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The Parliament of the Commonwealth of Australia

**From Reel to Unreal:** Future  
opportunities for Australia's film, animation, special effects and  
electronic games industries

House of Representatives  
Standing Committee on Communications, Information Technology and the Arts

June 2004  
Canberra

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## Foreword

On behalf of the Committee, I am pleased to present this report on Australia's film, animation, special effects and electronic games industries.

During this inquiry, the Committee noticed a tension between the industry's cultural and economic benefits, and which of these should form the basis of government action. The business arguments were prevalent in the newer sectors of the film industry, such as in Queensland, and in digital production and the games industry.

The report recognises the artistic and historical need for government support for documentaries and films, however, there also needs to be a realignment of the industry towards meeting audience demand. In film industry terms, this equates to placing a greater emphasis on distribution, compared with production. A film's benefits, both cultural and economic, are likely to increase with audience size.

The public sector is already undergoing such a change. Governments are increasingly being held to account for their use of public funds. Taxpayers today are demanding that governments spend public money on things that are of broadly direct benefit to them. The Australian Government's film agencies will increasingly be placed under this kind of scrutiny by taxpayers.

In contrast to the film industry, the electronic games industry has received little government support. However, the entrepreneurs in this field have, by making popular games that have market acceptance, established a growing industry where approximately 90 per cent of its earnings are exports.

The barrier to further growth for these firms has been the lack of venture capital. Due to a lack of local interest, they have been forced to sell their intellectual property rights to publishers to fund game development. These companies need more support from local financiers in an industry that, in comparison with film, makes more business sense but is less glamorous.

The submissions to the inquiry raised many issues in relation to government support, especially regarding finance. I am pleased to note that the Australian Government is addressing these concerns by extending the current refundable tax offset for films to high budget television series. However, not all the matters raised in this inquiry have been addressed. I am hopeful that over time federal, state and territory programs could be expanded to generate greater investment and exports for Australia.

Australia is at the cutting edge of digital production and electronic games. But the amount of audience-focussed investment in these industries continues to reduce the ability to produce skilled, talented people. As long as this discrepancy remains, we will continue to lose our best people to our offshore competitors.

I am disappointed that many of the industries examined in this inquiry often amount to no more than being training grounds for overseas businesses. Although our governments' training programs and industry support are largely based on cultural grounds, the people with the most potential often go overseas to pursue audience-driven projects.

I would like to thank everyone who gave their time to assist the Committee during this inquiry, whether it was through making a submission, attending a hearing or assisting the Committee on a visit of inspection. This expert knowledge has formed the basis of the report and is much appreciated.

I would also like to thank the members of the Committee, including the previous Chair, the Hon Christopher Pyne MP, for their advice and comments during the inquiry.

**Bob Baldwin MP**  
**Chair**





## **Membership of the Committee**

**Chair**            Mr Robert Baldwin MP (from 5/11/03)

                      Mr Christopher Pyne MP (until 5/11/03)

**Deputy Chair** Mr Michael Hatton MP

**Members**        Mr Steven Ciobo MP

                      Mr Pat Farmer MP (from 4/11/03)

                      Ms Sharon Grierson MP

                      Mr Michael Johnson MP

                      Mr Christopher Pearce MP

                      Mr Robert Sercombe MP

                      Mr Lindsay Tanner MP

                      Mr Ken Ticehurst MP

## **Committee Secretariat**

<b>Secretary</b>	Ms Catherine Cornish
<b>Inquiry Secretary</b>	Mr David Monk (from 16/03/04) Dr Andrew Brien (until 24/02/04)
<b>Administrative Officer</b>	Ms Suzy Domitrovic



## **Terms of reference**

The Committee should 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.



## List of abbreviations and glossary

ABA	Australian Broadcasting Authority
ABC	Australian Broadcasting Corporation
ABS	Australian Bureau of Statistics
ACTF	Australian Children's Television Foundation
AFC	Australian Film Commission
AIMIA	Australian Interactive Media Industry Association
ASTRA	Australian Subscription Television and Radio Association
Australian in-house production	A production by an Australian TV station where no independent production company is credited as producer or co-producer. <sup>1</sup>
Australian Production	A project under Australian creative control (i.e. where the key elements are predominantly Australian and the project was originated and developed by Australians). Includes projects under Australian creative control that are 100 per cent foreign financed. <sup>2</sup>
BAG	Broadband Advisory Group
CAGR	Compound annual growth rate

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<sup>1</sup> Australian Film Commission, *National survey of feature film and TV drama production 2002/03*, p.7, downloaded 5 January, 2004, <http://www.afc.gov.au/nps/npsdefinitions.html>.

