



ANIMALLOGIC

Animal Logic's submission
To 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

At the invitation of the House Representatives Standing Committee Inquiry into future opportunities for the Film, Animation, Special Effects and Electronic Games Industries, Animal Logic would like to respond to the following terms of references highlighted by the Committee:

- C) Future opportunities for growth for these industries, including through the application of advanced digital technologies, online interactivity and broadband.
- 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 maximize export and investment opportunities.
- 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.

Overview

The Digital Production industry encompasses computer animation, visual effects and computer generated imagery (CGI) for Film and Television and New Media.

While Digital Production is an integral part of the Australian Film and Television industries, it is also a highly specialised sector with unique opportunities. Due to its digital or virtual nature it can often operate independently of the more traditional and physical sectors of the Australian Film and Television industries, competing for and securing work from projects entirely financed and filmed outside of Australia.

Over the next decade Digital Production will increase dramatically as an overall percentage of Film and Television Production spend. It will also grow in importance in the selection of the international location to which to commit an entire production. This will present increased opportunities and risks to the Australian Film and Television industries generally as well as to the specialised Digital Production sector. These emerging opportunities and risks must be assessed and appropriate responses provided if we are to retain Australia's well-regarded position and to grow its share of the international Film and Television Production market.

This submission specifically deals with the issues, opportunities and risks associated with the specialised Digital Production sector of the Australian Film and Television industry.

It is critical to recognise the project based and diverse nature of the international Film and Television industries.

These industries are not regular manufacturing or service industries with the opportunity to secure regular and ongoing contracts. However, with appropriate commitment to, and investment in international marketing, relationship building with international decision makers, and the maintenance of high level production credentials, it is possible to build a platform from which to compete effectively within each specialised market for each production as it eventuates.

Even with appropriate long term underpinnings in place it is important to acknowledge and respond to the needs of an industry, where each and every project has substantial revenue opportunities, and requires considerable project based investment in marketing, R&D and proof of concept to compete with a growing field of international players vying for the same business.

Animal Logic is widely acknowledged as one of the top ten Digital Production companies in the world. Over the past thirteen years Animal Logic has received international recognition for its technical and creative achievements across a broad range of visual media including Film, Television, Television commercials and New Media.

Animal Logic is an independent Australian owned Digital Production company and is currently Australia's largest employer of digital artists and technicians. The company also develops and commercialises software for the international Digital Production industry.

Animal Logic is representative of the Digital Production sector of the Australian Film and Television industry and is a good case study for assessing opportunities and risks relating to this sector.

The Digital Production Industry

The Production industry is a multi billion-dollar global industry in which Australia is without doubt a significant player. As the Film industry continues to evolve, there has been a noticeable shift in the production paradigm. Virtual or Digital Production is growing in relation not only to the total percentage of production spend, but also in weight to the overall consideration in selecting the ideal location in which to base a production. Since its technical inception 20 years ago Digital Production has grown to represent approximately 10% of production spend. Based on current growth of the industry globally, this figure is projected to significantly increase in the coming decade, potentially to levels equal to the physical production spend of any given project.

It is important to clarify the potential scale and diversity of this new emergent sector (and ultimately independent industry) to understand its potential future. Digital Production encompasses computer animation, visual effects, computer-generated imagery (CGI) for Film, Television and New Media. As a 'smart' industry, Digital Production is characterised by the following attributes:

- It is technologically oriented,
- Highly skilled,
- Geared towards the recruitment of young people (average age under 30 years),
- Focused on training and retaining young talent in Australia and,
- Is environmentally friendly.

It should be regarded as a 'new millennium' industry, one with strong export dollar earning opportunities. Further growth of export market earnings is dependent on the sector's ability to withstand and respond to global Digital Production market needs and competition. To date, the Digital Production sector in Australia has been defined by such international successes as **Babe: Pig In The City**, **Moulin Rouge**, **The Matrix**, **The Matrix Reloaded** and Television series of the calibre of **Farscape**.

With increasing global Digital Production opportunities has come greatly increased international competition. Foreign government incentive schemes introduced by these emerging competitors, who recognise the economic benefits of attracting international production, are further threatening our industry's future success by luring lucrative production deals off shore.

Digital Production capabilities also benefit the broader Australian Film and Television industry. With Film and Television Production utilising increasing levels of Digital Production techniques, Australia's proven capacity and competitiveness in Digital Production can be a critical attribute and consideration, which leads to a studio or production committing their entire production spend to Australia.

International Digital Production work can be attracted to Australia independently of any other Production or Post-Production commitments. Therefore Digital Production can and does exist as an independent sector and emerging industry in its own right.

