A SUBMISSION TO

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 Electronics Game Industries

Prepared by

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Introduction

The emergence of the digital animation industry presents to the Australian market, new and dynamic opportunities for the development of Film, Television and Broadband targeted, computer generated, 3D animation projects that have the potential to compete strongly in the global market.

This submission proposes to explore the realities of these abovementioned opportunities and to examine the needs of this industry with reference to the issues outlined in the Terms of Reference, (some which may be unique to the animation industry and others, which share parallels in the traditional Film and Television sector.)

In particular this submission will focus on the following issues:
- Funding development of Technology Infrastructure
- Access to Broadband and Digital infrastructure
- Education and Training
- National and International Marketing
- Competition difficulties in International Markets
- Market Success and Australian Content
- Improved regional access to Industry Bodies

However, before dealing with these issues in turn, it is important to get some perspective on this new and rapidly growing 3D animation industry.

Company Positioning Statement

Light Knights Productions is the creator of the first Long Form Series based 3D animation project, to be developed in Australia titled The Shapies.

Over a period of 18 months in 2001-2002, Light Knights Productions produced a series of 26 half hour children's television (C Drama certified) programs for the Nine Network. In addition, during the same period it also produced a half hour Christmas special, also for the Nine Network.

The development, production and delivery of "The Shapies" by Light Knights Productions has given us a depth of insight into this new emerging market space, which is reflected in this submission.

Currently, Light Knights Productions is in pre-production for an additional 26 half hour episodes of "The Shapies", also to be aired on the Nine Network, and is well advanced in the development of other projects for the 2003 MIPCOM film and TV market in October.

Industry Positioning Statement

The history of 3D Computer Animation is a short one. In the mid to late 1980's a number of computer and production companies began experimenting with various technologies that would allow computer based graphic systems to create realistic

images entirely generated by computers, with the dream that one-day it would be possible for both Movies and Television programs to be produced entirely in the digital medium.

While these developments had as many detractors as supporters, the vision of companies such as "Industrial Light and Magic(ILM)", "Lucasfilm", "Pixar" and "Disney" were finally brought to fruition on the cinema screen in 1995 with launch of "Toy Story", the worlds first fully computer generated feature film. At the same time a then small Vancouver production company announced the delivery of "Reboot", the first fully computer generated television series.

With these two achievements, a new industry was born and grown at a rapid pace. Since 1995, Pixar has produced a number of 3D feature films including, Toy Story 2, A Bug's Life and Monsters Inc all of which achieved outstanding market performance. Other companies such as DreamWorks SKG have since joined the market with projects such as "Shrek" and Ice Age from 20th Century Fox, proving the continued appeal of 3D Animation. It should be furthered pointed out that since its release the film "Shrek" has gone on to become one of the highest grossing films of all time.

The television sector has not been far behind in this growing market with numerous 3D animated series including "BeastWars", "Butt Ugly Martians" and "Weird-Oh's" to name just a few, being released over the past few years.

But where is Australia amongst this market explosion?

Sadly, it would be fair to say that Australia is considerably behind a number of the major players in this market, with only a small number of projects delivered to either the local or international marketplace. In the Television series arena only one long form series has release to date that being "The Shapies". In the short form sector we are doing a little better, with projects such as "Hooter and Snozz" from Blue Rocket Productions, and "Pop Pups" an (A Stark / Ambience Entertainment) co-production leading the sector.

In the Film arena unfortunately Australia is a long way back, with to date no 3D animated features released. There are a few film projects in development, with some announcements made recently in the market place. It is however a disappointing fact, that the first 3D animated project to feature Australian voices and locations such as Sydney Harbour and the Great Barrier Reef is being produced by an American production company. Pixar will release this latest 3D animated feature "Finding Nemo" in the middle of 2003.

In such rapidly developing climate, the potential for Australia to become a force in the 3D animation industry is one of positive opportunities. It would be fair to say that we have missed much of the first wave of developments in this sector, but we have a number of competitive advantages here that make our potential future in this sector a strong one, provided that we can overcome some of the unique difficulties we face as a sector.

