess you have hit upon the theme that I am trying to get to. How much do those who obviously benefit from a successful and vibrant industry actually put back in? Sometimes a lot of people talk about those who benefit from, say, the sports institute—how much they put back into their sport or into their particular industry. It is something that might be worth pursuing.

Ms Smith—A number of those people are patrons of film festivals and they will come out and discuss important issues and they will go to Canberra on occasions to discuss issues with you. I think that is something that happens quite a lot.

Mr Brennan—I think there is another aspect to this, too—that is, when we are pitching and trying to encourage a production to base itself in Australia, say, to come from the United States, one of the strongest marketing strategies we have is to get senior Australian creative heads—first assistant directors, line producers or production managers: the people whose names you do not know but who are basically the people that would run a production—to talk to the people that are considering coming to Australia. They are fantastic advocates for us. They are quite prepared to be open and to share their experiences with international producers around the world and they do a fantastic marketing job for us.

Mr BALDWIN—What about the likes of Nicole Kidman, Hugh Jackman, Guy Pearce and Russell Crowe? Do they promote Australia as an opportunity for filming in the international market?

Ms Smith—Yes, they do. AusFILM, for example, has an Australia Day ball in Los Angeles on Australia Day in January and a number of those people have specifically come along to be there and have been prepared to promote the industry. A number of them have given speeches at particular breakfasts and events if they are based in LA. So, yes, they have been prepared to do that kind of thing. I was in LA last year when the Golden Globe nominations came out and there were so many Australians there. Everyone in LA was saying, ‘What did you put in the water in Australia that there are so many Australians here?’ They are very visible, even in a place like Los Angeles.

CHAIR—Fluoride?

Ms Smith—I did not say that!

Mr CIOBO—To go back to something we were talking about earlier in terms of having a presence offshore, could you explain more about the relationship that you have with AusFILM and, indeed, the PFTC and the other commissions and agencies around the nation?

Ms Smith—We are on the board of AusFILM and we have various roles on the various subcommittees of AusFILM. All the state film bodies are part of AusFILM. When AusFILM is bringing someone from Los Angeles, the various state film bodies take responsibility for the organisation and for some of the payment of those people within their state. So it is a collaborative effort that we have with AusFILM. We help set the strategic directions of AusFILM with all the private sector members, but also we have some financial responsibilities in assisting when people come to visit.

Mr CIOBO—Do you provide funding to AusFILM or do you just provide—

Ms Smith—We pay a members' fee to AusFILM, which I think is between \$15,000 and \$20,000.

Mr CIOBO—You rattled off before, Mr Brennan, a whole heap of films that are coming up in, I presume, Fox Studios here in New South Wales. Is attracting that offshore component of film something that AusFILM does? I am just trying to get clear the relationship between AusFILM and its selling of Australian locations and studios versus the role that the actual integration of the studios as part of the Hollywood industry as such actually works. Could you explain that? I appreciate how Warner Bros on the Gold Coast, for example, integrates with Warner Bros Studios and how Fox Studios here integrates with Fox Studios in the States.

Mr Brennan—The first thing is they do not actually integrate all that closely. Fox's biggest customer in Sydney would be Warner Bros in Los Angeles. They have made more films in the Fox studios here than anybody else. Fox has only made one movie, *Moulin Rouge*. The relationships between the producers in Los Angeles and the Australian studios are purely business ones. Obviously, one would expect that there would be a closer relationship but for the sorts of films that Warner Bros want to make in Australia they need Fox; they need the huge sound stages. The Warner Bros ones in Queensland are generally a little too small for the big special effects type of movies that they want to make in Australia.

Getting back to the AusFILM issue, AusFILM has an office in Los Angeles, which is a key factor in all of this. It is a film commission. What we call film offices in Australia are called film commissions everywhere else in the world. They are there in Los Angeles. The film business is a relationship business, so it is who you know and you keep in contact with all of these people. The Los Angeles office keeps tabs on the industry in America. They are talking to people all the time; they are finding out who has got projects coming up, whether they are footloose and what they are looking for.

Each day when I get to work I have emails from the office in Los Angeles saying, 'This is happening, that is happening and can you provide us information about this, that or the other.' We are in constant dialogue with them: they generate leads and we follow up. As they firm up, we often arrange to bring those people down here. We work together on deciding what the best itinerary for them is, who they should be meeting and what sorts of things they should be looking at. That is the nature of it: it is a very close partnership arrangement.

AusFILM is the international front door. That is the brand name that we use overseas; that is the front door. If someone rings us directly from Los Angeles, we often ask them, 'Have you spoken to AusFILM?' because often AusFILM can give them the answer first. Then they follow up with us later on.

Mr CIOBO—So they are the shopfront as such?

Mr Brennan—They are the shopfront.

Mr CIOBO—It sounds to me like that structure would work fairly well.

Mr Brennan—It does.

Mr CIOBO—I contrast that with an industry I know well, tourism, where we have an absurd situation where in addition to brand Australia you have got all these state based tourism agencies leasing space overseas, which is just crazy. It does not sound like that is the case with what we are talking about.

Ms Smith—No, you are right; it is not the case here.

Mr CIOBO—You are all under the auspices of AusFILM for the purposes of a retail exposure on an international level?

Ms Smith—That is right.

Mr CIOBO—So that structure is good?

Ms Smith—Yes.

Mr CIOBO—In terms, then, of a couple of other things, we were talking as well about the interplay between film and TV and how Queensland has a dependency—perhaps more so than New South Wales—on television. You spoke about the fact that they did not get a look-in in terms of the 12½ per cent rebate et cetera. To what extent does having that sustenance of a television industry enable you to then attract more film? Is it completely unrelated? Does it just smooth out some of the ebbs and flows? When you can retain people on an ongoing basis because you have got regular TV spots can you therefore attract film?

Ms Smith—A long running television series is a mainstay of employment in a sector, so not having television running is quite a shame. It has major employment impacts. It does make it much more precarious for people who could have normally found a job on a long running television series. Yes, it is an important part of the ecology we were talking about in terms of TV commercials, documentaries and different sized films and television. It really is a very important part of the mix.

One of the things about attracting feature films is that you have to have people who have got current experience. If you have got someone who has been sitting around not doing anything for six or eight months, (a) they are probably off in a bookshop or washing dishes or doing

something else and (b) it just makes them look like they are a bit rusty. It really is an important part—that up-to-date industry experience.

Mr CIOBO—My concern then is this: given the apparent drought in television production because of the non-existence of the 12½ per cent rebate, it seems to me that our only competitive point is price. I cannot see why all of a sudden it would dry up, and yet it would seem that the great panacea to all of our problems is to have the rebate extended to TV. If our only competitive advantage is price, are we only then as good until someone else undercuts us or provides a greater incentive?

Ms Smith—In one sense you are right, because television is very price sensitive. It is also something that is quite sought after around the world. If you think about it, before the *Lord of the Rings* one of the things that sustained the New Zealand industry was *Xena: Warrior Princess* and *Hercules*. They were the two long-running television series that actually sustained that industry. So it is much more price sensitive because of the volume that they are trying to pump out on the much smaller budgets. Yes, there are certain factors—obviously there are exchange rate differences and all those things, and there are certainly elements about facilities and expertise, but yes, it is somewhat price sensitive.

Mr CIOBO—It tends to be price driven.

Ms Smith—Yes.

Mr CIOBO—Should we be perhaps devoting more time and energy into growing Australian based content that we can then export rather than trying to compete on price for imports?

Ms Smith—Ideally it would be good to be doing both. A US television series, when you think about that kind of high-end stuff, is very, very expensive. I do not know how realistic it would be for an Australian series to compete at that end of the market. But certainly it would be great to be able to have more Australian television that can go out to the world market.

Mr CIOBO—When you say that it is very expensive, with regard to something on Channel 10, 9 or 7, for example, they talk about the premium end of it being \$400,000 or \$500,000 per episode, and then you hear about shows such as *Friends*, for example, which cost millions of dollars per episode. Is the core component of that the salaries to the actors? If you take that away, are you left with relatively competitive propositions?

Ms Smith—No. It is really the complexity of the stories, the way the scripts are put together, the kind of production values and techniques they use, and the cast.

Mr CIOBO—Are you saying all of those are superior?

Ms Smith—Yes.

Mr CIOBO—So why aren't we able to compete on that level?