<sup>2</sup> *ibid.*

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Co-production	A production where creative control is shared between Australian and foreign partners and there is a mix of Australian and foreign elements in the key creative positions. Includes projects made under the official co-production program i.e. pursuant to an agreement with the Australian Government or the AFC and a similar authority or the government of another country. <sup>3</sup>
DOCITA	Department of Communications, Information Technology and the Arts
Documentary	A program, or series of related programs around a theme, that is a creative treatment of reality or fact other than a news, current affairs, sports coverage, magazine, infotainment or light entertainment program. <sup>4</sup>
EPOC	Electronic proof of concept
ESA	Entertainment Software Association
FA	Film Australia
FFC	Film Finance Corporation Australia
FIBRE	Film Industry Broadband Resources Enterprise
FLIC	Film Licensed Investment Corporation
Foreign Production	A project under foreign creative control, originated and developed by non-Australians. Includes foreign projects with an Australian production company operating in a service capacity. (For a foreign project to be included in the survey, a substantial amount must be shot in Australia; foreign productions where only post-production occurs in

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<sup>3</sup> *ibid.*

<sup>4</sup> Adapted from: Australian Film Commission, *Documentary Production and Funding in Australia*, December, 2003. According to the AFC, this is the Australian Broadcasting Authority's definition. Magazine format documentaries, current affairs, news, information programs, infotainment, light entertainment and corporate and/or training programs are excluded. In its compendium of data on Australia's film, video, television and interactive media industries, *Get the Picture* (6<sup>th</sup> ed., Sydney: 2002), the AFC uses a slightly different definition that it also attributes to the ABA: 'A creative treatment of reality or fact, often dealing with travel, science and historical subjects and of no less than one-half a commercial TV hour in length. It may consist in a number of episodes if there is a continuing theme'.

	Australia are not included.) <sup>5</sup>
FTI WA	Film and Television Institute of Western Australia
GDAA	Game Developers' Association of Australia
IDSA	Interactive Digital Software Association
MMOG	Multiplayer online games
NOIE	National Office for the Information Economy <sup>6</sup>
QCA	Queensland College of Arts
R&D	Research and Development
Runaway productions	Motion picture, television programs or video productions developed and funded in the United States which are manufactured completely or predominantly outside the United States. <sup>7</sup>
SBS	Special Broadcasting Service
SMEs	Small and medium enterprises
SPAA	Screen Producers Association of Australia
SSAV	Screen Services Association of Victoria
VCA	Victorian College of the Arts

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<sup>5</sup> Australian Film Commission, *National survey of feature film and TV drama production 2002-03*, p. 7.

<sup>6</sup> Now known as the Australian Government Information Management Office.

<sup>7</sup> E. Sherin, 'Statement on behalf of the Directors Guild of America to the US Trade Deficit Review Commission', 13 March 2000.



## **List of recommendations**

### **2 Australia's film industry: size, scale and benefits**

#### **Recommendation 1**

The Committee recommends that the Australian Government articulate its commitment towards the industries examined in this inquiry through a policy statement.

#### **Recommendation 2**

The Committee recommends that the Minister for Communications, Information Technology and the Arts release the Australian Broadcasting Authority's report on Australian content in subscription television to facilitate further debate on Australian content.

#### **Recommendation 3**

The Committee recommends that, in making any future decisions about subscription television, the Australian Government should make one of its prime considerations the cultural impact of minimum broadcasting requirements for documentaries.

### **3 Australia's electronic game industry: size, scale and benefits; and film and game industry information**

#### **Recommendation 4**

The Committee recommends that the Australian Bureau of Statistics publish statistics on the industries examined in this inquiry on an annual basis as soon as possible after the conclusion of each financial year.