Market Opportunities

Much of the remainder of this submission will look at the issues facing the 3D animation sector, but before doing that it is important to understand that there are a number of opportunities to be capitalized on by this sector.

The first and most considerable factor for this industry, is that for many reasons not the least of which is the value of the Australian Dollar, as a sector we are able to delivery 3D animation at a considerably lower cost than our US, UK and Canadian counterparts.

While there are some issues to deal with in this area, including broadband access and the overseas tax concessions offered in some markets, the reality is that the 3D animation industry will only continue to grow over the coming years. As overseas producers face cost pressures in their own markets, locations like Australia will only become more attractive to international productions.

In addition, the nature of the 3D animation industry is such that in an entirely digital medium there are greater opportunities for international collaboration utilizing technologies such as the Internet for the exchange of production materials. Using such technologies allows a Director in New York to work with an animation team on the other side of the planet, and view all the finished materials in real time in the comfort of his home office.

The second significant and still infant opportunity for the 3D animation industry, is the prospect of collaboration between Film, Television and Broadband digital delivered programs.

Due to the nature of the 3D animation process, all of the digital assets created for a 3D animated film or television series are capable of being easily repurposed for delivery using broadband delivery mechanism. This area of cross collaboration is still in its infancy, but Australia is already highly skilled in this area, with companies such as BDE (Brilliant Digital Entertainment) based in Sydney at the forefront of early developments in this area.

Funding Development of Technology Infrastructure

It would be fair to say that the 3D computer animation industry is an expensive one to be involved in. The costs of developing technological capabilities and acquiring hardware and software infrastructure are high. When this is compounded by rapid development turnovers, the need for new hardware and software to be purchased on an almost monthly basis, means that for many production companies the costs of simply keeping ahead of the market are prohibitive.

While there are any number of proposals within the film and television market for the development of new Film Faculties and Studios, sadly these are of little benefit to the Animation industry. That is not to say that we don't support the need for adequate studio infrastructure, something that is vital to the growth of traditional film and television project.

We see the need for the government to look to additional methods of supporting our unique infrastructure needs, when considering the animation industry. It should also be noted, that the Computer Gaming and Broadband industries are continually faced with almost identical issues.

It is of vital importance to this industry, that we have access to the latest versions of all software applications. Without access to such applications we run the risk of stagnation. The difficulty is however, that unlike other sectors where technology innovation happens at a manageable pace, in this sector it is not unusual for multiple releases of new and updated applications within 6 to 12 month periods, and at times in as short as periods of 3 months.

If we are to maintain a standard of skill and capability relative to the rest of the world we need access to these newly developed products releases.

It is important to understand the level of impact the above-mentioned issues have on the 3D animation industry. For example, a small animation company will own between 10 and 20 licensed seats of each of the software applications it uses on a daily basis, with those seat costs being in the range of $5,000 to $20,000 per seat for software, depending on the companies needs.

The problem is however, that on a regular basis, all of this software is effectively made redundant by the software's developers as they release new versions. When this occurs, to remain competitive in the market the business must upgrade all the seats, each at costs ranging again from $2,000 to $10,000. This is then compounded further by the fact that most such upgrades will often trigger demands for upgraded hardware system to cope with the newer technologies.

What we are proposing is the development of a funding scheme to assist the Animation, Computer Gaming and Broadband sector in the purchase of "tools of trade" Hardware and Software Upgrades.

In this instance we are not suggesting that the government provide assistance in the initial acquisition of software applications, which would also be of considerable

benefit, but instead that the funds be only be provided to support the continued need for Upgrades of existing software applications and hardware already owned by a company.

Without such support it is becoming increasingly difficult to businesses to maintain standards of best practice and sustain an environment of strong competitiveness against the international market.

The second issue facing this sector, with reference to infrastructure, is the need for continual assessment of new technologies.

While existing government policies in the Research and Development area support the development of new intellectual properties, there is a great need within this sector for government support, for the funding of Technology Relevance Research.