Ms Smith—Because we have a very small domestic market. The thing about the US, when they do those high-end television series, is that they can basically get their money back from

selling it around their domestic market, so programs like *ER*, which I have heard cost up to \$10 million or \$15 million an episode, can be sold across the networks in the US and the various cable stations and get most of their money back. So when they are selling it offshore, the price for which they are selling it offshore bears no relationship whatsoever to the production costs. In a small market like Australia, we just cannot do that.

Mr CIOBO—Why can't we look at the market as being international? Why does that have to be the case just because we do not have a population of 280 million? For example, talking about convergence in the industry, computer games manufacturers very much have the view that it is an international market so there is a uniformity of consumer there. Is it the cultural differences that would prevent us from considering the US as being part of our market?

Ms Smith—There are a couple of things that have happened with Australian television. We used to do very well. Companies like Southern Star used to sell a lot of Australian television very successfully. I refer, for example, to *Police Rescue*, if you remember that show. It then became a lot more difficult to sell into the European market, where some of our best territories are located. One of the things that—

Mr BALDWIN—Why?

Ms Smith—Because of what the US was doing. Say you wanted to buy *Friends* to air in Germany; you would have to buy a package of material. You would have to buy that, so there is the cost factor. In recent years they said, 'Okay, you not only have to buy the package but you've got to show it all,' so the slots for foreign programming were taken up with US material. It has got much harder to sell Australian material into some of those European markets where we used to do very well.

Mr CIOBO—Product bundling as such?

Ms Smith—Yes. Again it is the power of that Hollywood system and the way they have been able to bundle the products and say, 'If you want this stuff which drives some of your ratings, you've got to take all this other stuff and show it.'

Mr CIOBO—If we looked at WTO agreements and those types of things and there were opportunities there to perhaps address some of those concerns—this is crystal ball gazing—there might be an opportunity for Australia to become a serious player in terms of providing tele-series and those types of things on an international level?

Ms Smith—Certainly there have been some regulatory issues in Europe. The combination of those and what is happening out of the US have made it pretty difficult for Australian product out there. Yes, I think there are some issues there that could be looked at.

Mr CIOBO—I mentioned computer games. To what extent does the FTO and AusFILM deal with the computer games industry? Do you have any relationship with them at all?

Ms Smith—No, not really.

Mr CIOBO—Is there another agency in New South Wales that does?

Ms Smith—In a business development sense, state and regional may do, with people coming to them saying, ‘We want to set up a games industry,’ but that would be my only suggestion.

Mr CIOBO—We are also talking about post-production. Mr Brennan, you mentioned how post-production now accounts for an increasing percentage of the budget for film. Are we perhaps engaging in all this self-praise and securing more of the footloose productions, so to speak, but in fact we are just obtaining more of what is a diminishing part of the market and still losing out in the main game on the value added proportion of the industry, which is all the growing post-production stuff? Is that the real focus? Is that where we should be instead?

Mr Brennan—The first thing I will say to that is that the international production that we have in New South Wales is hugely value adding. The value added multiplier for film production is one of the highest of any industry. You should not say that we are only getting production and we are not getting post.

Mr CIOBO—It is not an assertion; I am just asking.

Mr Brennan—I think that is the first thing. The production in itself is terrifically stimulating to the economy. In terms of post-production, one of the things that has soured the market worldwide is overinvestment in the United States in the dotcom boom. Everyone went out and bought stupendous amounts of very expensive hardware which they then could not feed because there was not enough business. Price pressures came on worldwide. But that generation of hardware will be obsolete very quickly. I think that the playing field will level out or come back into some sort of balance. One of these days we will be sitting here wondering what the hell we are going to do to bring the post-production industry up and all of sudden it will be up; the projects will start coming in. We will continue to market it. We will continue to be over there, talking to the people, building relationships, pushing our capabilities, and it will come back.

Mr CIOBO—We saw Cutting Edge in Queensland, which was doing post-production work on *Peter Pan*. They said that they were pumping the rushes through over the Internet to the executives in the US every day. Is that the kind of thing that needs to be in place for us to compete? You made comments about there still being a sense of parochialism about having it within their control in the US. If we provide that sort of infrastructure does that become an insignificant factor and we can then more fully compete on that basis?

Ms Smith—If the executives in Los Angeles feel confident that they can see the rushes when they need to or the post-production shots or whatever, yes. The cost of the bandwidth across the Pacific has been an issue in the past. Obviously, if we can have those kinds of technology solutions, that will make Australia much more attractive.

Mr CIOBO—Do you have post-production houses coming to you and saying, ‘This is an inhibiting factor,’ or is it anecdotal?

Ms Smith—They have said that in the past. I do not know that anyone has said that recently but it has certainly been an issue in the past.

CHAIR—There is one thing you said which intrigued me and I would like you to explain it: what is a tent pole film?

Mr Brennan—A tent pole film is something like *Superman* or *Spiderman*. It is something—

CHAIR—Is it something like *Man-Thing*?

Mr Brennan—Maybe not.

Ms Smith—They would hope it might be a tent pole, but I doubt it.

Mr Brennan—It is an event; it is something that the whole town wants to come to see—like the circus.

CHAIR—I see; a tent pole is like a circus top.

Mr Brennan—Like a circus.

Ms Smith—The other symbolism is the rise of the tent pole which is like a spike in the box office.

CHAIR—Like *The Sound of Music*?

Mr Brennan—*The Sound of Music*?

Ms Smith—So the films in the *Matrix* trilogy are all tent pole films because they are big events, they are expected to produce lots of box office sales. They cause a spike in the box office when they are released.

CHAIR—Good. If we need any more information we will contact you. Thank you very much for your presentation.

Proceedings suspended from 3.26 p.m. to 3.45 p.m.

CORDEN, Ms Jane, Deputy Chairperson, AusFILM Board, AusFILM International Incorporated

ROBERTSON, Mr Ian Lyall, Chairperson, AusFILM International Incorporated

CHAIR—I welcome the representatives of AusFILM. Firstly, we do not require you to give evidence under oath, but these are proceedings of the parliament so if you are of a mind to give false or misleading statements—not that we expect you to do that—you need to know that they might be regarded as a contempt of parliament. Secondly, we like to take information in public, but if you do want to give anything in camera then you are welcome to request that and we can decide whether to go into camera and take your evidence off the public record. Would you like to make an opening statement?

Mr Robertson—Firstly, we thank you for the opportunity to be here in support of our written submission. I have a few brief opening comments and then we would be happy to deal with any questions the committee may have. AusFILM is really a unique public-private sector partnership which I think is somewhat unusual in this industry, not only in Australia but internationally. We have 70 private sector firms as members, each of whom pay a membership fee in the range of \$6,000 to \$10,000 a year for the privilege of being our members. We also have the six state and territory film offices as our members. In addition, invited to attend our board meetings are a representative of Austrade and of the Department of Communications, Information Technology and the Arts. We have a very close relationship with Austrade and we are fortunate to receive federal government funding of approximately \$1 million a year through DCITA, hence their board representation in an observer capacity.

The organisation and its predecessor have been in existence 10 years. All of our members strongly support the cultural objectives which are inherent in the Commonwealth government's film program, which is administered through DCITA. Our members are very supportive, as you would expect, of organisations such as the Australian Film Commission and the Film Finance Corporation and recognise the importance of initiatives such as the Australian content standard and the limited quota protection we receive for Australian television commercials being shown on Australia television.

Our principal focus is actually not cultural; it is about the industry as an industry and particularly its trade and export issues. We see our industry as something in which Australia is world class, competitive and efficient. We think the industry is growing internationally, as the services sector is generally. It is growing in a number of ways, including newer areas which your committee is focusing on such as games, but the more traditional areas of cinema films, of television and so on are growing in importance and their delivery methodologies are ever changing and improving. Australia plays an important role in that world industry. It is our view that, with careful policy settings, we can in fact improve that international standing and, in so doing, provide high technology and strong jobs for our people while at the same time earn important export dollars for Australia.

The first of the five issues which we have focused on in our submission to the committee is an extension of the 12.5 per cent refundable tax offset to television series. The tax offset was

announced at the end of 2001 and introduced last year to provide a competitive mechanism in Australia for large budget feature films and miniseries coming to Australia to receive, in essence, a rebate from the Australian government. The reason for that was that the taxation mechanisms which had been used previously to achieve that aim had proved to be unsuccessful going forward, based on new interpretations of the relevant tax legislation by the ATO. The Australian government, after considerable consultation both within Australia and overseas, particularly in America, ascertained that what the international production industry was looking for was a simple mechanism which would provide a clear cash rebate to a producer who met certain criteria of producing in Australia.