#### **Recommendation 5**

The Committee recommends that the Department of Communications, Information Technology and the Arts negotiate with the Australian Bureau of Statistics, the Australian Film Commission and the Film

Finance Corporation to ensure the annual publication of reliable statistics on the following industries:

- (a) animation
- (b) electronic games
- (c) post production and special effects
- (d) documentary
- (e) film
- (f) multimedia.

#### **Recommendation 6**

The Committee recommends that the Australian Government, through the Australian Film Commission and the Film Finance Corporation Australia, ensure that a condition for receipt of public money be the provision of information for publication by the Australian Film Commission, at its discretion, in *Get the Picture*.

#### **Recommendation 7**

The Committee recommends that the Australian Government require subscription documentary television channels that broadcast content in Australia to report each year full details of Australian content acquired, commissioned and broadcast and that this information be available to the Australian Film Commission for use in *Get the Picture*.

## **4 Making the most of opportunities**

#### **Recommendation 8**

The Committee recommends that the Australian Government take action in international trade and commercial fora to ensure that global competition in these industries is consistent with pro-competition principles of market regulation.

#### **Recommendation 9**

The Committee recommends that the Australian Government take the lead in establishing a digital media incubator to harness the opportunities in a convergent market for joint training, research and product development. The establishment of such a digital media incubator should ideally incorporate the assistance of all tiers of government, as well as private sector associations and firms, and education institutions as appropriate.



#### **Recommendation 10**

The Committee recommends that the Australian Government work with state governments to establish a software affordability fund for educational institutions.

#### **Recommendation 11**

The Committee recommends that the Department of Communications, Information Technology and the Arts, in helping to establish the think tank in recommendation 32, ensure it has the expertise to evaluate new software and other technologies and is sufficiently resourced for this task.

#### **Recommendation 12**

The Committee recommends that the Australian Government, in cooperation with state and territory governments:

- (a) audit the infrastructure needs of Australia's film and television schools, especially in respect of digital production and high definition television
- (b) develop an ongoing plan that involves key players in the film and game industries, to ensure that they remain 'state-of-the-art' and capable of delivering the world class education required.

#### **Recommendation 13**

The Committee recommends that the Australian Government audit the implementation of policies directed towards providing affordable broadband to film and game companies and modify them as necessary.

#### **Recommendation 14**

The Committee recommends that the Australian Government establish a creative industries broadband fund, possibly administered through FIBRE, to improve access to and the affordability of broadband for the creative industries.

#### **Recommendation 15**

The Committee recommends that the Department of Communications, Information Technology and the Arts further promote the use of HDTV and, in consultation with the domestic and international industries, set a more precise standard for the Australian industry to follow. The standard setting process could be part of the digital TV regulatory reviews announced by the Minister on 10 May 2004 and should ensure that Australia's standard is internationally compatible.

#### **Recommendation 16**

The Committee recommends that the Minister for Communications, Information Technology and the Arts regularly advise Parliament on progress with the digital television reviews and table the reports in the Parliament.

#### **Recommendation 17**

The Committee recommends that CREATE Australia and its expected successor, the Business and Innovation Industry Skill Council, increase communication between industry and training providers and accreditation bodies to reduce skill gaps through the following process:

- (a) a roundtable to establish informal links
- (b) regular surveys to establish a database whereby industry specifies projected needs and providers specify projected facilities and programs.

#### **Recommendation 18**

The Committee recommends that the Australian Government, in cooperation with state and territory governments, adapt apprenticeship and on-the-job training programs to take into account the particular needs of Australia's film, animation, special effects and electronic games industries. Because of the nature of these industries, it seems likely that the establishment of group training companies will assist. Additionally, the ABC and SBS can be expected to be actively involved in these programs.

#### **Recommendation 19**

The Committee recommends that the Australian Government work with national and state accreditation bodies to decrease red tape and time in accrediting courses relevant to the industries examined in this inquiry and publish performance information on the timeliness of accrediting these courses.

#### **Recommendation 20**

The Committee recommends that, in line with recommendation 28 of *Learning to Work*, the report of the House of Representatives Standing Committee on Education and Training, ANTA receive additional funding to facilitate the development of qualifications and industry links in the new and emerging industries examined in this inquiry.