What we propose is the development of a fund to provide monies to allow the purchase of new software and hardware systems for the purposes of evaluation of suitability new technologies.

Access to Broadband Digital infrastructure

One of the most attractive elements of the digital production process, is that the location where a project is produced is of little relevance, apart from issues relating to cost effectiveness and access to lifestyle.

For many productions around the world, the emergence of the Internet means that producers can create products in a distributed manner, with parts of a project being shared in locations all over the world via the Internet.

For Australian producers however, there is a serious problem with the use of the Internet in such a manner. This issue is the cost of access to high-speed digital services. There is an enormous multi-billion dollar marketplace at our door, and we have the capability to compete for access to such production work, but the reality is we simply don't have the data access we require to participate on a cost effective basis.

While the availability of services such as Cable and ADSL Internet have certainly been of some benefit to the market, the reality is that these services are simply too expensive and too slow for use on a regular basis by this industry.

What we require is access to broadband data at cost rates and speeds matching those of our counterparts in places like the United States. Without access to such services, over the coming years we will simply not be able to compete on the global market.

Over the past 18 months, the Film Industry Broadband Resource Enterprise (FIBRE) group has moved some small way down the road towards achieving access to broadband at costs approaching those suitable to our industries needs, but the reality is that for the most part the cost is still too high for many but the largest players in the industry.

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

Education and Training

Closely tied to the infrastructure issues already discussed, are the difficulties faced by the education bodies that seek to train new personnel for this sector.

One of the most pressing issues for educators is the difficulty of maintaining relevance to the rapidly changing needs of this sector.

In an environment where the tools of the trade - the software applications - change dramatically in functionality on a regular basis, often in time frames as short as three months. It becomes impossible for education bodies faced with 18-month lead times for syllabus certifications, to meet the needs of our sector.

Apart from the obvious issues of software upgrades, it is actually the issue of certification, which poses greater difficulties to educators. It is of course possible for an educator to run a course without certification, given that the industry itself is more concerned with the quality of the training that the piece of paper attached to it. However, without the certification, any student who attends the course cannot obtain access to benefits such as HECS and AUSSTUDY support.

It is apparent to the industry and educators alike that there is a need for more relevant, timely training and the government needs to develop an understanding of the unique needs of this sector.

To this end, we propose that the government explore the development of mechanisms to fast-track certification of time sensitive courses with relevance to the 3D animation, gaming and broadband sector.

In addition to the development and training of new personnel, it is imperative that we seek to continually develop the skill based of our existing crew.

Again, given the rapid development of this sector and the emergence - almost on a daily basis - of new technologies, it becomes increasingly difficult for anyone to keep a finger on the industry pulse.

There is considerable need for the fostering of continued (in service) education mechanisms for this sector, which it should be also be noted currently has a high proportion of self trained personnel.

For many of these people, the process of training involved many long hours working, often from their home, to develop their skills. The difficulty is however, that once they enter the workforce, their time becomes focused greatly on the projects they are committed to. In such an environment, the opportunities to further develop their skills often become narrowed to the task at hand.

To this end we propose that the government seek to create a Center of Excellence in Brisbane, where there is already a rapidly expanding animation and computer gaming industry, to provide skill extension training for those personnel actively working in the sector.

In addition to providing a resource for skill advancement, the Center would also become a focus point for the development and fostering of the industry as a whole, by encouraging the interchange of ideas, the development of new systems and as a source for the development of mentoring processes to foster communications between new members of the animation community and those with greater industry experience.

National and International Marketing

It goes without saying, that marketing is one of the keys to the success for the 3D animation industry. For this sector, like much of the Film and Television it is an area fraught with problems.

Without a doubt the most significant problem faced by any company selling itself or its products on the international market is the ability to effectively and continually maintain a presence in the marketplace.

The current method for the marketing of most Film and Television projects developed in Australia is to attend the yearly international film and television markets such as MIPCOM, MIPTV, NAPTE, and the AFM. Each of these markets provides opportunities for producers to show their products and meet with buyers, distributors, and broadcasters.