In simple terms, the offset provides back to the producer 12.5 per cent of the amount spent in Australia above a threshold minimum of \$A15 million on a feature film or a miniseries. It is called a tax offset because the money first comes back as an offset against any tax liability that that producer may have, and the rest, frankly, is a cheque. That offset has been described by *Variety* magazine, which is considered the industry's leading magazine published in America, as a world-class initiative. It must be good because the New Zealanders have copied it almost word for word in what they introduced on 1 July.

There is one glitch—if I can call it that—in our offset in that at the time it was introduced the focus was on feature films and there had been something of a crisis as a result of two major feature films not receiving the tax benefits that had been expected for their investors. So there was a need for quite quick decision making and the focus and emphasis was on feature films, and the offset does not extend to series television. By contrast, the New Zealand offset introduced on 1 July does apply to series television as well as to the other categories. The difficulty we face is that, notwithstanding that our industry is efficient and that we have a strong track record of efficient world-class television series production and some major international series have been produced here, most countries with whom we are competing for major television series production offer incentives, rebates, grants or whatever, particularly Canada and, as I have mentioned, New Zealand. Australia basically offers nothing. Hence our producers, efficient as they are, are not really competing against producers in other countries; they are competing against other governments and the incentives they provide.

Our simple submission in this area is that the offset should be extended to include television series as well. Without it we are at a competitive disadvantage, and it is not a theoretical problem. The Village-Warner studios on the Gold Coast are basically empty and there is substantial unemployment, particularly in Queensland, in the area of film and television crews in particular. I guess that is the highest priority issue for our membership.

There are four others issues that I would like to touch on briefly, and we are aware that they have been touched on in a number of other submissions. First, the post-production industry in Australia is also world-class and very efficient. There has been a strong investment made in the latest digital equipment and we have a strong track record with companies such as Animal Logic of doing world-class work. A lot of that material, which is in a digital form, needs to be transmitted using broadband cable, particularly to the West Coast of the United States, which is where most of the customers are. At the moment in Australia broadband cable access is expensive and there is, frankly, a lack of competition. Our membership believes that that is a priority issue for Australia to address. With one of the recent *Star Wars* movies which was made here, I understand that it was cheaper to send the film rushes back to America on a first-class

airline seat than it was to send them back through broadband cable. That is not as dramatic as it sounds, but it is not a sensible state of affairs.

Another issue I want to touch on—and the states have a strong role to play in this as well—is that the Commonwealth government could play a role in encouraging Australia to be what we would describe as ‘film friendly’, minimising the barriers to location shooting, making it as easy as possible to get all requisite permits for film production and looking at other things that may make filming difficult. In a practical and sensible way, the Commonwealth could adopt a model code for film production on Commonwealth sites and locations which, if it were done properly, could become an industry standard. It would really be an example of the Commonwealth providing leadership and setting an example, as opposed to imposing rules or regulations on others.

A lot of these issues to do with the difficulty of location shooting actually rest with local government. Each of the state governments, we think, have done their best to try and encourage local government authorities to be sensible about the time it takes to obtain the necessary permits and about the cost and the difficulty. That may sound like a small initiative, but one of the major issues for foreign productions coming to Australia is the ease of location shooting. Obviously it depends a little on where it is being done. As you would expect, there are many issues about closing Phillip Street to shoot, as happened with *Mission Impossible II* when one of the scenes involves blowing up—or appearing to blow up—the offices of Mallesons, a law firm across the road. The issues there in the CBD of Sydney are obviously going to be of particular difficulty. But there are many examples of local government authorities not being as responsive as they should be, and it may be that this committee would be minded to think about what role the Commonwealth could play, at least with Commonwealth land and locations.

Another issue is that every production that comes from overseas has a number of people who require visas to be able to come here and be involved with it. That varies depending on the type of production and the number of foreign personnel that will be involved. The film industry works generally on very short deadlines and last-minute decision making. I would have to pay compliments to the department of immigration about the fact that it does its best in our view. One particular issue, though, that is of concern to us is that the department has foreshadowed that it may abolish a class of visa which is called a 423. A 423 visa is an entertainment class of visa used by incoming personnel involved in television commercial production where the television commercial will usually not be shown in Australia. The advantage of the 423 class of visa is that it is quick and easy to obtain and does not require consultation with the Media, Entertainment and Arts Alliance, whereas other categories of entertainment visa do. We think it would be a great disadvantage if the 423 visa category were to be abolished and we are not aware of any credible argument as to why that should occur.

Finally, as we have mentioned in our submission, Australia has coproduction treaties with about a dozen countries. The advantage of a coproduction under a treaty arrangement is that the investors in the coproduction are able to achieve whatever local benefit is available within their own territory. Treaties are a positive incentive to cooperative production and to maximising the size of budgets because usually finance can be drawn from more than one territory. There is no doubt that coproductions are the future of the world film and television industry. The dozen or so treaties which Australia has with other countries may be compared to the 60 which Canada has. We would like to see Australia, through the Australian Film Commission—which is the

organisation that administers Australia's film treaties—enter into more treaties with more countries. That concludes our opening remarks.

CHAIR—Thank you. The thing I would like to pursue initially—and it might well be pursued by my colleagues—is the idea of Australia being a film friendly destination. Do any of our competitor nations in this area—such as South Africa, Mexico, Canada or New Zealand—have special arrangements of the kind that you have described?

Mr Robertson—My colleague Ms Corden may know more about that.

Ms Corden—I cannot say that I am particularly aware of initiatives as such. Obviously there is a whole raft of things that come into play when people are making decisions about where they should shoot. The financial aspects are certainly the most significant area, but the receptiveness is an important one. I have recently been in South Africa, and certainly film friendliness is a particular issue that is relevant in South Africa. What is quite pertinent is the ease with which they can bring people into the country, particularly casts, and the openness that they can have there. Certainly the film offices there make it very open for people to come in. But in terms of how New Zealand may compare, I think there are issues of flexibility that are quite important and that can be encouraged at a regional level. You mentioned before that the FTO were talking about *Alexander the Great* and the openness to discuss specific needs and how we might work with the film-makers to meet their needs. I know at one time they were looking to go to China, and it was that whole issue of whether we could provide that film friendliness that might make it possible to get it over the line. Certainly I think, as Ian said, there is a recognition on an international level that film is an industry and a business and one that is attractive, and all the major film-making communities around the world are doing what they can to attract production into those countries.

Mr Robertson—I can add to that in two specific ways. The first is that the only example I am aware of—and there will be many others, but certainly this one is well known—is that the office of the Mayor of New York has a very powerful and effective film office within it which paves the way for production in New York City and is able to clear regulatory hurdles. In fact, I understand anecdotally that it has its own police force for that purpose—to patrol and direct traffic et cetera. I think that is a very good example of a city saying that film production is in their interests and that they will make it happen. Otherwise, I would imagine that the labyrinth of regulation and authorities involved would make it almost impossible. I strongly suspect Los Angeles has something the same, but I do not know the detail.

The second thing is that I think the example of *Alexander the Great* is interesting because, although we are focused on issues of visas and rebates and so on, I think *Alexander the Great*, as the committee is aware, is a potentially very large-scale, large-budget production which may film in Australia near Broken Hill. It indicates that there are less obvious issues in play. That film was at one stage going to film in Morocco, and as we understand it the Kingdom of Morocco offered 7,000 troops on horseback to perform as extras in the film. The producers have said to the Australian government that they need 500 Australian soldiers, presumably not on horseback—or I hope not.

CHAIR—I do not think we have any cavalry.

Mr Robertson—No, I think we are a bit out of those at the moment. Also there are apparently major logistic issues involving the need for water on the film locations. There are not necessarily quick answers to either issue, but they are examples of where attracting film production to a country or to a city goes beyond the immediate issues of money and visas.

CHAIR—In the same way as the tax offset was a cutting-edge idea which put us ahead of our competitors, I am wondering whether this committee could make recommendations about Australia as a film-friendly location that might involve specific ideas—visas and offices in particular municipalities or whatever—that would once again put us in front of other competitor nations. I get the impression that it is a very fast-moving area and that you just cannot assume that, because you have made some changes that have been ahead of the pack, you can rest on your laurels; that competitors will quickly replicate those, as New Zealand has done, and go further and you will have to think of the next big idea. If you have any particular ideas that we could recommend, they would be very popular with the committee members. If you have any other specific ideas which you think would be useful to us then we would be keen to get them, because we could put them in a submission and then hopefully, if the committee agreed, manage to put them in as recommendations for the future. That is why I wanted to pursue that.