**Recommendation 21**

The Committee recommends that the Australian Government designate creative industry training establishments, public or private, as national key centres to foster greater cooperation between them.

**5 Technological and artistic convergence****Recommendation 22**

The Committee recommends that the Department of Communications, Information Technology and the Arts develop a plan with the creative and technological industries, education institutions and the CRC for Interaction Design that will establish and promote greater links between the creative and technology sectors.

**Recommendation 23**

The Committee recommends that the Department of Communications, Information Technology and the Arts work with the film and creative agencies to ensure that the 'industry link' seminars established by the Game Developers' Association of Australia are adequately promoted and attended by senior figures from the relevant industries.

**6 General policy considerations****Recommendation 24**

The Committee recommends that the Australian Government develop an intellectual property strategy for the industries subject to this inquiry, addressing the roles of capital, content, and distribution. The strategy should include, but not be limited to, the other recommendations in Chapter 6 that are identified as part of the strategy.

**Recommendation 25**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government extend the ENTERPRISE AUSTRALIA to the games industry and provide sufficient resources to cover the extra work.

**Recommendation 26**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government work with education providers and industry to ensure the industries' training courses include a significant business skills component, which should

include intellectual property management. One example is the screen business skills centre at the Australian Film Television and Radio School.

#### **Recommendation 27**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government ensure the feature film agencies' corporate goals and performance information:

- (a) have measurable objectives
- (b) focus on distribution, audiences and intellectual property, in addition to production
- (c) for the Film Finance Corporation, include data on investment return and the level and percentage of investment at both the project and agency level.

#### **Recommendation 28**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government encourage the Film Finance Corporation to place most weight in its project evaluation door on a project's script initially (in terms of its quality and commercial potential), and secondly on capital, personnel and equipment, and distribution.

#### **Recommendation 29**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government encourage the Film Finance Corporation to collect data on the results of its new investment guidelines to enable the Corporation to analyse and fine-tune them.

#### **Recommendation 30**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government encourage the Australian Film Commission to invest more resources into identifying promising scripts (in terms of their quality and commercial potential) and providing them additional support.

#### **Recommendation 31**

The Committee recommends that, as part of the intellectual property strategy in recommendation 24, the Australian Government encourage the Australian Film Commission and the Film Finance Corporation to include the serial exploitation of intellectual property in their funding

criteria and programs. This review could be done in consultation with the other industries involved in creative intellectual property.

**Recommendation 32**

The Committee recommends that the Australian Government liaise with state agencies, the universities and industry to establish a creative industries think tank and provide the new body with seed funding and, further, in-kind support for a period of 5 years.

**Recommendation 33**

The Committee recommends that the Department of Communications, Information Technology and the Arts refer the issue of volatility in these industries to the creative industries think tank.

**Recommendation 34**

The Committee recommends that the Australian Film Commission enhance the co-productions program by:

- (a) negotiating more co-production treaties, including with Asian nations
- (b) rectifying the difficulties with the memorandum of understanding with France and, if appropriate, upgrading it to a treaty
- (c) supporting an industry mission to France and/or a French mission to Australia to strengthen ties.

**Recommendation 35**

The Committee recommends that the Australian Government extend Division 10BA of the *Income Tax Assessment Act 1936* to the electronic game industry.

**Recommendation 36**

The Committee recommends that the Department of Communications, Information Technology and the Arts facilitate investment seminars for the electronic games industry so that more of the returns from intellectual property be retained by local firms.

**Recommendation 37**

The Committee recommends that the Australian Government investigate funding models, including international best practice, which will attract venture capital into the creative industries.

**Recommendation 38**

The Committee recommends that the Australian Government allocate more funds to the Export Market Development Grants Scheme to ensure that firms can receive assistance up to the official cap of \$150,000.

**Recommendation 39**

The Committee recommends that the *Export Market Development Grants Act 1997* be amended to extend the current seven year limit on grants to 12 years for the film, animation, special effects and electronic games industries.

**Recommendation 40**

The Committee recommends that the Department of Communications, Information Technology and the Arts, in consultation with tourism agencies and tourism industry groups, assist the industries the subject of this inquiry to develop a national brand, either through the proposed think tank or otherwise.