While attendance of the above mentioned markets is an invaluable and often beneficial experience for many producers, the problem is that once the markets are over, it is all too easy for the tyranny of distance to make closing the deal from back in Australia a problematic process.

To be truly effective in a global market place, what is needed is continual visibility in this global market, and that for the most part means being in the UK or the US for extended periods of up to 3 months to develop relationships and seal project agreements.

In the past the Australian Film Commission (AFC) acted as a useful ally when a producer needed to spend extended periods of time in the US and UK markets through the provision of access to offices and services. With the closure of these offices, a valuable tool for the continued development of the Film and Television sector was lost.

It is our belief, that for the 3D animation industry to develop an effective voice in the international marketplace, the provision of offices and bases of operations for producers in international markets are required again.

We would propose that the government reopen offices and resources in international markets such as Los Angeles, New York and London to assist producers with the process of developing greater visibility for the 3D animation community.

Competition difficulties in International Markets

Given the cost effectiveness of 3D animation and other production within Australia it would be reasonable to think that we should be inundated with offers of production work on a daily basis.

However, the reality is that while Australian 3D animation is highly cost competitive, there are considerable enticements being offered by some international markets, which pose problems for the 3D animation community.

The most significant of these enticements for the animation industry, are the various Tax Credit Schemes currently being offered by Canada and its provinces.

Canada currently offers a Tax Credit incentive to foreign producers which amounts to up to 25% of the labour costs of the production. This is being matched in British Columbia by an additional 11% credit against labour costs, and of greater concern to the 3D animation industry an additional 15% credit against labour costs offered to productions doing Computer Graphics work such as 3D animation.

Further information on British Columbia Tax Credit Incentives can be found at http://www.bcfilm.bc.ca/downloadables/TC_Overview_Feb03_FINAL.pdf.

For the 3D animation industry in Australia, this scheme is one of the greatest impediments to accessing production work from overseas markets.

We have the skills and abilities to compete favorably in overseas markets, and to produce material of first class international standards, but with such incentives being offered overseas we are in danger of being forgotten completely.

When Australian producers are being told that their work is great, "but why would we use you when we can get receive Tax Credits amounting to up to an effective 50% of labour costs in Canada", it is past time for something to be done.

We recommend that the government establish a committee with industry to develop mechanisms and support programs to foster the further development of the 3D animation industry in Australia in the face of hostile market incentives offered by international markets.

Market Success and Australian Content

Much has been said in recent years regarding the fostering of Australian content, and for the continued growth and development of our industry, such development is vital.

When you further consider the problems associated with gaining access to overseas production work outlined in the previous section of this submission, our only real and viable alternative is the creation of our own content.

There is however, a problem we perceive, with the current philosophy regarding what is considered to be "Australian Content".

Currently, when an Australian production seeks funding support from bodies such as the Film Finance Corporation (FFC), there are a number of creative content requirements that need to be met before the project is considered as acceptable. These include the number of Australian Key Creative staff on the project: including the use of Australian Writers, Australian Actors, Australian Directors / Producers.

While the philosophy that promotes these attachments is laudable for encouraging the development of Australian talent, it is a sad fact that in many cases, these same requirements can be detrimental to the international potential of a project. This is not to say that the development of talent is not a vitally important part of our industry, but that we should also be seeking to develop projects with greater international market potential. The simple but unfortunate reality is - that in many cases achieving international success requires international elements, and consideration needs to be given to achieving a viable balance to our regulations in this area.

The reality in the market place today, is that Film and Television programs usually work because international audiences find then accessible, enjoyable and relevant and not because they represent a cultural doctrine.

The question we then need to ask ourselves as an industry is: **"Is it time for the film and television industry to grow past the Cultural Development focused philosophy of the past 20 years, and begin to see ourselves in more commercially viable terms?"**

It is time that Australia looked to the world market, with an attitude that says we should make film and television projects the world **wants to see**, because by doing so is good for the long-term economic benefit of our country and the future development of our industry.