Mr Robertson—One thing that follows from that is that the state film offices have been very good in cataloguing—and in the case of Victoria, and there may be others, putting online for web access internationally—the locations that are available in their state for shooting. Locations are a big issue. They are also one of the great attractions of Australia. There is virtually no environment that might be required in which to shoot a film that we cannot replicate in this country with minimum trouble. As far as we are aware, I do not think the Commonwealth has done anything similar. There would be a lot of very attractive Commonwealth sites and locations around Australia in which perhaps the Commonwealth could play some role and also, as I indicated, in which to have some sort of model code of access and one point somewhere for accessing those sites and obtaining information. It would be a role that AusFILM could play, but so could DCITA.

CHAIR—Somebody told me in the last few weeks that either Econtech or Access Economics had done an independent study—but paid for by people in the film and television industry—of how much it would cost the government to extend the tax offset to television. I was told that the outcome of the report had been that the income tax and other taxes that would be paid by companies for their stars to be here in Australia doing television series—whether it is *Farscape*, *Beastmaster* or other television series of that nature—more than compensated for extending the tax offset to television series. I do not know whether you have that report or whether you know where it can be found, but it would be very useful if it could be provided to the committee as evidence, even though we are not allowed to deal with the tax offset as part of our terms of reference. In a more general sense I am sure we would be interested to know about that because it sounded like very good evidence to me.

Mr Robertson—I would be pleased to place a copy with you to have as evidence.

CHAIR—You have it?

Mr Robertson—I do—right here, I am pleased to say.

CHAIR—That was prescient of me.

Mr Robertson—It was, quite coincidentally.

CHAIR—It was actually quite coincidental. I just thought AusFILM might have it—that was all.

Mr Robertson—I think there may have been another report as well, which we know less about. The government, through DCITA, suggested to us that we might ask a competent economic consultancy to look at the economic and financial impact. At our expense, we commissioned a report from Allen Consulting, who are an expert economic consultancy, and I have a copy of that report here which I am happy to place into evidence.

Ms Corden—This indicated that it was supposed to be attached to this.

Mr Robertson—I do not know whether or not it was; in any event, we can put it in now. The Allen Consulting Group concluded that extension of the offset to series television would increase production into Australia by approximately \$200 million and would be revenue positive to the government in the range of \$25 million to \$40 million. The reason for that, of course, is that all of the expenditure which is being attracted will be subject to tax somewhere in the system and the offset back is less than that. So there is actually a revenue gain to the government. There is also a very significant gain to GDP. We would be very happy to leave you with a copy of that.

CHAIR—That would be very useful.

Ms Corden—I will just speak to the previous question about what bright new ideas we might have or what we need here. This is not me having a bright new idea necessarily, but one thing that does need to be addressed on an ongoing basis in terms of export, in terms of production happening here and growing our industry, is to have a constant base of facilities, technicians, crew and cast here.

A problem of the film industry historically has been the nature of production, because it goes up and down. You can train people up and build people in the industry, but if there is not a continuity of work then they will disappear into various other places. So I think it is very important that, in building our industry, we concentrate on building the crew levels and the facilities and also on building an industry that will sustain people on an ongoing basis. It is interesting that you say you are not to look at the offset in the context of this because the very important thing about us wanting to extend the offset to TV is the fact that TV does provide a much more constant level of work than high-end feature film does, which is what is taken up in that.

My company recently did a report comparing the rebates that are available in Canada versus here. At the top end—the high-end feature film production—the offset is better than what is available in Canada. However, the top end has the feature cast, who have, reportedly, shown themselves to be quite whimsical and make decisions about whether they want to come here or not; whereas at the TV level there are very few imports on the TV side of things, and the decision to make things here and to have a continuity is much more easily made at that level.

That is where we cannot compete with Canada and with New Zealand—because we do not have it at that level.

I think an important focus of whatever happens in terms of building the viability of our industry is creating an amount of production that will not only build up our facilities and our people but also give them some confidence of work going forward.

Mr CIOBO—You raise four key issues as being the major areas of refinement to help promote Australia as a film destination. In No. 3 and No. 4 you spoke about streamlining from a Commonwealth government perspective. In terms of doing that, would you see AusFILM as being one of the primary retail operators to help facilitate that? By that I mean: if recommendations from this committee dealt with the back-office type aspects of it in terms of liaison with the Department of Defence and with various other agencies and departments, would it be the case that AusFILM would be the retailer in the marketplace saying, ‘We’ve got this one-stop shop; come and talk to us about your visa requirements and your permits for all different aspects,’ and being on top of it, or do you see that being fulfilled within the respective departments?

Mr Robertson—I think it perhaps is a mixture of both. The Commonwealth gave AusFILM funding substantially to fulfil a one-stop-shop role for foreign producers wanting information. I believe we are able to provide producers with expert information on tax arrangements, visas and other issues—locations and so on. We work closely with the state and territory film offices who are our members. There are some areas, though, that I think would probably be more difficult for us to take much of a role in, as they are really the province of departments; in fact we mentioned a few things in our report. For example, a lot of films need to import firearms. I cannot imagine the Commonwealth is going to delegate that responsibility to us, and we would be ill-equipped to do it. But it is an example of some of the other issues that exist that may not be at the top of one’s mind. We say in our submission ‘encouraging a film friendly populace, access to federal land and defence property, issues of public liability, safety guidelines, firearms regulations’ and we should perhaps have added ‘issues relating to importing’, which is obviously a Customs issue. I think by necessity it would require some cooperation between departments. We would be very willing, with certainly the state film offices, to provide advice on the issues, but I think it would require the departments themselves to work out a way of solving them or perhaps having some umbrella group that is able to have decisions taken quickly.

Mr CIOBO—Ms Corden, you were speaking before about a report from Canada with regard to the rebate. Would it be possible to get a copy of that report?

Ms Corden—Yes, sure. It was DCITA that commissioned that report; it is available in summary on the DCITA web site.

Mr CIOBO—Which report is it?

Ms Corden—It is called *Destination Australia*.

Mr Robertson—That showed that, when you compare Canada and Australia for feature film production—allowing the operation of all available rebates, incentives and everything else—Australia is extremely competitive. I hope I will be excused for labouring the point when I say

that if you did the same analysis for television series production, you would currently get a different answer.

Mr CIOBO—Sure. You made reference to the EMDG in your submission and the fact that EMDG as a total program has been capped. I got the impression you were saying, though, that because it has been capped at \$150 million, effectively the reimbursement has gone down and that has had a negative impact on business. It is not actually correct to say that it has had a negative impact, is it? It perhaps is not providing as much incentive as historically it may have, but that is a far cry from saying that it has had a negative impact, is it not?

Mr Robertson—I agree with your analysis, yes. It has affected some of our members who are receiving less under that scheme than they did previously, and nobody likes that position. I think the causal link to an actual downturn in production or some such would probably be hard to make.

Mr CIOBO—Sure.

Ms Corden—The fact that we have David Pratt as the film commissioner in LA is great, but if more Australian participators in this industry travel overseas on an individual basis and network with filmmakers overseas, they are selling not only their company—and I can say this on a personal level—but also Australia. The way that it works in this industry—and I suspect in other industries as well—is the more often we appear in their office space, the more of an impression we make. Obviously, the beauty of the EMDG is that it facilitates more of those trips.

Mr CIOBO—Front of mind, so to speak?

Ms Corden—Yes. The last time I was over there I went into Intermedia; they had a script that they had not conceived of coming to Australia, but because I was there in their office, the script went into my hand and I prepared a budget for them. It has not been made here yet, but it put it in their mind. Since then I have received three or four more scripts. You cannot replace actually being there and meeting them in person. I think the EMDG is a great initiative and definitely makes a difference.

Mr Robertson—An Australian business which is serious about obtaining work from the US probably needs to be there twice a year. As I am sure you have discovered through your deliberations today, this industry in Australia—and hopefully this will change over time—is largely populated by quite small businesses. Hence the cost of airfares and so on may be a bigger issue for some of these firms than might be the case in some other industries. It is fairly much a cottage industry. It is even the case with larger players: Fox Studios—notwithstanding it has a very large and powerful international parent company—is actually not a large business in terms of either revenue or staff.