**Recommendation 41**

The Committee recommends that the Department of Communications, Information Technology and the Arts, as a major contributor to AusFILM, negotiate the expansion of AusFILM's role to also include the games industry.

**Recommendation 42**

The Committee recommends that Austrade, in consultation with the industries examined in this inquiry, place an emphasis on its relevant skills and knowledge to build up the service it provides.



# Executive summary

## Chapter one

The creative audio visual industries in Australia started promisingly with what was claimed to be the world's first continuous narrative feature film in 1906, *The Story of the Kelly Gang*. By 1927, Australia had 1,250 picture theatres, £25 million of investment, and annual attendances of 110 million, all in a nation of six million people.

This early growth prompted the Government to establish a Royal Commission into the movie industry in 1927, which noted the public's desire to view films of a high production standard. The Royal Commission also identified the four requirements of a film industry at that time:

- capital;
- suitable stories (content);
- equipment and personnel (production); and
- sufficient avenues of distribution.

The remainder of the century, however, did not live up to this promise with the industry entering a number of boom and bust cycles. Media reports stated that 2003 was a bust year, with the industry not producing film products that audiences wanted to watch.

## Chapter two

### Size and scale of the film, animation and special effects industries

#### Production

Feature films and television drama represent a third of all audio visual production in Australia. In 2002-03, total expenditure on film and television drama production

in Australia was \$513 million, down from \$663 million the previous financial year. This drop was largely due to a decrease in foreign television production (recommendation 1).

Television drama expenditure in Australia comprised \$281 million in 2002-03. Public entities, such as the ABC and SBS fund this production through their mandate. To a large extent, the commercial stations fund this production due to local production quotas overseen by the Australian Broadcasting Authority.

Feature film production in 2002-03 comprised \$232 million, with \$169 million (73%) coming from foreign productions. This sector is largely comprised of small and medium enterprises (SMEs); in June 2000, 80 per cent of the firms in this industry employed four people or less.

Few detailed statistics are available on the animation industry. In 2000-01 and 2001-02, 11 animated drama titles were produced for television at a cost of \$68 million.

Information on the documentary industry is also incomplete, although some broad data are available. The independent documentary sector produced 766 titles between 1996-97 and 2001-02 with a value of \$245 million. The in-house documentary sector (where the broadcaster is the sole producer) produced 195 documentaries with a value of \$48 million between 1995-96 and 1999-2000.

There is currently no expenditure quota for documentaries on the subscription television stations. This matter is currently under review (recommendations 2-3).

There is limited information available on the special effects and post production industries. The Committee received one estimate that this sector earned \$263 million in 1999-2000. Although this sector has traditionally been seen as a component of film, it is increasingly operating as an independent industry that attracts projects on its own account.

### **Distribution**

In 2002, there were 92.5 cinema admissions, with a total spend of \$844.8 million. Australian films comprised 8.5 per cent of films released, but took only 5.1 per cent of the box office. In terms of average box office, US films (\$3.6 million) and UK films (\$3.2 million) outperformed Australian films (\$1.7 million). Results in 2003 were similar; no Australian film was included in the top 20 releases.

Demand for viewing films at home continues to grow. In 2002, wholesale sales of DVDs and video tapes were \$826 million, up from \$590 million the previous year. Much of this growth is generated by DVDs for retail sale, rather than for hire. Of titles classified, 61.4 per cent are from the US, 11.5 per cent from Australia and 9.4 per cent from the UK.



Television remains popular. Within any given week, 94 per cent of the adult population will view television. In 2003, the ABC had a 15.6 per cent audience share and broadcast Australian material 64 per cent of the time between 6 am and midnight, of which 47.1 per cent was first release.

SBS had a 4.5% audience share and, as a proportion of air time, its broadcasts of local material comprised 45 per cent of animation, 23 per cent of documentaries, 5 per cent of drama series, and 2 per cent of films.

The free-to-air commercial stations had the remaining audience share and, due to content quotas, are required to broadcast Australian material 55 per cent of the time between 6 am and midnight. In 2002, they exceeded the quota with 59.36 per cent.

Subscription television now reaches 21 per cent of households. In homes that do subscribe, pay television accounts for a little over half of total household television viewing. Since July 1999, these stations' drama channels have been required to devote 10% of their total program expenditure on new Australian content. In 2001-02, this expenditure totalled \$21 million.