We would ask the government to explore the development of new Film and Television policies directed more strongly at encouraging the commercial potential of the sector, in ways that do not limit the sector through culturally focused agendas.

Improved regional access to Industry Bodies

One of the most significant difficulties Light Knights Faces, as a company based in Queensland, (when it comes to dealing with film sector government bodies), is the fact that most do not have a regional office Brisbane.

Now while it can always be argued that all of these bodies are only a phone call away, there can be little doubt that the ability to take meetings with people on a face-to-face basis is far more productive.

We would request that the government seek to provide regional offices in Queensland for the Film Finance Corporation (FFC), SBS Broadcasting and the Australian Broadcasting Authority (primarily certification divisions such as Children's Television)

It should be noted for completeness, that the Australian Film Commission does already operate an office in Queensland.

References

Canadian tax credit schemes
- British Columbia
  http://www.bcfilm.bc.ca/downloadables/TC_Overview_Feb03_FINAL.pdf
- Canadian
  http://www.pch.gc.ca/progs/ac-ca/progs/bcpac-cavco/index_e.cfm

Independent film funds report
  http://www.iff.ca/June2002.pdf

FIBRE Web Site
  http://www.fibre.org.au/

Light Knights Web Site – The Shapies
  http://www.shapies.com/

30th June 2003

The Secretary
House of Representatives
Standing Committee on
Communications, Information
Technology and the Arts
Parliament House
CANBERA ACT 2600

To Whom It May Concern:

Please find enclosed, our submission to The Future Opportunities for Australia's
Film, Animation, Special Effects and Electronic Games Industries enquiry.

This submission will focus on the following topics:
- Funding development of Technology Infrastructure
- Access to Broadband and Digital infrastructure
- Education and Training
- National and International Marketing
- Competition difficulties in International Markets
- Market Success and Australian Content
- Improved regional access to Industry Bodies

If you have any enquiries or questions regarding this submission, please feel free to
contact Wes Tatters (Producer) on (07) 38311322 or (0411) 875826 alternatively I
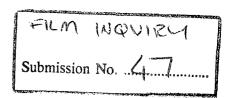can be contacted by email at wtatters@msn.com.au.

Please note, a digital version of this submission can be made available to you in PDF
format if you so require.

Sincerely,

Wes Tatters
Producer

PACIFIC FILM
AND TELEVISION
COMMISSION

30 June 2003

The Secretary
House of Representatives
Standing Committee on Communications,
Information Technology and the Arts
Parliament House
Canberra, ACT, 2600

By email   cita.Reps@aph.gov.au

Dear Sir

Inquiry into Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries

The Pacific Film and Television Commission (PFTC) welcomes the opportunity to make a submission to the Committee's Inquiry into Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries.

The PFTC is the Queensland Government's agency responsible for the film, television and related industries. Since the PFTC was established in 1991, production expenditure in Queensland has increased from some $10m-$20m per annum to over $220m in 2002/03.

The PFTC's submission concentrates on the film, television, visual effects and animation sectors. The Commission understands that other Queensland agencies with direct responsibility for electronic games and broader creative industries will be making their own submissions focussing on those sectors.

The PFTC's submission is in two parts. Part A focuses on the central issue raised in the Committee's Information Paper and underpinning several of the terms of reference, namely, the need to extend our distinctive voice in global film production. However, to have a distinctive voice means that the voice must be willingly heard both at home and overseas. This in turn requires more efficient and competitive processes and outcomes.

Part A also addresses the key issue of establishing a climate to encourage greater investment in the industry by taking measures to identify, manage and reduce investment risks.

Part B of the submission considers the other terms of reference and responds by referring to key parts of the PFTC Discussion Paper *The Ideas Business* 2002 which provides an overview of the direction and status of the Queensland film and related industries including industry size and composition, infrastructure, education and training, screen culture and digital convergence. The experience of the Queensland industry in facing strong competitive pressures may have relevance elsewhere.