Mr CIOBO—Your request for an exemption from the eight-year limitation is for AusFILM or for all of those in the industry? Is it an industry exemption or an exemption for AusFILM?

Ms Corden—AusFILM are not in a position, now that they have government funding, to get EMDG—

Mr CIOBO—Right, so it is for industry participants. So how would you see that as being any different to any other export? I am conscious, obviously, of the comments you just made about a cottage industry, but it would seem to me that there are a lot of businesses that fall into that pigeonhole on the back of seeking out export opportunities et cetera. I am just wondering what you say is the basis for that exemption.

Mr Robertson—I suppose the strongest argument we would have there would be the need for repetition. Even after a considerable number of years of travel you still have to continue to put in a lot of effort or you become forgotten.

Mr CIOBO—But is that unique to the film and TV industry?

Mr Robertson—I would not want to argue that it was unique, no, but it is certainly a factor.

Mr CIOBO—Do you have a relationship with the games industry? Is there the potential to have one? Have you had discussions with them? You hear about convergence all the time; I am just wondering where that ties in with AusFILM.

Ms Corden—When you consider *Matrix*, for example, which recently shot two films and the game, without a doubt we find that there is a mixing of industries all the time. So we are constantly exploring how we interface with other things and it is all turning into quite a melting pot in terms of the music industry, the games industry, film, TV, interactive and so on. They are coming together and there is the potential to overlap so many things now as technology advances. So without a doubt that is happening.

Mr Robertson—Our focus has been, and remains, on film, television and television commercial production coming from offshore into Australia. There is clearly the overlap that Jane Corden mentions of the same audiovisual material being reproduced in a number of ways, including with games, but our particular expertise and experience is not really with the games industry. I do not know that we are in a position to inform the committee of anything that I expect you haven't heard from others.

Mr CIOBO—If there was a push, as indeed there is, from elements of the game industry to see greater collaboration in this area, would that be something that from a cultural point of view within AusFILM you would be open to?

Mr Robertson—Indeed, and many of our members have direct or indirect games experience and there are a number of Australian production companies that have produced internationally successful games. So, yes, there is a clear overlap and if the government thought it was appropriate for us to do more in this area we would certainly be very pleased to do so.

Ms Corden—What is important to add there as well is that the key issue that we have in this industry is getting our films or TV programs financed, so the more ability you have to sell your projects, the more easily you are going to have that finance. That is where that integration becomes important: because of the overlapping it creates more opportunities to actually finance projects. Of course, export is not only about production services and overseas people coming here; it is about us creating our own projects and selling them overseas. So if we can enhance

our business skills and our ability to sell our own projects, which will be enhanced by finding other finance sources, then that will be a very positive thing for the industry.

Mr Robertson—Clearly, as you have highlighted, it is a very important industry sector which is only growing. This is my own personal view, but whereas games have probably been seen as akin to merchandise in that they are a subsidiary aspect of a film or television program, I think there are strong signs that may change. It is highly likely, I think, that some games, such as the *Matrix*, may actually ultimately achieve a greater revenue number than the film itself. Whereas the justification for the game may have been to promote the film, it may well be in the future that films are being produced to promote the games. There are some aspects of that in children's television: an important part of the financing model is the availability of merchandising to help defray the production cost. The games industry numbers internationally are such that you can well imagine that somebody might finance a television series or a feature film to promote the game which would actually be expected to derive greater revenue. I suppose *Lara Croft* is an example of that in that the film followed the game, not the other way around, as you know.

Mr CIOBO—I think I am correct when I say that the games industry is worth more in a total sense than the film industry.

Mr Robertson—Yes, that is my understanding.

Mr CIOBO—So you are talking about being a market maker as such in terms of seeking finance, and no doubt that is part of the reason why you would seek to have the extension of the 12½ per cent rebate to TV. Again, you may not care to comment on this, but what about for games? Would you see it as being appropriate on that basis?

Mr Robertson—I would be reluctant to express a view about that without giving it some thought as to what that really means. The TV series issue is really focused on, as I am sure we have made clear, television series coming here to shoot, but they are for an international market and they are funded internationally. I am just not sure what that would mean in the games sector. It is not that we are opposed; it is just that we are ill informed.

Mr CIOBO—That is fine.

Mr JOHNSON—Firstly, can I compliment you on your presentation; I appreciated it very much. Can you give me an idea of the structure of AusFILM International? Is there a similar model abroad?

Mr Robertson—Not really. There are organisations that perform the same function but most of them are within governmental organisations. The Canadian and English equivalents are equivalent to the Australian Film Commission or similar. In Australia, I suppose there is a history in that AusFILM was there and has grown in membership numbers and stature. The federal government was attracted to provide us with some funding to perform this sort of export facilitation role and industry development role and leave the AFC to concentrate on its cultural objectives, which works very well. There is good cooperation between us.

Mr JOHNSON—So you have exchanges, liaisons and all kinds of reciprocal arrangements with your counterparts?

Mr Robertson—Yes, and the chief executive of the AFC, Kim Dalton, attended our last board meeting to discuss some issues. I think a practical example of cooperation is that we think we should have some involvement at next year's Cannes Film Festival to promote Australia as a production destination. The AFC has an involvement at the Cannes Film Festival to promote Australian film and we will do that next year in a cooperative way, really under their umbrella on that occasion. So there is strong cooperation between us.

Mr JOHNSON—I was pleased to hear of your good relationship with Austrade. Can you give me a couple of examples, apart from the EMDG grant stuff, of where there have been some concrete outcomes and how they have specifically helped?

Mr Robertson—We have two offices, one in Sydney with a staff of four and one in Los Angeles with a staff of three, being a film commissioner, a deputy and an assistant. That office operates within the Austrade office in the consulate in Los Angeles and there is very strong cooperation between our staff and the Austrade staff. In fact, they provide a number of services to us for which we pay. A part of what AusFILM does is to take marketing missions from Australia of our members to promote their services in other territories. An example of Austrade's involvement in that occurred last year in Korea, where we had a group of predominantly television commercial producers who went to Korea to expound our virtues as producers of high quality television commercials for a world market and Austrade was able to assist us in organising the necessary functions and introductions to people. So there is strong cooperation. A senior Austrade official attends our board meetings as well, as I mentioned.

Mr JOHNSON—I have a question in relation to the offset. I got the impression that you painted a pretty bleak picture if that was not extended to television series. Can you elaborate on that?

Mr Robertson—Australia was—and there are AFC figures on this—attracting television production in excess of \$200 million per annum and that is down to virtually nothing. Basically, the television production from offshore has deserted us and the picture is bleak. I do not think we want to particularly paint a gloom and doom picture, but there are some of our members in degrees of financial difficulty. I mentioned that the Village Warner studios on the Gold Coast are basically empty and there is considerable unemployment.

One of our concerns about that is that Australia has invested in a great deal of training through organisations such as the Australian Film, Television and Radio School and also through other institutions, particularly TAFE. Also, firms have invested heavily in infrastructure such as studios and editing equipment and so on. We are concerned that if that lies idle for too long it will actually be lost and that we are training people to probably go and work in New Zealand. That is of great concern, I would have to say.

Mr JOHNSON—If the Allen Consulting Group report is to have some weight, that might be something for us to take to the government.

Ms Corden—I might add in terms of post-production that the thing about feature films which are under the offset is that, invariably, they will take post-production back overseas; they will not keep it here. They will still meet the \$15 million criteria and everything else. Because the nature of TV series is that the post-production happens as you go, the post-production houses will be

occupied and those facilities will be maintained just by the nature of production versus feature films. It naturally does put work into the post-production facilities in a way that feature film does not automatically achieve and invariably does not. If a feature film director who has come from the US does a 20-week shoot here, he wants to get back to the US for post, plus the studios want to actually control more closely the way it is being edited, whereas with TV the process is to edit as you go.

Mr JOHNSON—There is another comment which, if there were substance to it, would be alarming to me. Is this issue to do with the 423 visa being foreshadowed with substance? I think that it is a good provision to have; it is entirely sensible. If it were to be abolished for no reason, the picture you paint is that it is detrimental to us.

Mr Robertson—I think the thinking behind abolishing it was some sort of streamlining, having fewer categories of visas. The difficulty as we see it is that it serves a very useful purpose for our industry. We think that removing it would be unfortunate. One particular aspect—I should mention that we enjoy a good relationship with the MEAA, which is the relevant union—is that where there is a requirement for consultation with the union, it holds things up. The union has been known to take the view that a right of consultation really means a right of veto. With television, commercial production decisions are often taken at very short notice and there is a need to obtain visas quickly. The 423 visa is very helpful. If your committee were minded to recommend its retention in its current form, you would do the industry a service, in our view.