### **Benefits of the film, animation and special effects industries**

These industries have significant economic benefits. The economic effect of the creative industries is much higher than any other sector, except education. For instance, government investment to increase demand in the creative digital industries will have a 23% higher positive impact on the economy than a similar investment in primary industry.

These industries also create content which can be converted to intellectual property through copyright. Intellectual property is a non-exhaustible resource and each output can be sold repeatedly to different people. At high volumes, the cost of the goods or service can approach zero. Copyright represented 3 per cent of Australia's GDP in 1999-2000.

The industries examined in this inquiry also have significant social and cultural benefits. They portray Australians to themselves and to others. They can foster unity and tolerance. Australians can define and explore what it is to be Australian and promote a more inquisitive, imaginative and thoughtful society. They also leave an historical record of contemporary issues and events for future generations.

## Chapter three

### Size and scale of the electronic games industry

The industry in Australia employs approximately 700 people. There are games companies throughout Australia, but the industry is concentrated in Victoria and Queensland. The local industry almost entirely develops games for overseas publishers. It earns \$100 million annually through this work, which the publishers convert to \$750 million in sales in international markets.

The stereotype of adolescent boys being the main players of electronic games appears outdated. Women represent 42 per cent of PC gamers and 29 per cent of console gamers. People aged 36 and over represent 42 per cent of PC gamers and people aged 18-35 represent 40 per cent of console gamers.

Combined sales of software and hardware in this market grew by 30 per cent between 2001 and 2002. Spending on games is similar to the amount spent on viewing films in cinemas.

### Benefits of the electronic games industry

The previous discussion of the considerable economic benefits of the creative digital industries also applies to the games industry. In terms of social and cultural benefits, there has been a certain amount of apprehension in the community about the possible harmful effects of the violence in many electronic games. Studies to date, however, have not found any such effects.

Instead, it appears that electronic games offer relaxation and a point around which to socialise. Playing electronic games can also improve visual and cognitive skills. Currently, the dangers in these games relate to people devoting too much time and being diverted away from the amount of physical activity required for a healthy lifestyle.

### Quality of information on the industries examined in this inquiry

The main source of information on these industries is produced by the Australian Film Commission, such as its publication, *Get the Picture* and its *National survey of feature film and TV drama production*. The Commission updates these statistics annually on its website. The other source is the Australian Bureau of Statistics' publication *Film and Video Production and Distribution*. The Bureau publishes these statistics for every one year in three approximately 12 months after the year in question.

The Committee received considerable evidence about the lack of appropriate information on these industries. In particular, the focus of the statistics is on film,

with little data on animation, special effects and electronic games. The Committee also received evidence that these indicators are 'lagging' in nature, which means they tend to be out of date by the time they are published and of reduced use for policy development (recommendations 4-5).

In addition to these overall concerns, the Committee also noted specific gaps in current data, in particular financial information and data on local documentary content on subscription television (recommendations 6-7).

## Chapter four

### Future opportunities

Between 2003 and 2007, the global media market is predicted to grow at 4.8 per cent a year. Many of the industries examined in this inquiry are expected to achieve better growth rates, with electronic games expected to grow at 11.2 per cent and films at 6.4 per cent.

Although the global market presents a lot of opportunities, Australian firms face a number of obstacles:

- most overseas markets are closed to foreign content through cultural reluctance;
- our small local market cannot of itself support a great amount of production, whereas US firms recover their costs in domestic sales and can afford to sell high-quality productions relatively cheaply overseas;
- Australia is a long way from key international centres; and
- producers from other nations bundle large quantities of content with leading shows (such as *Friends*) and require purchasers to show the bundled content (recommendation 8).

Australia's advantages include:

- high quality talent and infrastructure;
- diverse locations and culture;
- the English language; and
- a time zone that is parallel with Asia and also allows local firms to work while Los Angeles sleeps.