Animal Logic: As a leading operator in the Australian Digital Production sector

Animal Logic is accepted as the only Australian company which can seriously undertake work of the scope required by the producers of such Films as **The Matrix, Moulin Rouge, The Matrix Reloaded, Kingdom** (a fully animated Feature Film of the size and scope of **Shrek** or **Toy Story**) and other such visual effects and CGI intensive projects. Through the drawing of work to Australia, Animal Logic has substantially enhanced Australia's international reputation as a highly attractive production location.

Animal Logic is an independent Australian owned Digital Production company and is currently Australia's largest employer of digital artists and technicians.

Over the past thirteen years Animal Logic has received international recognition for its technical and creative achievements across a broad range of visual media including Film, Television, Television commercials and New Media.

Animal Logic also develops and commercialises software for the international Digital Production industry, developing proprietary tools including the world's first interactive compositing package – Eddie.

For further information refer to Appendix 1 – Animal Logic's company profile including research & development achievements and recent credits.

Points for consideration

1. 12.5% Film tax offset for Television Production:

Maintenance of production workflow is a critical factor in the continued creative and economic success of the Film, Television and Digital Production industries in Australia. The 12.5% rebate on a minimum of AUD\$15 million spend the Film Production industry currently enjoys has proven to be a highly successful initiative. The ongoing investment required of operators in the Digital sector in technology, infrastructure, training, retention of experienced personnel, international marketing, and R&D is immense and is critically reliant on regular workflow. A healthy level of Television activity complementing Film activity would give the Digital sector the ability to amortise its investments and better manage the cycles of overall production activity. Therefore it is proposed that the 12.5% rebate scheme be extended to apply to the Television industry to allow for a competitive share of the international Television Production business.

2. 12.5% Film tax offset for Digital Production

The Digital Production industry is unique and can also be treated as a stand-alone industry. As a general rule the Digital Production spend currently equates to around 10% of total production budgets. With the opportunity and capacity to draw international work independently of physical production i.e. productions shot overseas, the Digital Production sector is disadvantaged by the minimum \$15million spend threshold. It is unrealistic to expect AUD\$15 Million spend in Digital Production alone to Australia. The Digital sector would immediately become far more competitive by a proportionally lower minimum spend for Digital Production secured from productions where the balance of work is

produced off shore. Therefore it is proposed that a threshold of \$1.5million be introduced specifically for Digital Production secured from off shore projects and this be reviewed on a regular basis.

3. Research & Development

For companies at the forefront of the Digital Production industry, the ability to maintain technological advantage through Research and Development is imperative. The current guidelines for attaining R&D grants are not in step with the Digital Production sector's needs. For companies at the leading edge of the sector, the business is as much science as it is an art. Animal Logic as a case in point currently spends 10% of every dollar of revenue on R&D. It is essential to recognise that each project has unique and essential R&D requirements that cannot necessarily be commercialised outside of each specific production. Government recognition of every major Film production needs for its own unique R&D solutions is required, if companies of the size and scale of Animal Logic are to compete on the world platform. Therefore it is proposed that R&D grants for the sector are assessed with the view that each production represents a stand-alone commercialisation of software.

4. Export Marketing

Currently the EMDG scheme disadvantages the Film, Television and New Media industries and more specifically the Digital Production sector as it groups companies with common ownership even when the companies within a group compete for:

- a) Business in different markets such as Film, Television and New Media, different countries,
- b) With different products such as visual effects, computer animated feature films, film scanning and recording services, software solutions, computer game artwork and animated sequences
- c) Businesses in different geographical markets
- d) Each time a new large-scale production project entity is established.

It is proposed that the EMDG scheme be reviewed and specific amendments be made to guidelines when considering applications for grants from the Film, Television and New Media industries within the same company grouping

Every year in the US alone hundreds of Production companies are started, run the course of production and are then shut down upon completion. Therefore it is additionally proposed the Government reconsider the time cap of the EMDG as no other export industry has its client base totally renewed every 1 or 2 years

Conclusion

The Digital Production industry worldwide is in a growth phase due to the increasing need for visual effects as a basic production requirement. Digital Production has become as essential as wardrobe or makeup within Film and Television Production.

With this industry growth has come international competition that has been tailored specifically for producers and studios via rebate incentives across Film, Television and additionally, Digital Production as a standalone entity. As stated earlier, we require an incentive scheme that embraces Television.

We also require an acknowledgement of both the interdependence and independence of Digital Production within the production process that requires a rebate scheme proportional to the Digital Production spend within a Film project.

Part of Animal Logic's allure to high-end international productions is our constant invention of new and innovative images that are underpinned by our R&D efforts. These high-end productions require research and development of techniques and theories that translate into the latest blockbuster effect. In an industry less than two decades old, we exist by our continuous change and development, which is very risk driven. We rely on the Commonwealth Government to appreciate that we commercialise all our R&D for each production in order to stay at the forefront of our industry.