Mr JOHNSON—Could you put an economic cost on that—a ballpark figure—if it were to not be retained in terms of coming in, spending money—

Mr Robertson—I think it would be very hard to quantify. It goes into that group of things of yet another impediment.

Mr JOHNSON—Another speed bump?

Mr Robertson—Yes, exactly.

CHAIR—Less film friendly?

Mr Robertson—Yes, much less film friendly.

Mr JOHNSON—The theme ‘film friendly’ is a good one. I want to talk about this idea of location suitability. The inference I have drawn from your comment is that there are bureaucratic speed bumps at the council level with giving the green light for usage of land. Is that a fair impression?

Mr Robertson—Yes, and that is a nationwide issue. As we said, it is predominantly a local government issue. In fairness, it is because film production is disruptive. It involves large numbers of vehicles and people and quite a large gathering at one time. It is not unreasonable for people to want to control that. On the other hand, it is sometimes made more difficult than it need be and takes much longer to get the requisite approvals.

If you take the example—and this is purely theoretical on my part—of, say, a military facility, you can imagine how the commander of the facility would say, ‘The last thing I want is 300 people and cameras and lights and stuff for several days. It’s an interruption to my life. If I don’t have to do it, I won’t.’ That is where this concept of film friendliness comes in—trying to convince people in those sorts of positions that it may be a disruption, but it is in the national interest: it is attracting an important industry, it is showcasing Australia as an attractive place and it is good for tourism. As a practical example, a number of Indian films have been shot at Parliament House in Canberra. It has proved to be a very popular location for ‘Bollywood’ wedding scenes for some reason.

Mr JOHNSON—Maybe I can try and get in the crowd next time!

Ms Corden—To add a couple of things to that, as Ian pointed out before, Australia has some very attractive regional locations—deserts and so on—that are probably more attractive than going to comparable destinations around the world in the current environment. Meanwhile, because we are experiencing drought et cetera in certain regions, there would be quite a desire, I would imagine, to inject money into those regions. So it is not necessarily about there being an unfriendliness. The advantage to regional areas has been identified a little at a state level with certain incentives put in place to attract production to those areas. There is a distinct advantage to the economies of those regional areas to make it friendly for productions to go there and to compare those locations with other locations. There is an interesting video that goes around Australia and compares our locations to other places. We can shoot in Far North Queensland for a tropical environment, we have beaches that match other environments and we have deserts. So we can cover a lot of the world within Australia.

Mr JOHNSON—Has there been an audit done of all these locations and sites so that someone, if they want a tropical rainforest location, can press a button on a computer and which says, ‘These are the places’?

Mr Robertson—The state offices have been very good at that and, as I mentioned, certainly Victoria now has that online. I expect the others will follow, if they have not already done so.

Mr JOHNSON—So, if you want a wedding scene, choose Parliament House, Canberra.

Mr Robertson—Parliament House, Canberra—to get married, yes.

Ms Corden—I have one last comment on film friendliness. One of the things that was really terrific was when Mark Taylor from DCITA came over to LA with us on a couple of occasions and showed in very true spirit how film friendly Australia’s government is—sending somebody over there who wears a Hawaiian shirt and does some very positive things.

Mr JOHNSON—Mark Taylor the cricketer?

Mr Robertson—No, he is a DCITA officer proving to be a great friend to the industry.

Ms Corden—He has done some very good stuff, which is putting out some really good messages to overseas filmmakers.

CHAIR—Thank you very much for appearing this afternoon. It has been very useful to us. If we require any more information, we will get back to you. We will get hold of that report from you and take it as an exhibit. Thank you very much.

[4.41 p.m.]

DALTON, Mr Kim, Chief Executive, Australian Film Commission

CHAIR—I welcome the representative of the Australian Film Commission. We do not require evidence to be given under oath, but these are formal proceedings of the parliament and any false or misleading evidence is a serious matter and could be regarded as a contempt of parliament. We like to take our evidence in public, but if you do want to give any evidence in camera you are welcome to make that request and we will consider it. You are invited to make an opening statement, then we will proceed to questions.

Mr Dalton—The Australian Film Commission is the Australian government's development agency, but part of our role is also to be both an adviser to government and a source of information and data as far as policy is concerned. As you would be aware, we presented to the committee before you began your formal proceedings, and subsequently we made a submission. Subsequent to that we also put in a brief further submission commenting on some remarks that were made to the committee by an officer of the Pacific Film and Television Commission.

I do not want to spend a lot of time making an opening statement because I feel we have had ample opportunity to put all our views. Perhaps for the record I will reiterate that we do feel there are a number of quite fundamental issues which are quite perennial for this industry. We hope that in your consideration and in the report that you prepare you may be able to progress some of these issues and deal with them and further the discussion about them.

We are aware of the fact that funding is not one of your terms of reference. We would simply once again state that funding is an ongoing issue within our industry. It is very hard to ever separate the ups and downs of the industry and the health of the industry in various sectors without at the same time looking at the issue of funding, whether that be direct funding or indirect funding. Regulation is another fundamental underpinning of the industry and we think that this is an issue which the committee should give some consideration to; it impacts upon all the areas that form your terms of reference. In particular, we think that, with the changes that are taking place in technology and the changes that are taking place in the range of delivery systems and the way that we receive our filmed entertainment and other screen content, addressing this issue of regulation is even more important. A more cohesive and convergent policy with regard to regulation is important.

We think that as we move more into this converged environment while the conventional forms of film and television will always remain important we will have to also look at the broader variety of delivery platforms and therefore the broader variety of screen content which Australian audiences will be interested in consuming. We think Australian audiences will be interested in seeing some level of Australian content across these new platforms and new forms of digital content.

At the moment the major issue confronting this industry and the future of the industry is no doubt the trade issue. You would all be aware of the fact that Australia is in perhaps the middle stages—the middle game, if you like—of our negotiations with the US on the Australia-US free

trade agreement. We think that one of the most significant areas to be negotiated as part of this trade agreement is in fact the whole audiovisual area. The Australian government has put a very firm position to the US in terms of protecting the Australian government's right now and into the future to regulate with regard to a variety of forms of media, once again particularly moving into these new media and digital services.

We are also aware of the fact that the US is not accepting of Australia's position and, while they have indicated that they feel that the existing level of regulation on conventional broadcast services is something that they could live with, they have indicated that they are looking for a substantial compromise in the Australian position. We view that with great concern—the ability that future Australian governments will have to regulate with regard to Australian content on a broad variety of services.

Finally, the point we want to make—a very important point—is that we think it is very important for Australia, with regard to the Australian film and television industry and the Australian screen content industry, to maintain a balance between our local production and our foreign production. There is no doubt that the foreign production sector is a very important contributor to our industry and to the health, welfare and the development of the local production industry.

But at the same time the fundamental underpinning informing government policy and informing the health of the industry remain the local film industry. To the extent that measures are considered to support and develop the foreign production sector, we believe that we should never lose focus on the level of production and the measures and mechanisms in place to support our local production industry. I might leave it at that. I am happy, obviously, to take any questions on the points I have made or on any other issues that you may wish to pursue.

CHAIR—I feel like we have already had a good run with you in fact in Canberra where we had several hours.

Mr Dalton—A very good run.

CHAIR—But there have been a few things that have come up in our travels since that briefing day. One of them that is obvious to me is the question of the peaks and troughs in the industry generally but also in particular localities. For example, it seemed that in Brisbane and the Gold Coast the making of films, television series, commercials and so on was going extremely well for a long time and was something of a burgeoning industry. But it now seems to be in something of a slump, whereas New South Wales seems to be going along as it has been, with maybe a little bit of a dropping off of activity but not a serious dropping off in the way that Queensland has had.

I would be interested in the impression from the Australian Film Commission, which has an overall view, of what it is that makes the industry work in particular areas and not work in others. Is there some kind of magic formula or are peaks and troughs just something that Australia has to get used to because of the size of our industry? Is it something we can do something about?

Mr Dalton—I think that it is the type of industry where there will always inevitably be some peaks and troughs, particularly in the area of foreign production. If you segment the industry, then if you look at the area of local television production—television output for consumption primarily by our broadcasters—you will see that it remains fairly steady. Much of the production is located in Melbourne and/or Sydney. Over the years that has remained steady on the basis of the level of regulation and therefore the requirements of the broadcasters to meet that level of Australian content. Local feature film production is quite dependent on the level of funding available and we are seeing quite a significant downturn in local feature film production at the moment because of the fact that there is less money available than there was 12 months or two years ago. Until and unless that issue is addressed, local feature film production will remain down.