The Committee received evidence of a number of specific opportunities within these industries, especially the following:

- *co-productions* – countries negotiate treaties or memoranda of understanding. Projects jointly produced in those countries are treated as domestic projects in all the countries of production and are then eligible for public sector support and preferred distribution arrangements in those countries;
- *Cross-platform content* – where a single piece of intellectual property is adapted to a number of formats such as film, game or interactive television;
- *digital production* – more and more of the project budgets for these industries are being devoted to digital production (recommendation 9); and
- *electronic games* – is the high-growth industry in this inquiry, and local firms will especially benefit if they can finance and retain the intellectual property of titles.

## Infrastructure

Australia has world class studio facilities in Melbourne, Sydney and the Gold Coast. Other centres have facilities of a variable standard. The industries in these other states are producing content tailored to their local infrastructure such as animation, electronic games and documentaries.

The Committee received evidence on the need to update hardware and software for digital production, both for businesses and educational institutions. Updates to software can be issued as frequently as every three months. Local firms need to purchase these updates to remain world-class (recommendations 10-12).

Broadband offers local firms great opportunities in winning business from overseas and delivering the product electronically, instead of by courier. However, many firms, especially in the animation and digital post production areas, expressed concern over the cost of broadband and the inflexibility of the pricing plans offered by telecommunications carriers. These issues tended to depend on firm size, with SMEs more likely to experience difficulties (recommendations 13-14).

The take-up of high definition digital television in Australia has been slower than expected. The standard has been variably interpreted by different television stations leading to interpretive imprecision and this has added to business costs for producers (recommendations 15-16).

## Education and training

The industries examined in this inquiry use a wide range of skills. Further, these skills are often applicable across the industries examined in this inquiry. The potential for transference is likely to increase as these industries further converge.

The Committee received considerable evidence of dissatisfaction from business about training. Graduates tend to need significant retraining and there are skill gaps. Communication between industry and training providers needs to be improved (recommendation 17).

On-the-job training, including apprenticeships, also need attention. The current apprenticeship system is insufficiently flexible to cope with the particular needs of these industries. There is also scope to increase the amount of training conducted through the public broadcasters (recommendation 18).

Firms were concerned about delays in accrediting courses. The skills in these industries evolve as rapidly as software is updated, which means there is a risk students' training may be dated when they graduate. Further, the vocational education and training model assumes that firms have the resources to communicate with training providers. In emerging industries, such as digital production and electronic games, many of the firms are SMEs and do not have the resources for this task (recommendations 19-20).

It also appears there is scope for greater cooperation between Australia's leading creative educational institutions (recommendation 21).

## Chapter five

### Current links between industries

Although there have traditionally been some elements of crossover between the industries examined in this inquiry, digitisation of the creative arts will increase the opportunities for collaboration. In evidence, the Committee heard that most of these industries were linked to some extent, but that the electronic games industry was considered to be rather separate. The games industry, on its own initiative, has actively sought to bridge this gap through 'industry link' seminars.

Wider links are also possible. The creative audio-visual industries have the potential to add value to the technology sector. The Government has commenced this process by funding the Cooperative Research Centre for Interaction Design (recommendation 22).

## **The effectiveness of the links**

Game/film spin-offs are now commonplace in the US, but the Committee is unaware of any such developments in Australia. These spin-offs can be very lucrative and give firms the opportunity to increase the returns on their intellectual property.

The Committee received evidence that the obstacles to the further development of these links are the industry's scale, its SME structure and the persistence of 'some old industry silo thinking' (recommendation 23).

## **Chapter six**

### **Current assistance and programs**

The film industry currently has high levels of assistance in comparison with the games industry. The measures include tax breaks, such as the immediate 100 per cent tax deduction for certified Australian films. There are local content quotas on television, development funding through the Australian Film Commission (AFC) and production funding through the Film Finance Corporation (FFC). State governments operate their own film agencies.

Assistance for games is much more modest and comprises initiatives such as financing developer kits and games scholarships. The main contributors are the state governments of Victoria and Queensland.

### **Intellectual property**

One of the choices facing the sector at the moment is whether it wishes to continue with fee-for-service work or to create and exploit its own intellectual property. The Committee is concerned that fee-for-service work has a number of risks that are outside the control of local firms such as: exchange rate movements, competition from developing nations that have low labour costs, and other countries offering their own tax incentives.

In contrast, the US is focussing on intellectual property and freely outsources its production work on a fee-for-service basis to other countries, including Canada and Australia (recommendation 24).