The PFTC submits that current Federal arrangements are based on processes, programs and priorities that do not reflect future imperatives and do not sufficiently facilitate that distinctive voice being heard by enough Australians, nor the potential global audience. The PFTC's submission focuses on the efficiency issues implied in several of the terms of reference particularly the means by which Commonwealth agencies and programs need to be better aligned to meet future opportunities and trends and thus produce better production outcomes.

The issues raised by the PFTC are not driven by the relative importance of cultural or economic factors but by the need to address systemic issues in order to grow the industry on a sustainable basis. The PFTC is concerned that there is a risk that scarce resources may be spread too thinly so as to reduce the quality and attractiveness of Australian films.

Australia has much to be proud of in terms of its film and related industries. However, if we set out as a nation to achieve an average of less than 5% local product penetration of Australian feature films shown to Australian audiences, low rates of return on public investment in film production, declining overseas penetration of Australian produced television drama and very low industry progression of first time directors, would we be satisfied with our objectives, processes and performance?

Australia has inadvertently drifted into a situation where the objectives of government film agencies are not entirely clear, where responsibilities for outcomes are blurred and rigorous performance indicator tests of success are not used to review and refine funding programs. This Inquiry and the Government's response provides the opportunity to clarify the objectives, ensure clear and accountable responsibilities and apply rigorous tests to fine tune programs that lead to more successful production outcomes.

This is by way of saying that a better business model is needed, one that focuses more on integrating and aligning processes that lead to production outcomes that will be seen and appreciated by Australian and overseas audiences.

When the industry speaks well and distinctively, audiences respond. Examples include *Muriel's Wedding, Strictly Ballroom, Crocodile Dundee, Pricilla Queen of the Desert, Lantana, Wog Boy, The Dish, The Castle* and *Shine*.

Merely having a distinctive Australian voice is not enough. It must be Australian, distinctive but also meet an audience need. It is a misconception to assume that when films reflect our cultural values, they cannot be successful and profitable as the above examples demonstrate. The high ratings for *Blue Heelers, All Saints* and *The Secret Life of Us* demonstrate that the same holds for Australian television drama as well.

Australia needs to ensure that every step in the supply chain, in government, in industry and in education and training is operating accountably at world's best practice standards. There may be lessons from the more commercially oriented electronic games sectors that the more culturally based film industry can and should learn. Similarly, there are programs that apply to the film industry that may be broadly applicable to the electronic games and related new media industries.

Priorities for the Federal government and its agencies should include the following, which are explained in more detail in the attached submission:

Leadership

- Develop a clear industry development plan, including a vision, measurable objectives, strategies for achieving the objectives and accountable outcomes.

Competitive positioning

- Ensure those parts of the supply chain which are Federal responsibilities such as taxation, broadband infrastructure and some aspects of education and training are internationally competitive.

A new business model

- Introduce an industry development business model that will -

    o Ensure that development processes are more clearly linked to production outcomes.

    o Establish key performance indicator tests of success for development, funding, production and audience outcomes, with accountability to perform.

    o Focus more on audiences and their needs rather than the supply-oriented model that exists at present.

    o Provide more extensive and effective marketing of Australian products at home and overseas.

    o Improve the linkages between the Australian Film Commission (AFC) and Film Finance Corporation Australia (FFC) to facilitate a greater

proportion and more direct flow of projects from development into production.

    o Fills gaps in the supply chain (eg AFC services for television drama series, producer and investor accountability etc).

    o Revise Commonwealth programs that directly and indirectly encourage an industry structure that increases inherent risks and reduces investment.

Encourage more focussed Education and Training

- Ensure more effective vertical links between education and training bodies and industry, improve horizontal links between education and training providers and encourage more on-the-job training.

Encourage Convergence

- Encourage technological, program and business culture convergence between traditional film production and digitally created image production.

The Commission would be pleased to make an oral submission to the Committee to expand on the matters covered in our submission.

Yours sincerely

Robin James
Chief Executive

Attachment   Pacific Film and Television Commission Submission

4