The size of our feature film industry inevitably means that that creates peaks and troughs because if a couple of local feature films get produced in Adelaide then you will see a peak; if a couple of local feature films get produced in Brisbane there will be a peak; and then there may not be anything produced for another 18 months before another feature film comes along. In Melbourne and Sydney, this is not felt quite as much, because once again they are the centres for production, although I think there has in fact been a noticeable downturn in feature film production in New South Wales, and that is of concern to the local feature film industry here.

In the area of foreign production, over the last three years we have seen an increase in the levels of foreign production in Australia of around 25 per cent, and I think most industries would be quite comfortable about reporting growth levels of 25 per cent over a period of three years. However, this year, when we release our drama survey in a couple of months time, for the last financial year, 2002-03, we will be reporting a small downturn. The large downturn has occurred in the area of foreign television production and much less of a downturn in foreign feature production. Once again, depending on where the facilities are and the nature of the industry, that has much more impact. So in Queensland, where it is an industry which is substantially built on foreign production and where in the Gold Coast studios there has been a lot of foreign television production coming through those studios, then the absence of that production, of course, results in a significant trough.

Mr CIOBO—I just wanted to ask a couple of questions. Firstly, I had discussions with someone at the VCA about the idea of making it a requirement to display Australian made and produced short films—display trailers at cinemas and those type of things. What do you think of that as a concept?

Mr Dalton—There are a number of countries in the world that have screen quotas, just general screen quotas, and there is no doubt that if you introduce a quota then you have introduced demand and production occurs to meet that demand. It has been a mechanism that governments have used in the area of exhibition in some countries to quite successfully generate a local film industry, and a quite popular local film industry. That is effectively what the Australian government has done with Australian television—it has introduced those screen quotas and that has worked very well and is very successful, both in terms of production levels and in terms of audience reception, in the area of television. We fund short films and I am a great supporter of short films and they play a critical role in the professional development of new talent. At the same time, if you talked about that sort of idea to distributors and exhibitors, they would say to you that the very nature of cinema exhibition these days, the way that multiplexes

work, the high turnover and multisessions and multiscreens would militate against the programming of short films.

Mr CIOBO—That might be what they say, but what do you say to that?

Mr Dalton—At the end of the day, if the government said to me seriously, ‘We are thinking about introducing screen quotas,’ I guess we would say, ‘In principle, we would support anything which encourages the assistance to get Australian screen content in front of Australian screen audiences.’ I just think the reality is that the people who run cinemas and the distributors who are supplying those cinemas with product have a business to run and audiences have certain expectations. Although you are saying that they would inevitably say that because that is their business, I think you would want to talk that through very thoroughly before you ended up imposing something which did not necessarily meet the audience, viewing and screening patterns that exist in a multiplex environment these days.

Mr CIOBO—From previous discussions, I had in mind five or 10 minutes subsumed as part of the trailer prior to a feature movie. Would there be the capacity to do that? Would there be support from Australian short-film makers?

Mr Dalton—There would certainly be capacity in terms of supply. A very high level of short-film production goes on in Australia and internationally. A lot of them are very good films. I do not think that capacity or supply would be the issue.

Mr CIOBO—Something that I have picked up on today is a divergence of views about markets. By that I mean that when we talk to the Game Developers Association of Australia, for example, they take a global view that it is all one market. When we were speaking earlier with AusFILM we were talking about the ability to export Australian TV series internationally. The argument that I have heard from many witnesses is that Australia is too small to compete because with the US shows and the manufacturing of US sitcoms and all those things they can sell it to a domestic market and then all the cream comes from the exports. I asked why we could not take the view that the US and Australia is one market and produce Australian drama and sitcoms et cetera with a view to selling it to the US, not as an export but as part of the initial market so to speak. Is there a cultural barrier that exists to us doing that? Perhaps it is also due to the fact that they were saying now the United States often bundles different products together so you will have *Friends* and the same studio will sell you five or 10 other shows that you need to show as well. What are your comments on those points?

Mr Dalton—The latter point you were referring to is referred to in the industry as output deals. All the studios have output deals and, yes, they bundle. They do that with feature films and television programs, so if you are a distributor and you want *Matrix* then you will find that probably another 10 American feature films, which may not be quite as large and successful as *Matrix*, come with it. That is quite a standard practice within the industry. It is a practice that Australian distributors of Australian material are unable to employ because they do not have the volume or the A titles to lead with.

The other point, about why there is such an uneven playing field, is an issue that is consuming us in these trade negotiations. According to our latest figures, the newly purchased programs for screening on Australian television over the last reported period amounted to about 75 per cent.

So Australian broadcasters purchased 75 per cent of their new programs from outside of Australia, whereas US broadcasters across the same period purchased about two per cent from outside America. The reason that you have that extraordinary imbalance is in part cultural. I cannot speak on behalf of American people, but by and large the people who run American broadcasting outlets, purchase for them and commission for them do that for American programming. They are just not interested in purchasing programs from Australia or anywhere else in the world.

CHAIR—We have had some success. I am thinking of Steve Irwin, the crocodile guy who says crikey. Why does that have to be the one-off? Why can't we have more of that quirky Australian flavour, or whatever, that is attractive to the United States?

Mr Dalton—I will come back to that. I said it is partly cultural and I was going to say that it is also structural. There is a network of both the delivery of the content—the selling of the content internationally via the broadcasters, whether it be subscription, free-to-air or other forms of content—and the production of it. It is dominated by half-a-dozen major players, most of them being the big studios. They dominate the US domestic market and of course they dominate the whole international market. American product represents about 50 per cent of revenues for audiovisual sales around the world. As I said before, about 97 or 98 per cent of American television content is American. About 96 per cent of the American theatrical box office is American.

Why is it that we cannot, with more consistency and on a more regular basis, penetrate and succeed in that market? Once again, we cannot do that for the same reasons that nobody else outside of America can. I think it is partly cultural. Occasionally you can come up with a quirky idea and get something under the door. But by and large, for those cultural and structural reasons—which have to do with ownership and the commercial arrangements that exist within that marketplace—the Americans are not interested in purchasing foreign product, and they do not.

Mr CIOBO—Is there empirical evidence to support that view or is it just all anecdotal?

Mr Dalton—The empirical evidence is in the figures. I will put it another way. About 1½ to two per cent of the US market is available for selling foreign product. If you are a manufacturer of Australian television programming, when you go to the US to sell your product you will be lining up with every other country in the world that produces television, including the British, who are the other major producer of television in the world, particularly English language television. Consider if in any other industry I said to you: 'There is this huge, wonderful market and you are part of it. You have about 1½ per cent of market share to compete for.'

Mr CIOBO—On Foxtel, for example, we have UKTV. I wonder why in the United States we cannot have Australia TV.

Mr JOHNSON—Austel.

Mr CIOBO—Exactly.

Mr Dalton—Remember that UKTV is primarily an output of the BBC and the BBC is massively subsidised by the British taxpayer via a set of licences put in place by the British government. I think that the British government sees things like UKTV and the whole export of television partly as an economic activity and partly as a cultural activity.

Mr CIOBO—Can you tell us a little bit about the *Finding Nemo* project? That is another terrific boon for us. Is it an Australian concept? I know Pixar is the animator, but was it something that was developed here in Australia? Was the from Australia?

Mr Dalton—I am not an expert on that project. I can certainly do some research and find some information for you, if you like. My understanding of it is that it is an American project, it is an American concept. I am partly going on a newspaper report about the two creators of the film who were in Sydney for the release of it a couple of weeks ago. They said they were so pleased to discover that the representation they had done of Australia was so correct, given they had never been here in their lives. They felt quite pleased with themselves. I have not seen it myself. I have seen clips of it and it looks very good and very funny. Clearly they employed a number of Australian actors to voice for it, but it has nothing to do with Australia other than the story content, as far as I know.

Mr JOHNSON—I want to ask you a generic sort of question given all you have just said in response to my colleague's questions about some of the barriers and speed bumps that we have. Is Australia still only scratching the surface of what economic potential—the job creation and the prosperity—we can generate from industry? How much more can we value add, given the US market and the tiny percentage of it you said we could crack? Given something like the free trade agreement, how much leverage do we have? Given all those factors, are we still only scratching the surface?