### **Audience appeal and commercialisation**

One of the features of this inquiry has been a divide in the industry between those who argue that the industry is meant to pursue cultural goals and those who support the economic benefits. Although cultural goals are important, the Committee believes that there should be a greater focus on audience appeal. One

argument is that the more people who view Australian movies or other content, the greater the benefits, both economic and cultural. Two reasons why local films have had difficulty in generating audience appeal have been relatively small budgets and, sometimes, the premature production of scripts that needed more work.

The Committee noted that much of the assistance for the film industry focuses on production, rather than distribution. Production, however, is a high-risk and marginal activity. The profit stream lies in distribution.

The games industry, on the other hand, delivers a commercially successful product that is sold all over the world. This industry's difficulty is that it cannot obtain finance locally and must instead trade in its intellectual property to the publisher in return for development funding. This means that the lion's share of the returns on the intellectual property stay with the publisher. A related issue is business training in these industries (recommendations 25-26).

### **Reform of the Australian feature film agencies**

The Committee received evidence that the corporate goals and performance information of the AFC and FFC should be revised to be more concrete and quantifiable. These strategic planning tools should also focus on distribution and profitability (recommendation 27).

The FFC has announced changes to the way it will fund productions by introducing two new categories: either a certain proportion of funds must come from genuine market participants, or the FFC will qualitatively assess projects, taking into account a number of factors (recommendations 28-29).

The Committee also believes that the AFC and FFC can further revise how they fund projects, particularly in relation to script development and being on the alert for cross-platform opportunities (recommendations 30-31).

### **A creative industry think tank**

A number of witnesses suggested that these industries, largely comprising SMEs, needed an industry body that could conduct research and participate in the policy debate on their behalf. The industry, the public sector, and academia can provide the necessary leadership and scholarship for such a project. The key issue is funding (recommendation 32).

## Fostering production

Some firms that gave evidence stated they were conducting R&D, although the SME structure of the industry tended to curtail its overall research effort. Firms noted that they have found the R&D Start program useful.

The industries examined in this inquiry operate in boom and bust cycles. These conditions are exacerbated by the project nature of the work, the small scale of the local industry, and its SME structure. One of the problems with a downturn is that firms tend to lose good staff to overseas firms. On the other hand, companies are adept at expanding during a boom. The industry has also been proactive in sourcing work from overseas to reduce the impact of this volatility (recommendation 33).

As noted earlier in the report, co-production treaties present many opportunities to local firms by improving access to finance and distribution. Australia has six treaties and two memoranda of understanding. Many commercially-minded organisations saw great opportunities in signing more of these agreements, especially with developing nations. Local firms have also cooperated well with their French counterparts in the past, but the Committee understands that this memorandum is now in need of attention (recommendation 34).

The Committee has not commented on the free trade agreement with the US, other than to note that two parliamentary committees are considering it.

Although the venture capital sector continues to mature, the games industry has found it difficult to raise finance. The games industry, therefore, commissioned a development strategy that suggests a number of measures to improve the attractiveness of investment in games. The first is to extend Division 10BA of the *Income Tax Assessment Act 1936* to the games industry. The second is to provide public money, in tandem with tax changes, to support managed game investment funds (recommendations 35-37).

## Promoting sales

Another program that firms found useful is the Export Market Development Grant scheme, which subsidises firms' overseas marketing expenses. Firms, however, argued there were a number of areas in which the scheme could be improved. One of the most important was the limit on the scheme's overall budget, which meant many businesses did not receive the official grant cap of \$150,000, even though they might have been entitled to it (recommendations 38-39).

One role for the Government is to help develop a brand for Australian creative content. Currently, Australian content may be marginalised because distributors regard it as quirky, rather than fitting into categories. The film and tourism sectors



have both helped build Australia's positive international image, which can be crystallised as a brand for the creative industries. The wine industry is often cited as a successful example of this branding exercise (recommendation 40).

The Committee noted that the level of service provided to these industries in helping them promote sales has varied. For instance, the film sector is well served by AusFILM, but no such service exists for the games companies. Similarly, some in the digital content and animation sectors were of the view that Austrade did not sufficiently understand their industries to be effective (recommendations 41-42).