In Australia we are distanced from the core North American market. We suffer from not being there on the ground and taking advantage of the flows of production. Therefore the EMDG must support us to market to the various sectors within the Digital Production industry one, which is predominantly based on relationships, personality and technical talent.

The Australian Digital Production industry has great potential to grow and prosper on the world stage. Animal Logic has the potential to continue to stay at the forefront of Digital Production and be acknowledged as a world leader in this field. This will only occur if we have the ability to market directly to our clients, entice them with our new and exciting images and offer incentives to bring work back to Australia. The result of this will be real, measurable, positive financial outcomes for the Government, the industry and the community.

Appendix 1: Animal Logic Company Profile

Accolades & Milestones

1997 - Animal Logic moves to Fox Studios and cements its position within the Australian Film industry

1998 - Chris Godfrey, Senior VFX Supervisor / co-founder Animal Logic receives BAFTA nomination for **Babe: Pig In The City**

1999 - Animal Logic launches <http://www.animallogic.com> a functioning marketing tool for the international marketplace

2000 - Animal Logic acquires Dfilm, a scanning and recording bureau facility, becoming the longest and becomes the oldest film scanning & recording facility in Australia.

2000 - Animal Logic Film named at the Oscars for effects on **The Matrix** creating the ground breaking Matrix raining code.

2002 Animal Logic recognised in top VFX companies based on its work for two Oscar winning Films: **The Lord of the Rings: Fellowship of the Rings** and **Moulin Rouge**.

2002 - VFX Supervisor Chris Godfrey rewarded for his work on **Moulin Rouge** with a win for Best Visual Effects at the Golden Satellite Awards.

2002 - BAFTA nomination for 'Achievement in Visual Effects' to **Moulin Rouge**.

2003 - Animal Logic Film recognised for Best Visual Effects at 22nd Hong Kong Film Festival and "work of particular innovation" at the Berlin's Internationale Filmfestspiele for its work on **Hero**

2003 - European Industry recognises Animal Logic as best new generation effects and animation studios in the world.

International Funded Productions

The Matrix Reloaded, Andy and Larry Wachowski, Warner Bros

The Lord of the Rings: Fellowship of the Ring, Peter Jackson, New Line

Moulin Rouge, Baz Luhrmann, Fox,

The Matrix, Andy and Larry Wachowski, Warner Bros.

The Quiet American, Phillip Noyce, Miramax

Babe: Pig in the City, George Miller, Universal

Babe, Chris Noonan, Universal

Swimming Upstream, Russell Mulcahy, Crusader Entertainment.

The Thin Red Line, Terrence Mallick, Fox,

Face/Off, John Woo, Paramount

Mouse Hunt, Gore Verbinski, Dreamworks SKG

Local Funded Productions

Garage Days, Alex Proyas, Fox Studios

The Crocodile Hunter, Collision Course, John Stainton, MGM

Rabbit-Proof Fence, Phillip Noyce, Miramax

Holy Smoke, Jane Campion, Miramax

The Man Who Sued God, Mark Joffe, Icon
Chopper, Andrew Dominik

Animal Logic's initial core business was the production of visual effects for commercials, this soon expanded to include Television, with credits including the internationally acclaimed Sci-Fi series **Farscape**. Since joining Fox Studios as a foundation tenant in 1997, the company scope and ability has grown to encompass Film and computer visuals amongst its primary competencies.

Animal Logic R&D: Commercialisation of tools for the international market

2002 – Animal Logic releases The Creative Review Tool (CRT) a communication tool to bridge the distance to international clients located anywhere in the world through real time communication via telestream or standard internet connection

2001 – Chris Godfrey recognised for EDDIE (The worlds first 2D compositing system), as the visual effects software makes top 100 inventions for C19th century

2001- Animal Logic releases Mayaman Developed to meet in-house production needs but has enjoyed modest commercial success. Will form an important part of the Animal Logic's first fully animated feature project pipeline.

AnimalFarm: a distributed rendering mechanism that can drive most of Animal Logic's 2D and 3dD software on a variety of platforms. Commercial alternatives exist but we chose to develop an in-house solution because the 3rd party software was expensive and had less flexibility than we would like. It forms an important part of the production infrastructure and will continue to do so for the foreseeable future.

2000 – Development and commercialisation of MaxMan 3D animation software for the international market

1998 - Development and commercialisation of SoftMan 3D Software, a translator for converting Softimage3D scenes to Renderman format. Started in the early 90s by Brian Green (now at Pixar).

Formed an important part of the 3d pipeline and was a major factor in establishing the 'look' of Animal's 3D work.

1987 – Chris Godfrey invents Eddie, worlds first 2D compositing system.

1994– Zareh Nalbandian and Chris Godfrey founding members of Discreet Logic; creators of key software packages for the visual effects industry.

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