Mr Dalton—We are scratching the surface in terms of the creative potential within Australia to generate and produce high-quality screen content, whether it be film and television or in some of the new and emerging areas of production and screen delivery and markets internationally. The size of the Australian industry will always be determined by the funding and regulatory regime that is put in place by government. That forms the foundation of it. The industry then adds value and builds upon that. The best illustration of that is the way that our foreign production sector has developed, particularly over the last five or six years. We have had 25 to 30 years of building a local industry, partly producing television around the Australian content regulations that exist on television and partly through 25 to 30 years of Australian government policy of subsidising the development of a local feature film industry.

Arising out of those government policies, which were primarily about providing Australian content to Australian people and also the flow-on effect we get about the profiling of Australia internationally through the export of our film and television products, we developed a skills base which has become increasingly attractive particularly to the American studios to come here and make some of their large budget productions and some of their television productions. It is only in the last 12 to 18 months that the federal government has, for the first time, introduced a mechanism specifically designed to provide some incentive and some leverage in that area of foreign production. But the foreign production sector had grown quite significantly prior to the government taking that particular policy initiative, which in turn has been an incentive and assisted that area of the industry to grow. If the government decided to increase the level of

available funds for the production of Australian feature films and if it decided that there should be a mixture of funding and regulation on some of the new and the emerging services in order to ensure the production of Australian content, we firmly believe that this once again would form the platform for further expansion of our industry into servicing that growing area of global markets.

Mr JOHNSON—But what about just the relaxation of the regulatory regime, not the funding issue?

Mr Dalton—The relaxation of the regulatory regime?

Mr JOHNSON—Yes. From your points I get that you are saying that so much hinges on government support.

Mr Dalton—I do not quite understand your point about relaxation of the regulatory regime, in the context of the US free trade agreement—

Mr JOHNSON—No, just generally in Australia as a hurdle or a disincentive.

Mr Dalton—I do not think it is a disincentive. A foundation of our industry is the regulatory regime that pertains to film and television production. Which regulations are you referring to?

Mr JOHNSON—Regulations in general. I am reading you the wrong way, but I am trying to ask: other than financial support, is a government able to do more to value-add and give you guys a kick-start?

Mr Dalton—Absolutely: more regulation, not less.

Mr JOHNSON—That is the point I am trying to get out of you. I thought the inference was that you wanted a relaxation of regulation.

Mr Dalton—No, absolutely the opposite. We have a proposal in front of the government at the moment. We can take the example of subscription television, which was introduced into Australia seven or eight years ago and is slowly getting some traction, picking up numbers of subscribers and becoming a player. It has a 20 per cent to 25 per cent audience share now. An expenditure requirement was introduced—it is a form of regulation—such that the operators of the subscription television services must spend 10 per cent of their program expenditure on their drama channels on purchasing Australian programs. That has resulted in a significant level of expenditure, as they have spent more and more on programs, into particularly the Australian feature film industry and to a lesser extent into a number of Australian television programs.

In the area of documentary channels, we now have four to five discrete documentary channels on subscription television. There is no regulation of any sort in regard to the screening of Australian documentaries on Australian documentary subscription channels, and there is almost a complete absence of new-to-television material in the documentary area going onto those channels. They screen work that has already been made and paid for, and for very low licence fees. There is some level of material coming onto those subscription—

Mr JOHNSON—But you are almost asking the government to put a stick to these people.

Mr Dalton—We would not describe it as a stick—

Mr JOHNSON—A light rod.

Mr Dalton—We have had a submission before the Australian Broadcasting Authority for some time saying that there should be an expenditure quota introduced as far as documentary channels are concerned and that documentary channels should be required to spend a certain amount of their money on purchasing Australian programs. If there is no requirement like that they will not. Why would they? It is more expensive to do it. Particularly since all these channels are basically offshoots of American subscription television services such as the Discovery, National Geographic and Travel channels, it is much easier for them just to take the feeds out of the US and play the US programs. The result is that when you turn on the History Channel you basically see American history; you do not see Australian history.

CHAIR—So you think we are losing our story a bit?

Mr Dalton—There are some warning bells going off. The way that Australians receive their entertainment and information screen based content is slowly changing. If you go back 10 or 15 years ago we basically had five free-to-air channels. We now have subscription television which delivers into the house 40 to 50 channels. Very soon, all of that will go digital and you will have up to 200 channels. Within a couple of years we will have services delivered via broadband direct into your house as well and we will have video on demand services coming in via satellite—there will be a whole range of new services opening up. We believe that in the absence of a government policy which looks at the options for funding and regulation those services will basically be services which will deliver content from overseas—they will not deliver Australian content.

Mr CIOBO—I am sympathetic to the cultural arguments, I really am. My fear, though—and this is more a statement than a question—is that, exactly for the reasons you were just talking about in terms of the delivery of broadband content et cetera in the future, I too see that as where we are going to be in X number of years. There is no way regulation is going to solve that problem then, though. We are not simply going to be in a position where we can regulate ISPs to say that people sitting on their PCs downloading into their TVs or whatever must, for 40 per cent of the time, access Australian based and hosted media off Australian websites et cetera. It seems to me that, as technology continues to evolve, what has traditionally served a useful purpose—for example, regulation—to help sustain and nurture the Australian story will increasingly become a very blunt object that really packs no punch at all. What I as a member of this committee would be looking for are some new initiatives that we can take to help ensure that the Australian story continues without having to resort to content standards—which I do not have too much of a problem with personally—and which allow for that future evolution of technology, because I just do not see it as being sustainable in the long term.

Mr Dalton—I do not agree, with due respect. We are in the throes of completing a survey of the possible range of new media services which are going to evolve over the next five years. We will not finalise it for another few weeks, but I would be happy to provide it to the committee. What was interesting was that, of the 18 services that we surveyed—and these are new media

services, such as broadband delivery, mobile telephony and a whole range of new services and ways in which we are going to receive and consume this content—six or seven of them are being regulated in different parts of the world by different countries to ensure that their populations actually have access to some local content and, furthermore, to ensure that they have some local industries developing which are capable of producing that content and are actually engaging in that vast global market in that area. Another six or seven of those services were under review around the world, with consideration being given to the ways governments could intervene to ensure issues to do with content and industry capacity were there. For about four of them, there is no evidence at the moment that governments are considering points of intervention.

You mention the issue of ISPs. There is no doubt that it would be quite easy to introduce some sort of levy on ISPs. This sort of thing happens in places like Canada. You pay a subscription to an ISP and a small amount of that goes into a production fund which is regulated in one way or another by a mixture of government and private interests, and that fund is used to provide local content, which then becomes available to, and can be accessed by, local audiences. You obviously cannot tell people that they have to spend 40 per cent of their time on local sites. When the government wants to regulate ISPs with regard to child pornography, they do it, and they should. When they want to regulate with regard to gaming, they do it, and they should. We simply say there is a whole range of other content areas in education, entertainment and information for which governments must consider the public interest and the public good of their populations and must intervene in a certain sort of way.

Mr CIOBO—At the risk of delaying the committee, I will make one last comment. I can understand that systemically there are so many inbuilt advantages for the United States when it comes to cultural promotion et cetera that we cannot compete, which seems to be the argument that I get, and therefore we need regulation to sustain Australian culture. That is fine. But how can we possibly justify that with emerging technologies, in which I would contend the United States has no competitive advantage or in which we at least share the competitive advantage that they have versus other countries in the world? Take, for example, saying that people want to access US based web content. Why do we take it as a given that there would be a natural desire to access US based web content over Australian based web content that we develop ourselves? Why do we need to protect the industry instead of focussing on making it attractive in the first place so that in these new technologies where there is not a systemic bias towards the United States we get the lion's share of the market in the same way the US has historically done with film and TV?

Mr Dalton—You will have the same issues of market failure that you have across the more conventional areas of media—that is all I am saying. You will have exactly the same issues of market failure and market aggregation occurring in much larger markets. I can only say by way of finishing that other countries, such as the UK, European countries and Canada, are doing something about it. If Australia does not, it will not have any of this material available for its own population, and it will sit by and watch other developed nations around the world develop their industries and provide local content to their populations.

CHAIR—Thank you for your appearance today. I close today's hearing and thank Hansard, broadcasting and the secretariat. I look forward to seeing them all at 9 o'clock tomorrow. I also thank my colleagues and those who appeared.

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

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 5.21 p.m.